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

Letter to shareholders

Dear shareholders,

In this year's annual report we present a Group net loss of CHF 4,384 million. This resulted almost completely from our exposure to the US residential real estate market through positions in mortgage-backed securities and related structured products. The losses on these positions overshadow the outstanding 2007 performance in the majority of our other businesses. This makes this year's financial result even more difficult for us to accept.

This letter discusses what we consider to be the structural reasons for our losses and how we are addressing them. It also outlines our strategy and current position and the reasons we consider these to have so much potential.

UBS has historically paid close attention to the management of illiquid and long dated risk exposures. And we have fared well in these particular risk categories. Our positions in leveraged lending and commercial real estate are comparatively small and of good quality. At the same time, and in line with our traditional focus, we grew our trading activities in seemingly liquid and high quality securities. The availability of cheap, short-term funding from UBS's strong capital position facilitated this growth, accelerating the expansion of our balance sheet and comparatively high tradable asset inventories. The creation of Dillon Read Capital Management (DRCM) led to an overweight exposure to the US mortgage market. After a range of largely proprietary driven trading activities were transferred into DRCM, the Investment Bank replaced them with client-driven origination, trading and structuring of mortgage-backed securities. However, this still involved taking principal risk. This decision was driven by an attempt to close revenue gaps with key competitors in certain areas of the fixed income business. In hindsight, these three structural issues were important factors in the very bad outcome we experienced in the context of the US real estate market crisis.

Our shareholders' support for the measures to strengthen our capital base at the extraordinary general meeting on 27 February was important for the future of UBS. We would like to thank you and reassure you that we see this as just one step on the path to recovery.

How are we correcting our shortcomings? We closed DRCM in 2007 and re-integrated its businesses into the Investment Bank. Recently, we introduced a new funding framework for the Investment Bank to ensure that our trading activities are financed at market comparable levels and consistent with the nature and liquidity of the respective positions. This will reduce the potential incentive to hold disproportionately high trading inventories. Combined with commensurate balance sheet limits, it will also ensure better control over the size of our balance sheet. Finally, we have repositioned the activities of the Investment Bank so that its future will be built on our strengths and client franchises. In 2007, the areas in which we achieved outstanding results are those where we have developed strong and long-standing client relationships and excellent client service. They represent the majority of the Investment Bank's business and are a solid basis on which to build sustainable and profitable growth.

Wealth and asset management delivered excellent results in 2007. Global Wealth Management & Business Banking produced record results in both net new money inflow, at CHF 156 billion, and profitability. Our Global Asset Management business group fell short of a record result only because it absorbed costs related to the closure of DRCM. The outflows in institutional assets largely related to the weak past investment performance in some core and value equity capabilities. However, these problems have been addressed and new investment management teams are in place. We are therefore confident that we can reverse this trend in the medium term.

Outside Switzerland we have a focused business portfolio that concentrates on wealth management, asset management and investment banking. In our domestic Swiss market, we are the leading universal bank. UBS's revenue mix, which has a much higher wealth and asset management component than our peers, is unique. With a re-positioned and client-centric Investment Bank, we believe our business portfolio is uniquely placed to benefit from the continuing growth of wealth around the world and therefore deliver sustainable, profitable growth. For us, such growth lies in establishing a set of earnings streams based on true customer benefit, building a strong and growing client base and maintaining assets and capabilities that our competitors find hard to copy. All of our businesses – Global Wealth Management & Business Banking, Global Asset Management and the Investment Bank – are built to benefit from the same fundamental trend, the long-term creation of wealth. Growth of all our businesses, across all countries in which they operate, improves when they work together as a unified firm, as opposed to operating independently of one another.

Efficiency in managing our financial resources, capital and risk is a prerequisite for growth. By making continuous efficiency improvement a permanent task, we will strengthen the enforcement of cost management discipline on a firm-wide basis and therefore be able to direct investment spending towards areas where it most benefits our clients and investors. We remain committed to managing our capital in a disciplined fashion. We will strive, subject to regulatory requirements, to return to our usual pattern of redistributing capital not required to grow our business to shareholders, once our profitability and capital ratios return to more normalized levels.

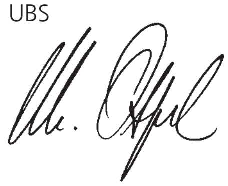
Our Investment Bank now has new leadership. Jerker Johansson is a very experienced banker with an outstanding track record in the finance industry. He will fulfill a crucial role in our mission to build UBS to the stage where we are the firm with the fastest client-driven growth. At Group level, our leadership has been further strengthened by the appointment of three UBS senior managers to the Group Executive Board, helping to improve the integration of the Investment Bank with other businesses: Robert Wolf, Chairman and Chief Executive Officer, UBS Group Americas and President and Chief Operating Officer, Investment Bank; Alexander Wilmot–Sitwell, Joint Global Head, Investment Banking Department, Investment Bank and Marten Hoekstra, Head of Wealth Management, Americas.

We are proud of our employees. We appreciate their achievements, loyalty and hard work, especially in these difficult times. The way in which they fulfill their responsibility towards our clients is the backbone of our business. As an employer, UBS therefore remains committed to investing in its employees. We are dedicated to creating a productive working environment based on fairness and meritocracy.

Outlook – As explained in our letter about the fourth quarter result for 2007, we expect 2008 to be another difficult year. We are focusing on the development of our client-driven businesses and the risk management of our remaining exposures to the US real estate market. Our employees and senior management are committed to managing the business in a disciplined fashion, while continuing to deliver outstanding services to clients. We believe this is the best way to earn your confidence.

25 March 2008

UBS



Marcel Ospel
Chairman

Marcel Rohner
Chief Executive Officer

Strategy and development

Strategy and development

– UBS is a global financial services firm delivering advice, products and services to corporate, institutional and private clients
– Three businesses – Global Wealth Management & Business Banking, Global Asset Management and the Investment Bank – operating as one firm
– Challenges faced in 2007 are being addressed at a strategic, structural and operational level

UBS's commitment

Client focus: UBS's purpose is to serve clients and provide them with confidence in financial decision making. UBS strives to truly understand clients' goals – the first priority is the success and interests of clients

Growth through client-driven revenue streams: targeting sustainable and profitable growth by establishing a set of earnings streams based on true customer benefit

Three businesses, one underlying trend – growth of wealth: based on sustained social and economic trends, all of UBS's businesses – Global Wealth Management & Business Banking, Global Asset Management and the Investment Bank – are focused on areas with above-average growth rates

"One firm" approach: the synergies between UBS's businesses create additional sustainable earnings opportunities, on top of their individual growth rates. To UBS, the "one firm" approach means meeting client needs without expecting clients to worry about its internal organizational structures

Challenges in 2007

Losses on sizeable trading positions in the US mortgage market led to UBS's first ever negative Group result: the sudden collapse in the US mortgage securitization market impacted UBS worse than anticipated, overshadowing the strength of UBS's client-driven businesses. Lessons from these developments were drawn at all levels

Measures taken

– Closure of alternative investment business Dillon Read Capital Management (DRCM) in the first half of 2007
– Strategic realignment of the Investment Bank in early 2008 led to repositioning of the fixed income, currencies and commodities (FICC) business unit, in order to strengthen client-driven businesses and consolidate integration with wealth and asset management businesses
– Establishment of a workout group for mortgage-backed securities (MBS) and collateralized debt obligation (CDO) portfolios, in order to improve risk management and reduce exposure
– Introduction of a new funding framework to improve balance sheet management discipline

UBS's business structure

UBS			
Global Wealth Management & Business Banking	Investment Bank	Global Asset Management	Corporate Center

UBS key facts

	As of or for the year ended			% change from
	31.12.07	31.12.06	31.12.05	31.12.06
Financials				
Operating income (CHF million)	**31,980**	47,736	40,691	(33)
Net profit attributable to UBS shareholders (CHF million)	**(4,384)**	12,257	14,029	
Invested assets (CHF billion)	**3,189**	2,989	2,652	7
Tier 1 ratio (%) [1]	**8.8**	11.9	12.8	
Economic				
Tax expense (CHF million) [2]	**1,017**	2,751	2,785	(63)
Distribution to shareholders (dividends and buybacks) (CHF million)	**5,075**	5,889	6,702	(14)
Salaries and bonuses (CHF million)	**20,057**	19,011	15,867	6
Social and environmental				
Personnel (FTE) [2]	**83,560**	78,140	69,569	7
Women in ranked positions (% of total officer population)	**26.5**	25.5	22.1	4
Corporate charitable donations (incl. disaster relief efforts) (CHF million) [3]	**46**	38	45	21
Volunteering hours spent by employees	**82,858**	53,679	N/A	54
CO_2 emissions (tons)	**281,705**	293,169	372,184	(4)
Long-term ratings and benchmarks				
Fitch, London	**AA**	AA+	AA+	
Moody's, New York	**Aaa**	Aa2	Aa2	
Standard & Poor's, New York	**AA**	AA+	AA+	
Dow Jones Sustainability Index [4]	✓	✓	✓	
FTSE4Good [4]	✓	✓	✓	
Climate Leadership Index [4]	✓	✓	✓	
Interbrand: rank among 100 most valuable global brands	**39**	42	44	

1 Includes hybrid Tier 1 capital. Please refer to the BIS capital and ratios table in the capital management section in *Risk, Treasury and Capital Management 2007.* 2 Excludes Industrial Holdings. 3 Excludes UBS Optimus Foundation. 4 ✓ Indicates UBS is included in the index.

Strategy and structure

UBS is a global firm, working with corporate, institutional and private clients. Its strategy is to concentrate on three global core businesses – wealth management, asset management and investment banking and securities trading. It also focuses on retail and corporate banking in Switzerland. All the businesses are built to benefit from the same underlying fundamental trend – the growth of wealth. UBS operates as one firm and aims to deliver valuable advice, products and services to its clients while creating high quality sustainable earnings streams.

UBS clients and businesses

Global Wealth Management & Business Banking

In *wealth management,* UBS's services are designed for high net worth and affluent individuals around the world, whether investing internationally or in their home country. UBS provides them with tailored, unbiased advice and investment services – ranging from asset management to estate planning and from corporate finance to art banking. Its *Swiss retail and corporate banking business* provides a complete set of banking and securities services for domestic individual and corporate clients.

Global Asset Management

As an *asset manager,* UBS offers innovative investment management solutions in nearly every asset class to private, institutional and corporate clients, as well as through financial intermediaries. Investment capabilities comprise traditional assets (for instance equities, fixed income and asset allocation), alternative and quantitative investments (multi-manager funds, funds of hedge funds and hedge funds) and real estate.

Investment Bank

In the *investment banking and securities* businesses, UBS provides securities products and research in equities, fixed income, rates, foreign exchange, energy and metals. It also provides access to the world's capital markets for corporate, institutional, intermediary and alternative asset management clients.

UBS's competitive profile

Client focus

UBS's purpose is to serve clients and give them confidence in making financial decisions. Whether it serves individual, corporate or institutional clients, UBS puts their success and interests first and strives to truly understand their goals. Client needs develop continuously, as does the financial services industry. UBS strives to systematically capture clients' feedback, in order to identify potential for improving processes, and then adapt its products and services accordingly.

Three businesses, one underlying trend: growth of wealth

Based on sustained social and economic trends, UBS's businesses are focused on areas with above-average growth rates. In addition, structural developments in various countries are creating broader regional client demand for new financial advice, structuring and execution.

The long-term creation of wealth is the fundamental trend that drives all three of UBS's businesses – Global Wealth Management & Business Banking, Global Asset Management and the Investment Bank. The influence of this trend on UBS's businesses with private clients is direct. Private wealth, together with shifting demographics, also drives institutional growth. Taken together, these factors should result in growing capitalization levels in the global financial markets and higher demand for trading execution, financing solutions and risk intermediation.

➔ **Financial industry trends are detailed on page 15–17**

A global and focused strategy

UBS's consistent strategic focus has led to the current business mix. The current business mix has emerged over fifteen years of development, internal growth initiative and acquisitions, reflecting the firm's core capabilities, strengths, culture and history. Since 1998, UBS has progressively divested non-core businesses and participations, helping it to invest in growing its core businesses and create a balanced reach worldwide.

UBS is the leading global wealth manager. It is one of the market leaders in both Europe and Asia Pacific, in fourth position in the US and the only firm of global scale focusing on wealth management as a core business. In mergers and acquisitions, and equity underwriting, UBS is among the top five firms globally, and the only global bulge bracket investment bank with roots outside the US. The asset management business is one of the leading active asset managers globally and is also one of the largest mutual fund managers in Europe.

In Switzerland, UBS is, and has been since 1998, the leading bank for retail and commercial banking. It serves around 2.7 million individual clients and 137,000 corporations, institutional investors, public entities and foundations. The bank has chosen to limit its Swiss retail and commercial banking

Growing presence in emerging markets

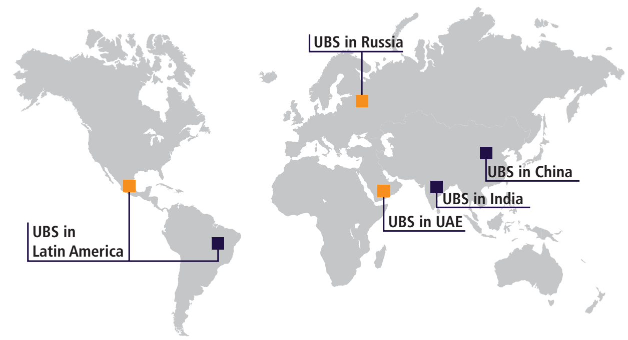
UBS in Latin America
– Pactual as cornerstone of Latin American strategy
– 2007: Mexican bank branch license

UBS in Russia
– 1996: opened representative office in Moscow
– 2004: bought out joint venture partner in UBS Brunswick
– 2006: banking license granted
– 2007: wealth management onshore went live

UBS in India
– UBS Securities India onshore offering

UBS in China
– UBS Securities joint venture – full domestic offering
– Beijing Bank branch – foreign exchange and wealth management
– UBS Hong Kong servicing China
– UBS SDIC Fund Management

UBS in UAE
– Opened representative offices in Abu Dhabi in 1976 and Dubai in 1993
– 2006: branch license granted



■ UBS location ■ New banking licenses granted

business to the Swiss market, concentrating on domestic opportunities and growing selected market segments.

Growth through sustainable, client-driven revenue streams

The composition and structure of UBS's businesses is defined by the long-term needs of its clients. The optimal basis for building a high quality, sustainable earnings stream is a business mix that reflects these long-term needs. Because UBS takes this approach, the firm can grow without needing to change its strategic positioning or competitive profile. In order to fulfill the long-term needs of its clients, UBS:

– *makes efficiency improvement* a permanent task and a source of innovation, allowing investment spending to be directed to areas that will make the greatest difference for clients and investors;
– *expands market share in existing businesses* by attracting new clients in fast growth segments (for example, high net worth private clients) and increasing business volume through improved client segmentation and targeted solutions customized to client needs; and
– *expands geographically,* with a focus on regions with rapid economic and wealth growth, such as China, Brazil, Russia, India and the Middle East.

As UBS has significant scale in its areas of focus, with strong positions in large, mature markets as well as a growing presence in emerging markets, its main priority is to develop and grow organically. Acquisitions should accelerate and complement growth, and they must have an obvious strategic and cultural fit, while being financially attractive to shareholders.

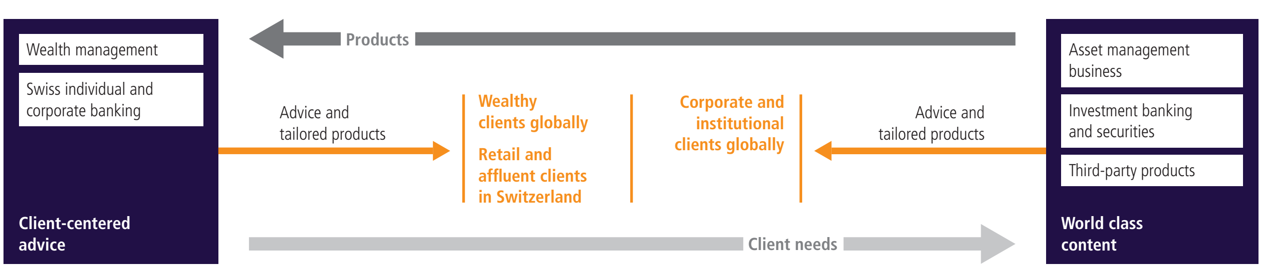
"One firm" approach

The synergies between UBS's businesses create additional sustainable earnings opportunities, on top of their individual growth rates.

To UBS, the "one firm" approach means meeting client needs without expecting clients to worry about its internal organizational structures.

Many clients – particularly wealth management clients – are banking with UBS because it can offer a broad range of investment banking services along with its wealth manage-

Integrated client-service model



ment offering. Cooperation between businesses helps UBS to capture important trends such as the demand for structured products and alternative investments. In mid-2006, the investment banking department and the wealth management businesses launched a dedicated joint initiative focusing on the ultra-high net worth segment. In 2007, the cooperation between the investment banking department and wealth management in key regions has resulted in an inflow of approximately CHF 9 billion of net new money into the wealth management business and resulted in over 90 new mandates for the Investment Bank, generating around CHF 300 million in fees.

Overall, UBS estimates that, in 2007, around CHF 3.6 billion in incremental revenues were generated by its "one firm" approach – on margins kept in-house on proprietary products (mutual funds, structured products and alternative investments), on spreads and fees on client transactions and on cross-business client referrals.

Challenges in 2007 and the way forward

Last year was very difficult for UBS, with the sudden and unprecedented collapse in the US mortgage securitization market hitting UBS far worse than anticipated. Since the middle of 2007, UBS has concentrated on the immediate challenge of risk managing its exposure to the US real estate market, and on drawing the appropriate lessons for the firm as a whole.

With the approval of the capital improvement measures by UBS shareholders at the extraordinary general meeting in February 2008, UBS retained a strong capital position. These measures include:

– the issuance of mandatory convertible notes (MCNs) of CHF 13 billion to two long-term financial investors – the Government of Singapore Investment Corporation Pte. LTD (GIC) has subscribed for CHF 11 billion and an investor from the Middle East for 2 billion;
– the replacement of the cash dividend with a stock dividend; and
– the rededication of treasury shares previously bought for cancellation.

In addition to further developing its client businesses, UBS is currently placing a specific focus on pursuing the structural changes described below which began towards the end of 2007. These changes will address the weaknesses that led to the losses in 2007.

Closure of Dillon Read Capital Management and repositioning of fixed income, currencies and commodities

In May 2007, UBS announced the closure of Dillon Read Capital Management (DRCM) an alternative investment management venture established in June 2006 in order to allow outside investors access to the trading strategies managed by UBS. The core of DRCM was formed by the transfer of UBS's principal finance and commercial real estate trading business from the Investment Bank to Global Asset Management. DRCM's first outside investor fund was launched at the end of 2006.

The development of the business, however, did not meet original expectations. After a review of its prospects, the operational complexity of its business model and other factors, UBS's management decided to close DRCM. As a consequence, outside investor interests were redeemed and UBS's proprietary portfolios were returned from Global Asset Management to the Investment Bank, where the positions were integrated into the appropriate desks of the fixed income, currencies and commodities (FICC) business unit.

FICC's sizeable positions in the US mortgage market, including former DRCM portfolios and positions held by the Investment Bank, incurred significant losses in the second half of 2007, prompting UBS to restructure the business unit. The restructure was designed to strengthen its client-facing businesses, improve cooperation with other parts of UBS and introduce stronger risk discipline. The implementation of these measures was kicked off in January 2008.

As part of this effort, a workout group has been created for certain mortgage-backed securities and CDO portfolios. The remainder of FICC's real estate securitization business is being repositioned in order to focus on intermediating client flows, while scaling back origination efforts. Real estate finance will be increasingly aligned to the needs of investment banking and wealth management clients, in addition to providing commercial real estate financing solutions with the intention of distributing risk via the securitization or loan syndication market.

Overall, UBS is also strengthening risk discipline in FICC with a dedicated risk management position for real estate and securitization.

Besides this, exiting selected proprietary credit businesses in the US, Asia and Europe will help reduce risk and balance sheet utilization, allowing UBS to concentrate resources on client-

Another advantage of the "one firm" approach is that it helps UBS to create synergies on cost and funding, which the firm estimates saves it around CHF 1 billion per year. UBS shares infrastructure and services between parts of its business, eliminating redundant structures, management and control functions and providing it with more purchasing power. All the businesses operate under one brand, increasing the efficiency of brand building efforts.

Managing UBS's business

Board structure

The management and oversight structure of UBS is based on two separate boards – the Board of Directors (BoD) and the Group Executive Board (GEB).

The BoD is the more senior body, with ultimate responsibility for the strategy and management of the company, as well as the supervision of executive management. The BoD

driven businesses such as global syndicated finance and the flow credit businesses (investment grade, high yield trading and loans sales and trading).

➔ Refer to the Investment Bank section on pages 134 to 146 for details regarding developments of its strategy and structure

Balance sheet management and funding framework

Until 2007, the Investment Bank's activities were substantially funded on a short-term basis and therefore at short-term rates. This allowed individual business lines in the Investment Bank to benefit from the low, short-term funding rates available to UBS as a whole and led to the build-up of sizeable trading inventories. Now, in order to encourage more disciplined use of UBS's balance sheet, the internal pricing applied for the Investment Bank reflects UBS's funding costs, plus an add-on to align the price more closely to the prices of defined peer firms. In addition, the Investment Bank's businesses are required to be term-funded, based on an assessment of the quality and liquidity of their assets by UBS's central treasury function.

Investment Bank will fund its assets at a rate that matches the liquidity of its assets as assessed by UBS's central treasury department. As a result of this change, the cost of funding in the Investment Bank now better reflects the liquidity of the underlying assets being funded and is comparable with the costs applicable to its peer group.

➔ Details on funding management can be found in *Risk, Treasury and Capital Management 2007*

Improvements in risk management and control

The losses experienced in 2007 do not invalidate UBS's risk management and risk control principles, but it became evident that their implementation needs to be strengthened. In addition to the structural changes in the Investment Bank and its funding framework, risk management and valuation of US residential real estate related products have been refined, and will continue to be updated to reflect changes in projections for lifetime cumulative losses and market parameters. UBS is also applying more extensive limits, by asset class, based on gross values and risk sensitivities. Stress testing is being revisited to deliver a more diverse range of scenarios which better differentiate between the source of a stress event and its contagion effect. UBS plans to use more targeted analysis of the positions and vulnerabilities of each portfolio. Liquidity as well as price sensitivity will form another important aspect of stress testing.

➔ Details on risk control can be found in *Risk, Treasury and Capital Management 2007*

Focus on profitable growth

UBS shareholders expect the firm to achieve profitable growth. As described in this section, fulfilling this expectation requires UBS to establish a set of earning streams that are based on true customer benefit, build a strong and growing client base and maintain its unique assets and capabilities that are hard for competitors to copy.

Efficiency in managing financial resources and risks is a prerequisite for all three of these requirements. By making continuous efficiency improvement – achieving the same or a better result or service with fewer resources a permanent task, UBS will enforce discipline in the way it manages costs. This will help to optimize spending across different economic and business cycles in such a way that it creates value for both clients and investors.

UBS's business structure

UBS

- **Global Wealth Management & Business Banking**
- **Investment Bank**
- **Global Asset Management**
- **Corporate Center**

also defines UBS's risk framework, principles and overall risk-taking capacity. A clear majority of its members are non-executive and fully independent.

The GEB, on the other hand, assumes overall responsibility for the daily management of UBS, the implementation of strategy and the Group's business results. Together with the Chairman's Office of the BoD (which consists of the Chairman and the Vice Chairmen of the BoD), the GEB is responsible for developing UBS's strategies.

This dual board structure requires that the two boards are institutionally independent of one another, and therefore establishes a system of checks and balances. Furthermore, the functions of Chairman of the BoD and Chief Executive Officer (who is positioned within the GEB) are performed by two different people. No member of one board may be a member of the other.

➔ ***Corporate Governance and Compensation Report 2007* details the corporate governance structures and principles of UBS**

Organizational structure

While UBS is structured into three business groups and a Corporate Center, it is managed as an integrated firm. Each business group is led by a member of the GEB.

Industry trends

Long-term perspectives

In the next ten years, the world economy is expected to grow around 3.1% per year (source: International Monetary Fund and UBS research, December 2007). There will be continued productivity gains as a result of global competition and the diffusion of new technologies. Worldwide population, and therefore economic activity, will also grow; although employment may increase at a slower pace, reflecting demographic shifts towards older populations in some countries, which is expected to reduce the growth potential of the global economy.

The real growth rate of gross domestic product (GDP) will be highest in Asia (excluding Japan), followed by Central and Eastern Europe, the Middle East, Africa and Latin America. As a result of the strong growth performance of many emerging market countries, developing markets will contribute a total of 52% to the increase in global GDP between 2007 and 2015. Asia, excluding Japan, will represent the largest increase in GDP in absolute terms, closely followed by North America and Western Europe, due to the current size of these developed markets. This is why it is important for global financial service providers, such as UBS, to have significant positions both in growth markets and large, mature markets.

The financial services sector has been growing faster than the economy on average for the last three decades. Despite the credit crisis in the US affecting the securitization and credit market, which started in 2007 and continued into early 2008, the financial services sector continues to have attractive long-term growth opportunities. Financial innovation, closely linked to the evolution of securities markets, will not disappear and will remain the driving force for further development in the financial sector. UBS sees several specific factors that will drive the development of its business over the coming decades. The factors which are expected to result in the financial services industry having continued higher growth rates than the overall economy are: client sophistication, wealth accumulation, retirement provisioning, securitization, equitization, non-traditional asset classes, and corporate restructuring and internationalization.

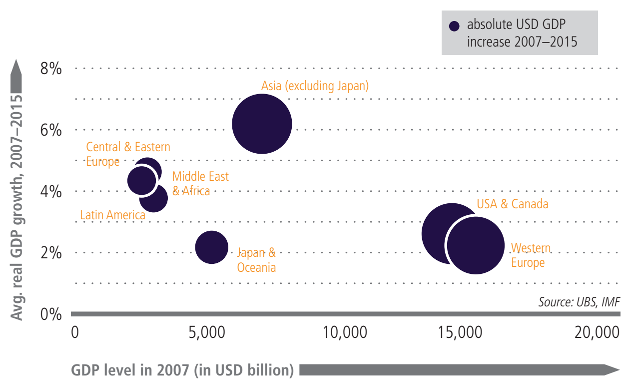
These terms, and their distinct impact on UBS's businesses, are explained in more detail below.

Client sophistication

The recent growth of financial sponsors and hedge funds exemplifies the changing nature of financial market relationships, in which increasingly sophisticated clients are asking for more complex solutions to meet their needs. These clients require innovative solutions that span product groups and

Projected growth in all of UBS's key markets

Regional gross domestic product (GDP) growth forecasts



geographies. Aided by technological improvements, investment banks are reacting with product innovations, such as new structured products, algorithmic trading or equity bridge financing and targeted services, such as prime brokerage, in a bid to produce the most competitive offering. UBS believes that the investment banks which are best positioned to serve such clients are those with global reach, strong platform capabilities and the scale to offer customization economically.

At the individual level, an unprecedented process of wealth accumulation has occurred within the last decade, triggered first by the technology boom, and spurred on by continued equitization and the creation of wealth in emerging markets. UBS sees wealthy clients taking a more proactive stance in investing their wealth, strongly influenced by their personal circumstances. In order to meet the needs of such clients, the finance industry will be required to offer tailor-made solutions with a more sophisticated approach to segmentation criteria and targeting. Such solutions will increasingly take into account a client's lifestyle and stage of life, meaning that traditional segmentation criteria (for example, those that simply assess the assets held) will no longer be adequate in comparison.

UBS believes that an integrated business is best able to compete in an increasingly client-centric environment through a deep understanding of clients' needs as well as a strong tailored offering of comprehensive financial products and services.

Wealth accumulation

In many economies, a notable shift is taking place away from labor-intensive production to more capital-intensive activity.

Based on this, UBS sees a clear trend towards individual wealth accumulation that is likely to continue over the next decade, particularly in Asia. Wealth is expected to grow faster than GDP in developed countries. Moreover, the ratio of wealth to GDP in emerging markets is currently low and should increase, due, among other factors, to generally higher savings rates. These developments will benefit wealth management businesses across the world. They will also help the asset management industry as private wealth is a key driver for institutional asset growth. Investment banks and securities businesses should also benefit thanks to rising capitalization levels in global financial markets and higher trading volumes.

Retirement provisioning

In coming decades, most countries with established, mature economies will face a major demographic shift related to declining birth rates. This means that while the number of retired citizens will rise, there will be fewer younger people available to replace them in the workforce and therefore fund their retirement. Due to this demographic trend, pension reform is on the agenda of many governments across the world. The strong reliance in Continental Europe and Japan on unfunded schemes will make reform especially urgent in these locations. Although each country will follow its own regulatory agenda, UBS sees a general and gradual shift from unfunded public pension schemes to privately funded ones.

This development benefits both the asset gathering and investment banking businesses. Aside from managing pension mandates, asset management businesses will increasingly address other issues such as asset and liability management for under-funded defined benefit corporate pension funds. With strong capabilities in derivatives and structured products, investment banks also fill an important role in this area.

In wealth management, UBS believes that current developments will influence the demand for retirement-specific products. Private clients usually experience a mind-set change when they enter the sixth decade of their life – the focus shifts from wealth accumulation to wealth protection. Appropriate products and services are needed in order to help these individuals to fund and secure their retirement, representing a substantial growth area for the financial services industry.

Securitization

The de-emphasis of traditional on-balance sheet lending and an increase in securities trading were key contributors to the transformation of the financial services industry over the past decades. Better capital market access and a globalization of financial flows, which improved the pool of available liquidity, have enabled corporations to solve funding needs by directly accessing capital markets while allowing banks to securitize assets and redistribute risk previously held on balance sheet. However, the recent US-led dislocation of credit markets has slowed down this development.

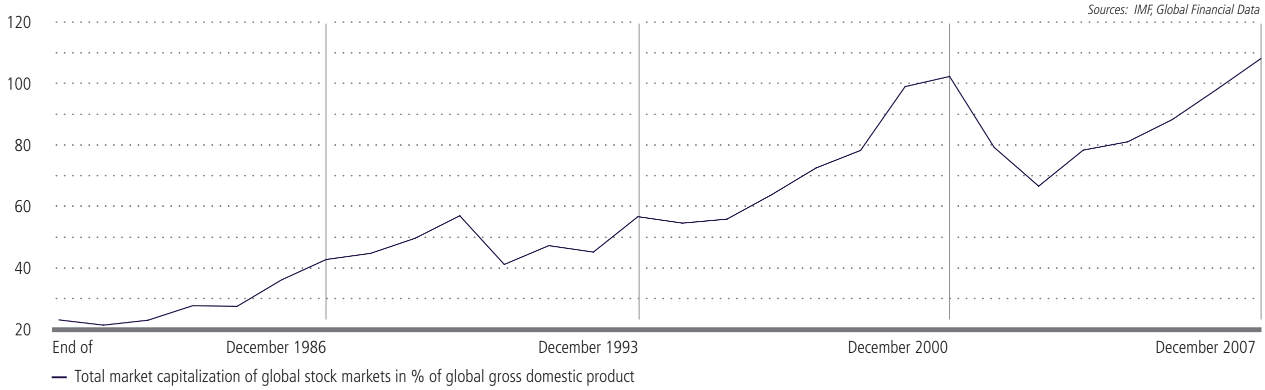
The turmoil highlights a number of issues that need to be addressed, on both the issuer and investor side. Nevertheless, with securitization markets in Europe and most emerging markets still being relatively underdeveloped compared to the US, UBS expects the global securitization trend to progress in the medium to long term. This will require significantly more transparency in the securitization process in order to improve market participants' ability to effectively price these assets.

Equitization

According to recent estimates, equity accounts for nearly half of the growth in global financial assets as more institutional and individual investors tend to allocate a greater share

Deepening of world stock markets

in % *December 1980–December 2007*



of their assets to equities. Since 1980, global equity market capitalization has grown at an annual rate of around 12%. With regards to global GDP, the capitalization of world stock markets increased from 23% of GDP in 1980 to almost 110% of GDP at the end of 2007 (see graph below). The rising share of equity in global financial assets reflects the transfer of ownership of productive assets from government and private owners to public markets and the increasing reliance of corporations on public equity financing to fund their operation. UBS believes that the underlying trend towards an increasing role for equity financing and equity investments remains intact, even though the private equity industry is also growing fast. In Western Europe, UBS sees significant growth potential because of continued financial market integration. Growth potential is even higher in the emerging markets in view of the relatively low levels of stock market capitalization compared with GDP. Equitization is expected to provide growth opportunities not only to investment banking and securities businesses, but also to wealth and asset managers, as assets are increasingly shifted into higher margin classes. In addition, with the continued commoditization of trading services, UBS believes that smaller providers will start outsourcing these services to larger competitors.

Non-traditional asset classes

The last two decades have seen robust growth in non-traditional asset classes – meaning investments other than cash, bonds or public equities. North America led the way, with real estate and private equity becoming significant components of portfolios from the early 1980s onwards. More recently, UBS has seen hedge funds becoming mainstream investments across the globe. Investors are increasingly relying on these asset classes to boost expected returns and increase portfolio diversification. The strong demand and improved ability to structure and securitize even non-financial assets has spurred the development of even more asset classes. While this is a key driver for the asset management industry, it also builds demand for a variety of sophisticated ancillary products and services, ranging from initial public offerings (IPOs) and leveraged finance for private equity firms to prime brokerage and administrative services for hedge funds.

The growth of non-financial assets is supported by the scarcity of commodities needed in production, raising the importance of an efficient allocation of resources. Energy and raw material markets are becoming increasingly similar to financial markets. Financial firms buy and sell futures and enter into private financial contracts (derivatives) with other market participants. With clients asking for more sophisticated products and services in the commodities area, financial firms are in an ideal position to profit from these developments through application of their experience in capital markets.

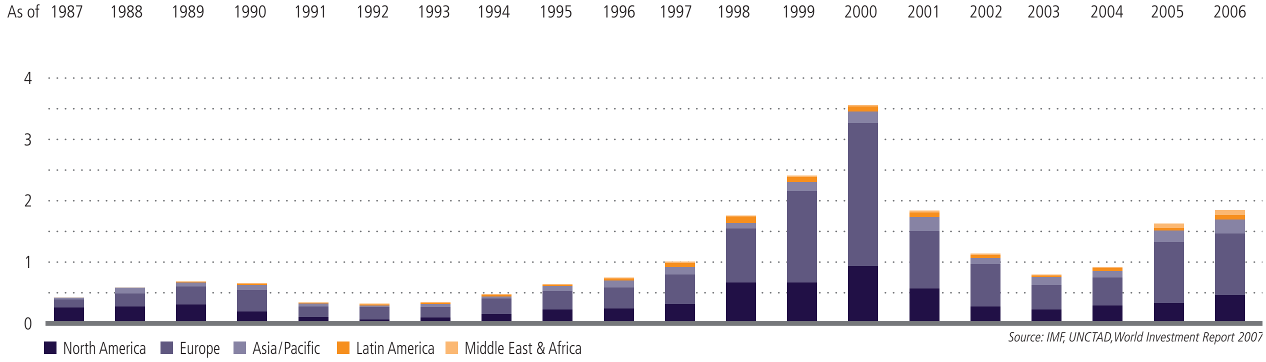
Corporate restructuring and internationalization

In the last few years, many businesses have benefited from strong global economic growth, low levels of nominal interest rates and abundant global liquidity. As a result, the global default rate touched a historical minimum and profits grew significantly. More recently, however, due to the subprime crisis, interest rates have risen while global levels of liquidity have fallen. The credit cycle has turned and default rates are moving back towards the long-term average. This is likely to trigger continued corporate restructuring which will, in turn, offer business opportunities for the investment banking business.

At the same time, the internationalization of business will continue, particularly in Asia, where strong economic growth is allowing local businesses to gradually become net buyers of assets abroad (especially in the US and in Europe, as well as the commodity-rich countries of Africa and Latin America). This trend will provide business opportunities for UBS advisory experts, who are able to assist businesses interested in making acquisitions around the world.

Mergers and acquisitions, by region

Crossborder merges and acquisitions volumes in % of global gross domestic product



Source: IMF, UNCTAD,World Investment Report 2007

The making of UBS

All the firms that have come to make up today's UBS look back on a long and illustrious history. Both the two Swiss predecessor banks and PaineWebber Group Inc. (PaineWebber) came into being in the second half of the 19th century, while S.G. Warburg's roots go back to 1934. But it was in the 1990s when UBS's current identity began to form.

In the early 1990s, the two Swiss banks that are part of the current UBS, Swiss Bank Corporation (SBC) and Union Bank of Switzerland, were commercial banks operating mainly out of Switzerland. The two banks shared a similar vision: to become a world leader in wealth management and a global bulge-bracket investment bank with a strong position in global asset management, while remaining an important commercial and retail bank in Switzerland.

Union Bank of Switzerland, the largest and best-capitalized Swiss bank of its time, opted to pursue a strategy of organic growth, or expansion by internal means. In contrast, SBC, then the third-largest Swiss bank, decided to take another route by starting a joint venture with O'Connor, a leading US derivatives firm that was fully acquired by SBC in 1992. O'Connor was noted for its young, dynamic and innovative culture, its meritocracy and team orientation. It brought state-of-the-art risk management and derivatives technology to SBC. In 1994, SBC acquired Brinson Partners, one of the leading US-based institutional asset management firms. Both the O'Connor and Brinson deals represented fundamental steps in the development of the firm.

The next major move was in 1995, when SBC merged with S.G. Warburg, the British merchant bank. The deal helped to fill SBC's strategic gaps in corporate finance, brokerage and research and, most importantly, brought with it an institutional client franchise, which is still crucial to today's equities business.

The 1998 merger of Swiss Bank Corporation and Union Bank of Switzerland brought together these two leading Swiss financial institutions, creating the world leader in wealth management and improving the new firm's chances of becoming a major investment bank, not to mention providing it with greater capital strength.

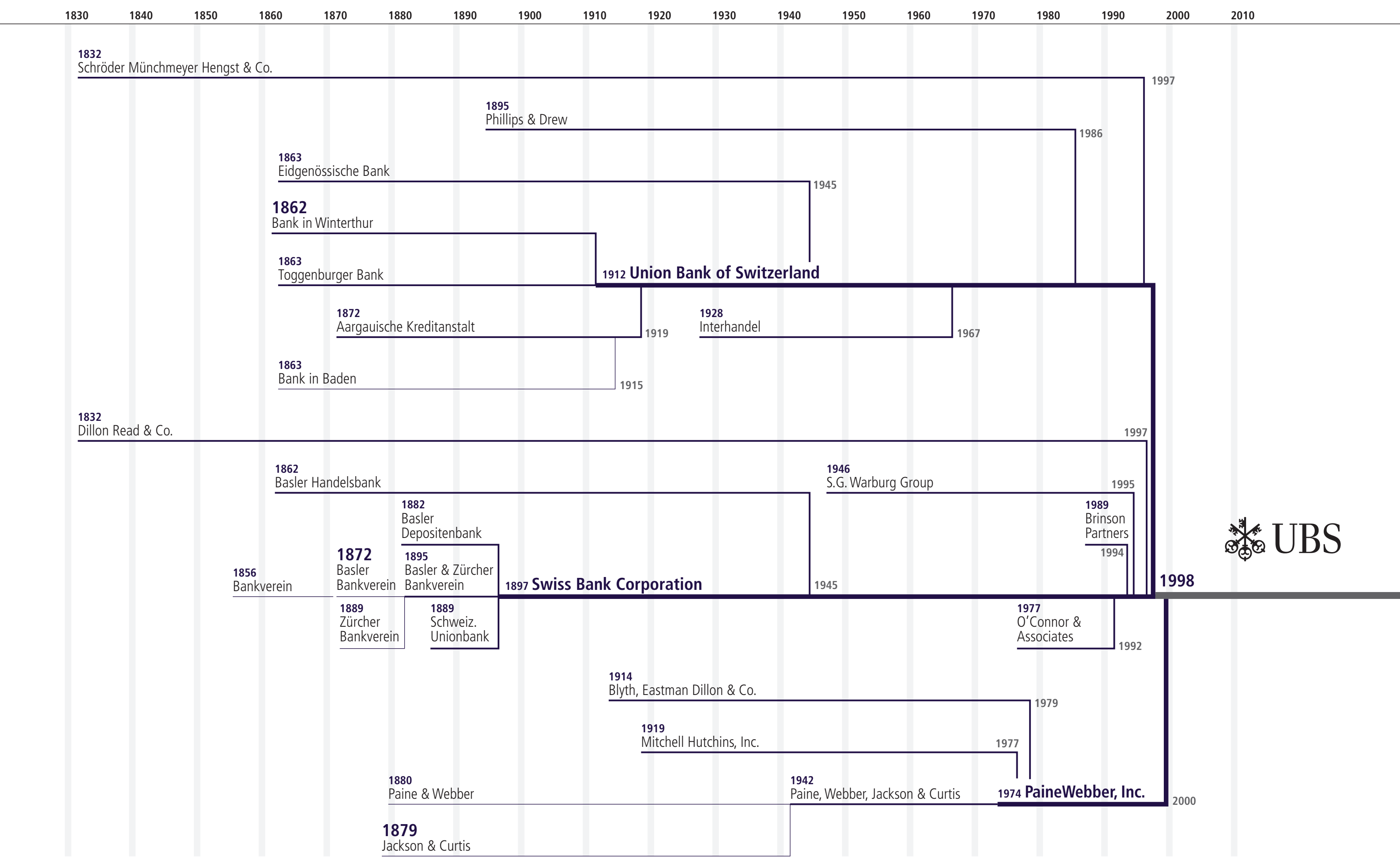
Still, in order to become a truly global player in investment banking and wealth management, UBS needed to establish a significant presence in the key US market. That was achieved when PaineWebber became a part of UBS in 2000.

Since the acquisition of PaineWebber, UBS's strategy has focused on organic growth aided by carefully chosen "bolt-on" acquisitions. In Europe, the domestic wealth management initiative, launched in 2001, has made a number of acquisitions, most notably in Germany (Sauerborn, Merrill Lynch International), the UK (Laing & Cruickshank, Scott Goodman Harris) and France (Lloyds Bank SA). In 2006, UBS strengthened its wealth management business in the US through the acquisitions of the private client branch networks of both Piper Jaffray (closed in 2006) and of McDonald Investments (closed in 2007). In the same year, the Investment Bank saw important additions in the Americas through the acquisition of Banco Pactual in Brazil and ABN AMRO's Global Futures and Options business.

In February 2008, UBS completed the acquisition in France of Caisse Centrale de Réescompte Group (CCR), an asset and wealth manager based in Paris, from Commerzbank.

Taken together, all these acquisitions have helped UBS to comprehensively widen the range of services offered across businesses and regions.

➔ **Detailed information on UBS's history can be found at www.ubs.com/history**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1832 Schröder Münchmeyer Hengst & Co.
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1895 Phillips & Drew
1986
1863 Eidgenössische Bank
1945
1862 Bank in Winterthur
1863 Toggenburger Bank
1912 Union Bank of Switzerland
1872 Aargauische Kreditanstalt
1919
1928 Interhandel
1967
1863 Bank in Baden
1915
1832 Dillon Read & Co.
1997
1862 Basler Handelsbank
1946 S.G. Warburg Group
1995
1882 Basler Depositenbank
1989 Brinson Partners
1994
1872 Basler Bankverein
1895 Basler & Zürcher Bankverein
1856 Bankverein
1897 Swiss Bank Corporation
1945
1998
UBS
1889 Zürcher Bankverein
1889 Schweiz. Unionbank
1977 O'Connor & Associates
1992
1914 Blyth, Eastman Dillon & Co.
1979
1919 Mitchell Hutchins, Inc.
1977
1880 Paine & Webber
1942 Paine, Webber, Jackson & Curtis
1974 PaineWebber, Inc.
2000
1879 Jackson & Curtis

Risk factors

Certain risks, including those described below, can impact UBS's ability to carry out its business strategies and directly affect its earnings. As a consequence, the revenues and operating profit of UBS have varied from period-to-period – and are likely to continue to vary – and revenues and operating profit for any particular period will not be indicative of future results.

Risks related to the current market crisis

UBS, like many other financial market participants, was severely affected by the progressive market dislocation during 2007. The deterioration of the US residential mortgage market in 2007 was more sudden and severe than any such event in recent market history. As a result, the securitized markets became illiquid and UBS's positions, including securities that had been assigned high credit ratings, lost substantial value. The losses incurred in 2007, and the positions held by UBS on 31 December 2007, are detailed in the "Risk concentrations" section of *Risk, Treasury and Capital Management 2007*.

UBS continues to hold positions exposed to the US residential mortgage market

As discussed in the paragraphs below on general risk factors, the values of all the assets UBS holds on its own account depend on the development of market conditions and the overall economic environment, as well as factors affecting particular assets. UBS still holds sizeable positions related to the US residential mortgage market, in particular residential mortgage-backed securities (RMBS) and super senior tranches of collateralized debt obligations (CDO) backed by RMBSs. While UBS continues to manage, trade and hedge these positions, the markets for most of these securities have so far remained illiquid. In 2007, UBS incurred substantial losses (realized and mark-to-market) on its holdings. The firm may record further realized losses upon the sale of any assets, or upon liquidation following a default under CDO structures to which it is exposed, and may record additional mark-to-market losses in the event of adverse developments specific to its positions (such as the deterioration of remittance data in underlying mortgage pools). In addition, the value of UBS's holdings has been and may be further reduced by various factors affecting the overall mortgage market or the US mortgage and real estate markets in general. These factors include deteriorating loss assumptions with respect to mortgage-related assets generally, even those assets that are not themselves experiencing difficulties, due to higher levels of mortgage borrower defaults and the possible forced sale of inventories by other market participants.

UBS has bought protection from monoline insurers that may not be effective

UBS's business entails exposure to counterparty credit risk. UBS's credit exposure to the monoline sector arises from over-the-counter (OTC) derivative contracts – mainly credit default swaps (CDS) which are carried at fair value. The fair value of these CDSs – and thus UBS's exposure to the counterparties – depends on the valuation and the perceived credit risk of the instrument against which protection has been bought. Towards the end of 2007, monoline insurers were adversely affected by their exposure to US residential mortgage-linked products, and UBS recorded credit valuation adjustments on the claims against monoline counterparties. If the financial condition of these counterparties or their perceived credit worthiness deteriorates further UBS could record further credit valuation adjustments on the CDSs bought from monoline insurers.

UBS is also actively trading issued securities and derivatives of monolines including CDSs and the value of these contracts is subject to market volatility.

UBS holds positions in other asset classes that might be negatively affected by the current market crisis

The market dislocation in 2007 has been progressively felt in asset classes beyond US sub-prime mortgages. In 2007, UBS recorded markdowns on other assets carried at fair value including leveraged underwriting commitments – particularly commitments made prior to the credit market dislocation in July 2007 – and positions related to Alt-A residential mortgages and commercial mortgages in the US. In the future, UBS could record negative fair value adjustments on these assets and on other asset classes to which the effect of the crisis in the credit markets may spread, such as other US asset-backed securities or securities issued by US states and municipalities and student loan programs, including auction rate certificates (ARCs) and others. Such securities may also be wrapped by monoline insurers and therefore could incur losses if the difficulties in the monoline sector persist or increase (see the previous risk factor on monoline exposures).

As a sponsor of ARCs programs, UBS has provided liquidity to their auction processes. Due to the decreasing demand for ARC securities in light of recent market concerns about the financial status of monoline insurers and the continued deterioration of credit markets, the firm's inventory in these securities has increased and is subject to valuation uncertainties. UBS holds positions related to real estate markets in countries other than the US and these exposures could also record losses.

UBS is also exposed to risk when it provides financing against the affected asset classes such as in its prime brokerage, reverse repo and lombard lending activities.

Risk factors related to UBS's business activity

Performance in the financial services industry depends on the economic climate – negative developments can adversely affect UBS's business activities

The financial services industry prospers in conditions of economic growth, stable geopolitical conditions, capital markets that are transparent, liquid and buoyant and positive investor sentiment. An economic downturn, inflation or a severe financial crisis (as seen in 2007) would negatively affect UBS's revenues and it would be unable to immediately adjust all its costs to the resulting deterioration in market or business conditions.

A market downturn can be precipitated by geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, war or terrorism. Because financial markets are global and highly interconnected, even local and regional events can have widespread impact well beyond the countries in which they occur. A crisis could develop, regionally or globally, as a result of disruption in emerging markets, which are particularly susceptible to macro-economic and geopolitical developments, or as a result of the failure of a major market participant. As UBS's presence and business in emerging markets increases, it becomes more exposed to these risks.

Adverse and extreme developments of this kind have affected UBS's businesses in a number of ways, and may continue to have further adverse effect on the firm's businesses:

- a general reduction in business activity and market volumes affects fees, commissions and margins from market-making and customer-driven transactions and activities;
- a market downturn is likely to reduce the volume and valuations of assets UBS manages on behalf of clients, reducing its asset- and performance-based fees;
- reduced market liquidity limits trading and arbitrage opportunities and impedes UBS's ability to manage risks, impacting both trading income and performance-based fees;
- assets UBS holds for its own account as investments or trading positions could continue to fall in value;
- impairments and defaults on credit exposures and on trading and investment positions could increase, and losses may be exacerbated by falling collateral values; and
- if individual countries impose restrictions on cross-border payments or other exchange or capital controls, UBS could suffer losses from enforced default by counterparties, be unable to access its own assets, or be impeded in – or prevented from – managing its risks.

Due to its sizeable trading inventory, trading activities and the counterparty credit risks in many of its businesses, UBS is dependent upon its risk management and control processes to avoid or limit potential losses

Risk-taking is a major part of the business of a financial services firm. UBS derives a substantial part of its revenues from market-making and proprietary trading in cash and derivatives markets. Credit is an integral part of many of UBS's retail, wealth management and Investment Bank activities. This includes lending, underwriting and derivatives businesses and positions.

Interest rates, equity prices, foreign exchange levels and other market fluctuations can adversely affect its earnings. Some losses from risk-taking activities are inevitable but, to be successful over time, UBS must balance the risks it takes with the returns it generates. It must therefore diligently identify, assess, manage and control its risks, not only in normal market conditions but also as they might develop under more extreme ("stressed") conditions, when concentrations of exposure can lead to severe losses. UBS's approach to risk management and control and its tools and processes for market and credit risk control, including country risk, are described in *Risk, Treasury and Capital Management 2007*. The steps UBS is taking to strengthen its market risk framework are also described in the same report.

As seen in 2007, UBS is not always able to prevent losses arising from extreme and sudden market dislocations that are not anticipated by its risk measures and systems and affect sizeable inventory positions and therefore lead to serious losses. Value at Risk (VaR), a statistical measure for market risk, is derived from historical market data, and thus, by definition, could not have predicted the losses seen in the stressed conditions in 2007. However, stress loss and concentration controls, and the dimensions in which UBS aggregates risk to identify potentially highly correlated exposures, proved to be inadequate.

UBS is taking steps to strengthen its risk management and risk control frameworks in the affected areas, but the firm could suffer further losses in future if:

- it does not fully identify the risks in its portfolio, in particular risk concentrations and correlated risks;
- its assessment of the risks identified, or its response to negative trends, proves to be inadequate or incorrect;
- markets move in ways that are unexpected – in terms of their speed, direction, severity or correlation – and UBS's ability to manage risks in the resultant environment is therefore restricted;
- third parties to whom UBS has credit exposure or whose securities it holds for its own account are severely affected by events not anticipated by UBS's models and the bank accordingly suffers defaults and impairments beyond the level implied by its risk assessment; and
- collateral or other security provided by its counterparties proves inadequate to cover their obligations at the time of their default.

UBS also manages risk on behalf of its clients in its asset and wealth management businesses. Its performance in these activities could be harmed by the same factors. If clients suffer losses or the performance of their assets held with UBS is not in line with relevant benchmarks against which clients assess investment performance, UBS may suffer reduced fee income and a decline in assets under management or withdrawal of mandates.

Investment positions – such as equity holdings made as a part of strategic initiatives, for revenue generation, held in support of UBS's business activities, and seed investments made at the inception of funds managed by UBS – may also be affected by market risk factors. These investments, however, are often not liquid and are generally intended or required to be held beyond a normal trading horizon. They are subject to a distinct control framework (described in *Risk, Treasury and Capital Management 2007*). Deteriorations in the fair value of these positions would have a negative impact on UBS's earnings.

The valuation of certain assets, including many of the positions related to the US sub-prime residential mortgage market, rely on models. For some or all of the inputs to these models there is no observable source

Where possible, UBS marks its assets at their quoted market price in an active market. In the current environment, such price information is not available for certain instruments linked to the US 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 for which some or all of the reference data is not observable or has limited observability, UBS uses valuation models with non-market observable inputs. These positions include super senior RMBS CDO tranches related to the US residential mortgage market. Note 26 in *Financial Statements 2007* provides detailed information on the determination of fair value from valuation techniques. 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, and these differences could have a significant impact on UBS's financial results. UBS is obliged to regularly review and update its valuation models to incorporate all factors that market participants would consider in setting a price – this includes factoring in current market conditions. Judgment is an important component of this process and UBS carefully considers whether the assumptions and inputs of its models remain appropriate to establish a fair value for the instrument. Changes in model inputs or in the models themselves could have a material impact on UBS's financial results.

Liquidity and funding management are critical to UBS's ongoing performance

A substantial part of UBS's funding requirement is met using short-term unsecured funding sources, including wholesale and retail deposits and the regular issuance of money market paper. The volume of these funding sources is largely stable. If this situation were to change, UBS could be forced to liquidate assets, in particular from its trading portfolio, to meet maturing liabilities or deposit withdrawals. UBS might be forced to sell them at discounts that could adversely affect its profitability and its business franchises.

A reduction in its credit rating would adversely increase UBS's cost of borrowing, in particular from wholesale unsecured sources, and reduce its access to capital markets. It would also result in UBS having to make additional cash payments or post collateral, or in the premature termination of contracts with rating trigger clauses. These events may further increase UBS's liquidity needs, while reducing its ability to obtain funding.

In 2007, UBS's credit spreads increased substantially, in line with the general trend for the financial services industry. The losses UBS incurred in 2007 have put its credit ratings under pressure. If these trends continue, the combination of an increase in UBS's borrowing costs and lower margins could have an adverse impact on the firm's profitability.

➔ **UBS's approach to liquidity and funding management is described in *Risk, Treasury and Capital Management 2007***

UBS's capital strength is important to support its client franchise

UBS's capital position measured by the BIS capital ratios is and has traditionally been strong, both in absolute terms and relative to its competitors. Capital ratios are determined by risk-weighted assets – balance sheet, off-balance sheet and market positions, measured and risk-weighted according to regulatory criteria – and eligible capital. UBS's capital ratios could come under pressure due to financial losses, as seen towards the end of 2007, or due to an increase in risk-weighted assets. For instance, substantial market volatility, a widening of credit spreads (the major driver of UBS's VaR) or a change in regulatory treatment of certain positions could result in a rise in risk-weighted assets and thereby reduce UBS's capital ratios.

Operational risks may affect UBS's business

All UBS's businesses are dependent on the bank's ability to process a large number of complex transactions across multiple and diverse markets in different currencies, in addition to being subject to the many different legal and regulatory regimes of these countries. UBS's operational risk management and control systems and processes, which are described in the operational risk section of *Risk, Treasury and Capital Management 2007*, are designed to ensure that the risks associated with the bank's activities including those arising from process error, failed execution, unauthorized trading, fraud, systems failure and failure of security and physical protection are appropriately controlled. If these internal controls fail or prove ineffective in identifying and remedying such risks, UBS could suffer operational failures that might result in losses.

Legal claims and regulatory risks arise in the conduct of UBS's business

In the ordinary course of its business, UBS is subject to regulatory oversight and liability risk. It is involved in a variety of claims, disputes and legal proceedings and regulatory investigations where UBS is active, including the US, Switzerland and other jurisdictions. Regulatory activity and legal claims have increased as a consequence of the current market crisis, and are expected to increase further. Such proceedings expose UBS to substantial monetary damages and legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on UBS's businesses. The outcome of these matters cannot be predicted and they could adversely affect UBS's future business.

➔ **See Note 21 in *Financial Statements 2007* for information on legal proceedings in which UBS is involved**

UBS might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees

The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. UBS faces competition at the level of local markets and individual business lines, and from global financial institutions comparable to UBS in their size and breadth. Barriers to entry in individual markets are being eroded by new technology. UBS expects these trends to continue and competition to increase in the future.

The competitive strength and market position of UBS could be eroded if the firm is unable to identify market trends and developments, does not respond to them by devising and implementing adequate business strategies or is unable to attract or retain the qualified people needed to carry them out.

In particular, the efforts required to address the current market crisis and related challenges might diminish the attention UBS devotes to managing other risks including those arising from its competitive environment. The changes recently introduced with regard to UBS's balance sheet management, funding framework, in risk management and control as well as the repositioning of the fixed income, currencies and commodities business are likely to reduce the revenue contribution of certain activities that require substantial funding or focus on proprietary trading.

Despite the losses incurred in 2007, UBS has sought to reward its employees appropriately based on competitive compensation schemes. Given the competitiveness of the financial industry, however, the possibility cannot be excluded that key employees will be attracted by competitors and decide to leave UBS, or that UBS may be less successful in attracting qualified employees.

UBS's reputation is key to its business

UBS's reputation is critical in maintaining its relationships with clients, investors, regulators and the general public. The reputation of UBS can be damaged, for instance, by misconduct by its employees, by activities of business partners over which UBS has limited or no control, by severe or prolonged financial losses or by uncertainty about its financial soundness and its reliability. This could result in client attrition in different parts of UBS's business and could negatively impact its financial performance. The firm's reputation is therefore a key factor in its risk management efforts.

UBS's global presence exposes the bank to other risks

UBS operates in more than 50 countries, earns income and holds assets and liabilities in many different currencies and is subject to many different legal, tax and regulatory regimes.

UBS's ability to execute its global strategy depends on obtaining and maintaining local regulatory approvals. This includes the approval of acquisitions or other transactions and the ability to obtain the necessary licenses to operate in a local market. Changes in local tax laws or regulations may affect the ability or the willingness of UBS's clients to do business with the bank, or the viability of the bank's strategies and business model.

In its financial accounts, UBS accrues taxes but the final effect of taxes on earnings is only determined after completion of tax audits (which might take a number of years) or the expiration of statutes of limitations. In addition, changes in tax laws, judicial interpretation of tax laws or policies and practices of tax authorities could have a material impact on taxes paid by UBS and cause the amount of taxes ultimately paid by UBS to differ from the amount accrued.

Because UBS prepares its accounts in Swiss francs, while a substantial part of its assets, liabilities, revenues and expenses are denominated in other currencies, changes in foreign exchange rates have an effect on its reported income, particularly between the Swiss franc and the US dollar (US dollar income represents the major part of UBS's non-Swiss franc income). UBS's approach to management of this currency risk is explained in the corporate currency management system in *Risk, Treasury and Capital Management 2007*.

Financial performance

Financial performance

- In 2007, UBS reported a Group net loss attributable to UBS shareholders of CHF 4,384 million
- Losses from positions related to the US residential mortgage market outweighed the strong performance in the other parts of UBS

UBS results 2007

Losses on trading positions related to the US residential sub-prime and Alt-A real estate market totaled approximately CHF 21.3 billion

Record net fee and commission income of CHF 30.6 billion, reflecting strong performance in wealth and asset management, investment banking and equity underwriting

Operating expenses of the financial businesses, at CHF 34,503 million, were up 5% from 2006. Higher staff levels drove salary expenses and general and administrative expenses up. Performance-based compensation declined, reflecting the losses on US sub-prime related positions

UBS performance indicators 2007

Return on equity was negative 10.2%, down from positive 26.4% in 2006

Diluted earnings per share were negative CHF 2.49, compared with a positive CHF 5.57 in 2006

Cost / income ratio for financial businesses was 110.3% in 2007, significantly up from 69.7% in 2006

Net new money: at CHF 140.6 billion, down from a record in 2006 (CHF 151.7 billion). The decrease was mostly driven by full-year outflows in Global Asset Management. Record net new money inflows were seen in Swiss and international wealth management (up by CHF 27.5 billion from 2006)

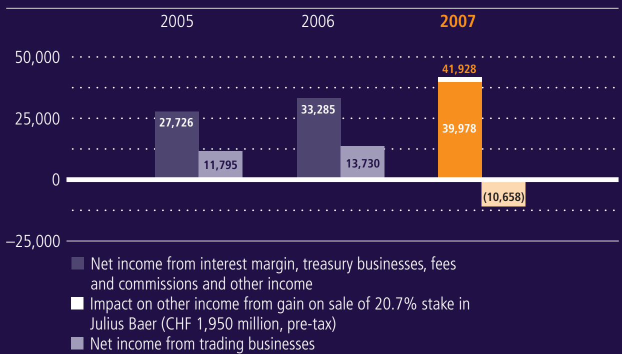
Business group performance from continuing operations before tax

	For the year ended			% change from
CHF million	**31.12.07**	31.12.06	31.12.05	31.12.06
Wealth Management International & Switzerland	**6,306**	5,203	4,161	21
Wealth Management US	**718**	582	312	23
Business Banking Switzerland	**2,460**	2,356	2,189	4
Global Wealth Management & Business Banking	**9,484**	8,141	6,662	16
Global Asset Management	**1,315**[1]	1,392	1,057	(6)
Investment Bank	**(15,525)**	5,943	5,181	
Corporate Center	**1,255**[2]	(1,087)	(708)	
Financial Businesses	**(3,471)**	14,389	12,192	

1 Includes costs related to the closure of Dillon Read Capital Management (DRCM) (CHF 384 million, pre-tax). 2 Includes gain on sale of 20.7% stake in Julius Baer (CHF 1,950 million, pre-tax).

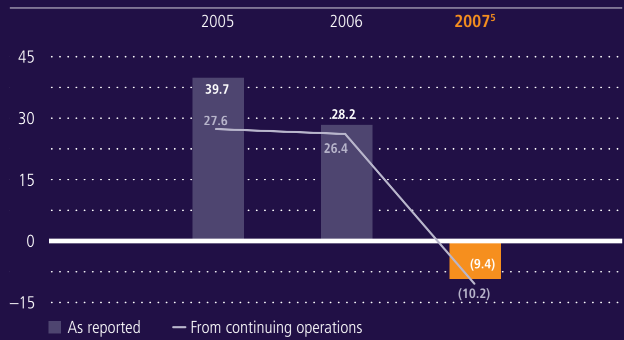
Trading versus non-trading income

CHF million



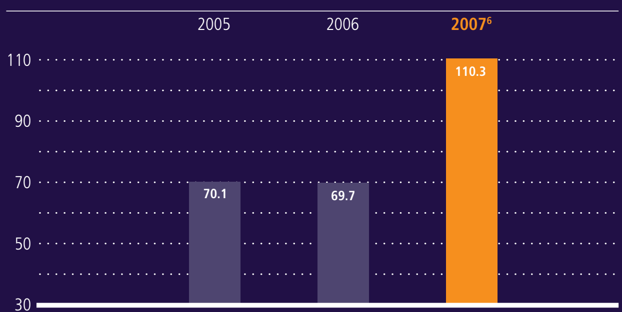
RoE [1]

in %



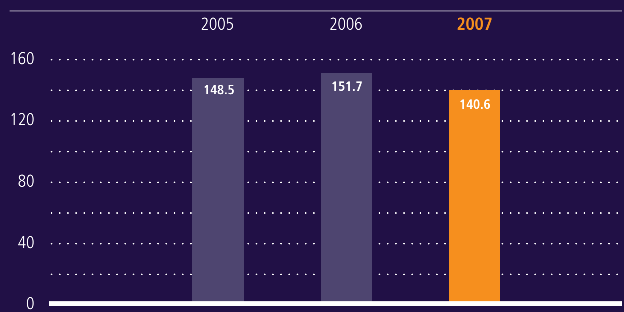
Cost / income ratio of the financial businesses [2, 3]

in %



Net new money, financial businesses [4]

CHF billion



1 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders less distributions (where applicable). 2 Excludes results from Industrial Holdings. 3 Operating expenses / operating income less credit loss expense or recovery. 4 Excludes interest and dividend income. 5 Includes gain on sale of 20.7% stake of Julius Baer (CHF 1,926 million, post-tax) and costs related to the closure of DRCM (CHF 229 million, post-tax). 6 Includes gain on sale of 20.7% stake of Julius Baer (CHF 1,950 million, pre-tax) and costs related to the closure of DRCM (CHF 384 million, pre-tax).

Measurement and analysis of performance

UBS's performance is reported in accordance with International Financial Reporting Standards (IFRS). This discussion and analysis of the UBS results comments on the underlying operational performance of the business, with a focus on continuing operations. As discontinued activities are no longer relevant to the management of the company, UBS does not consider them to be indicative of its future potential performance. They are therefore not included in UBS's business planning decisions. This helps to better assess UBS's performance against that of its peers and to estimate future growth potential.

In the last three years, two such items had a significant impact on UBS's consolidated financial statements:

- in fourth quarter 2005, UBS's Private Banks & GAM unit was sold to Julius Baer at a gain of CHF 3,705 million after tax (pre-tax CHF 4,095 million) – the unit comprised the Banco di Lugano, Ehinger & Armand von Ernst and Ferrier Lullin private banks as well as specialist asset manager GAM. After the sale, UBS retained a stake of 20.7% in the new Julius Baer; and
- on 23 March 2006, UBS sold its 55.6% stake in Motor-Columbus to a consortium representing Atel's Swiss minority shareholders, EOS Holding and Atel, as well as French utility Electricité de France (EDF) for a sale price of approximately CHF 1,295 million, which led to an after-tax gain on sale of CHF 387 million.

Up to and including 2005, UBS provided comments and analysis on an adjusted basis that also excluded the amortization of goodwill and other acquired intangible assets. With the introduction of IFRS 3 *Business Combinations* at the beginning of 2005, UBS ceased amortizing goodwill, which was by far the largest adjustment made to its results.

Factors affecting UBS's financial positions and results of operations in 2007

- In second quarter 2007, UBS sold its 20.7% stake in Julius Baer which was held as a financial investment available-for-sale. The post-tax gain of CHF 1,926 million was therefore included in performance from continuing operations.
- In the same quarter, the closure of Dillon Read Capital Management (DRCM), an alternative investment venture launched in 2006, led to a charge against profits of CHF 384 million pre-tax (CHF 229 million after-tax).
- In the second half of 2007, UBS was severely affected by the progressive market dislocation. This led to total losses of approximately USD 18.7 billion (CHF 21.3 billion) on UBS's positions related to the US residential sub-prime and Alt-A real estate market, representing a combination of write-downs, hedge gains and losses, realized losses from the scale of position and credit valuation adjustments on credit default swaps (CDSs) purchased from monoline insurers. Losses on securities related to US sub-prime residential mortgages totaled USD 14.6 billion, of which USD 9.2 billion were recorded on super senior tranches of collateralized debt obligations (CDOs). Positions related to Alt-A mortgages lost USD 2 billion due to spread widening towards the end of the year. Losses of USD 1.3 billion were incurred on US structured credit programs (reference-linked notes) in the US. Total credit valuation adjustments on protection bought from monoline insurers were USD 0.8 billion in 2007, reflecting the degree to which UBS considers its claims against these counterparties to be impaired.

➔ For details on these positions, see the "Risk concentrations" section in *Risk, Treasury and Capital Management 2007*

Seasonal characteristics

The main businesses of UBS do not generally show significant seasonal patterns, except for the Investment Bank, where revenues are impacted by the seasonal characteristics of general financial market activity and deal flows in investment banking.

Accordingly, when discussing quarterly performance, the Investment Bank's financial results of the reported quarter are compared with those achieved in the same period of the previous year. Similarly, when considering the impact of the Investment Bank's performance on UBS's financial statements, the overall quarterly performance is discussed on a year-on-year basis (comparing the actual quarter with the same quarter in the previous year). Because of the volatile nature of market movements, and the resulting business and trading opportunities, the market risk and balance sheet items in the Investment Bank are compared on a present-quarter to previous-quarter basis. For all other business groups and business units, recent quarterly results are compared with the previous quarter's, as they are only slightly impacted by seasonal components such as asset withdrawals in fourth quarter and lower client activity levels related to the end-of-year holiday season.

Performance measures

UBS performance indicators

For the last eight years, UBS has consistently assessed its performance against a set of four measures that were designed to measure the delivery of continuously improving returns to its shareholders.

On average, through periods of varying market conditions, UBS will:

- seek to increase the value of its firm by achieving a sustainable, after-tax return on equity of a minimum of 20%;
- aim to achieve a clear growth trend in net new money for all financial businesses, including Global Wealth Management & Business Banking as well as Global Asset Management;
- target a double-digit percentage growth for diluted earnings per share (EPS); and
- continue to manage business group and business unit cost/income ratios at levels that compare well with competitors. The cost/income ratio target is limited to the financial businesses.

Business group key performance indicators

At the business group or business unit level, performance is measured by carefully chosen key performance indicators (KPIs). They indicate the business group's or business unit's success in creating value for shareholders but UBS does not disclose explicit targets for these KPIs. The KPIs show the key drivers of each unit's core business activities and include financial metrics, such as cost/income ratios and invested assets, along with non-financial metrics, such as the number of client advisors.

These business group KPIs are used for internal performance measurement and planning as well as external reporting. This ensures management accountability for performance by senior executives and consistency in external and internal performance measurement.

Client/invested assets reporting

Since 2001, UBS has reported two distinct metrics for client funds:

- *client assets* are all client assets managed by or deposited with UBS, including custody-only assets and assets held for purely transactional purposes; and
- *invested assets* is a more restrictive term and includes all client assets managed by or deposited with UBS for investment purposes.

Invested assets is the central measure for UBS and includes, for example, discretionary and advisory wealth management portfolios, managed institutional assets, managed fund assets and wealth management securities or brokerage accounts. It excludes all assets held for purely transactional and custody-only purposes as UBS only administers the assets and does not offer advice on how these assets should be invested. Since 1 January 2004, corporate client assets (other than pension funds) deposited with the Business Banking Switzerland unit have been excluded from invested assets, as UBS has a minimal advisory role for such clients and as asset flows are driven more by liquidity requirements than investment needs. The same holds true for the corporate cash management business of the Wealth Management US unit, which UBS has excluded from its invested assets since the end of 2005. Non-bankable assets (for example, art collections) and deposits from third-party banks for funding or trading purposes are excluded from both measures.

Net new money in a reported period is the net amount of invested assets that are entrusted to the bank 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 in- and outflows to and from invested assets are determined at the client level based on transactions. Interest paid to UBS on clients' loans out of invested assets is treated as net new money outflow. From 2008 onwards, these interest payments will be deducted from the performance of invested assets and no longer impact net new money. Interest and dividend income from invested assets is not counted as net new money inflow. Market and currency movements and 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 flow.

When products are managed in one business group and sold in another, they are counted in both the investment management unit and the distribution unit. This results in double counting in UBS's total invested assets as both units provide an independent service to their respective client, add value and generate revenues. Most double counting arises where mutual funds are managed by the Global Asset Management business and sold by Global Wealth Management & Business Banking. Both businesses involved count these funds as invested assets. This approach is in line with both finance industry practices and UBS's open architecture strategy and allows the firm to accurately reflect the performance of each individual business. Overall, CHF 392 billion of invested assets were double counted in 2007 (CHF 371 billion in 2006).

Business group / business unit key performance indicators

Business	Key performance indicators	Definition
Business groups (excluding Corporate Center) and Business units within financial businesses	Cost / income ratio (%)	Total operating expenses / total operating income before adjusted expected credit loss.
Wealth & Asset Management Businesses and Business Banking Switzerland	Invested assets (CHF billion)	Client assets managed by or deposited with UBS for investment purposes only (for further details please see page 29).
	Net new money (CHF billion)	Inflow of invested assets from new clients + inflows from existing clients – outflows from existing clients – outflows due to client defection.
Wealth & Asset Management Businesses	Gross margin on invested assets (bps)	Operating income before adjusted expected credit loss / average invested assets.
Wealth Management International & Switzerland	Client advisors	Expressed in full-time equivalents.
	Revenues per advisor (CHF thousand)	Income / average number of client advisors.
	Net new money per advisor (CHF thousand)	Net new money / average number of client advisors.
	Invested assets per advisor (CHF thousand)	Average invested assets / average number of client advisors.
Wealth Management US	Recurring income (CHF million)	Interest, asset-based revenues for portfolio management and account-based, distribution and advisory fees (as opposed to transactional revenues).
	Revenues per advisor (CHF thousand)	Income (including net goodwill funding) / average number of financial advisors. Net goodwill funding is defined as goodwill and intangible asset related funding, net of interest income on the corresponding regulatory capital allocated.
	Net new money per advisor (CHF thousand)	Net new money / average number of financial advisors.
	Invested assets per advisor (CHF thousand)	Average invested assets / average number of financial advisors.
Business Banking Switzerland	Impaired lending portfolio as a % of total lending portfolio, gross	Impaired lending portfolio, gross / total lending portfolio, gross.
	Return on allocated regulatory capital (%)	Business unit performance before tax / average allocated regulatory capital.
Investment Bank	Compensation ratio (%)	Personnel expenses / operating income before adjusted expected credit loss.
	Impaired lending portfolio as a % of total lending portfolio, gross	Impaired lending portfolio, gross / total lending portfolio, gross.
	Return on allocated regulatory capital (%)	Business group performance before tax / average allocated regulatory capital.
	Average VaR (10-day, 99% confidence, 5 years of historical data)	Value at Risk (VaR) expresses maximum potential loss measured to a 99% confidence level, over a 10-day time horizon and based on 5 years of historical data.
Corporate Center	IT infrastructure (ITI) cost per financial businesses full-time employee	ITI costs / average number of Financial Businesses employees.

UBS reporting structure

Changes to reporting structure and presentation in 2007 and other adjustments

Reintegration of Dillon Read Capital Management portfolios into the Investment Bank

On 3 May 2007, UBS announced that the proprietary funds managed by Dillon Read Capital Management (DRCM) in Global Asset Management were being transferred to the Investment Bank. As a result, DRCM's principal finance, credit arbitrage and commercial real estate businesses were merged with the relevant business lines in the Investment Bank and DRCM's third party funds were redeemed. As a result, the business activities related to DRCM are no longer reported separately.

Netting of balance sheet items

In second quarter 2007, after concluding that it met netting criteria for certain balance sheet items, UBS decided to begin netting the positive and negative replacement values of over-the-counter interest rate swaps processed through the London Clearing House (LCH).

In addition, the reclassification of certain receivables and payables resulting from the prime brokerage business, which was first announced by UBS at the end of 2006, required further minor adjustments to its loans and "Due to customers" balance sheet positions.

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, in addition to 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 any period presented.

Accounting changes

Effective 2007, UBS adopted the disclosure requirements of the International Financial Reporting Standard 7 (IFRS 7). The new standard has no impact on recognition, measurement and presentation of financial instruments. It does require entities to provide disclosures in their financial statements that enable users to evaluate:
- the significance of financial instruments for the entity's financial position and performance; and
- the nature and extent of the credit, market and liquidity risks arising from financial instruments during the period and at the reporting date (including concentrations of such risk), and how the entity manages those risks.

The principles of IFRS 7 complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in International Accounting Standard 32 (IAS 32) Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

➔ **IFRS 7 disclosure requirements are discussed in *Risk, Treasury and Capital Management 2007* and *Financial statements 2007***

UBS reporting structure

Financial businesses				Industrial Holdings
Global Wealth Management & Business Banking	Global Asset Management	Investment Bank	Corporate Center	Private Equity
Wealth Management International & Switzerland				
Wealth Management US				
Business Banking Switzerland				

Changes in presentation of non-performing loan disclosure

UBS stopped disclosing non-performing loans as a key performance indicator for the Investment Bank and Business Banking Switzerland in quarterly reports beginning in first quarter 2007, after the firm had previously stopped doing so in its annual report 2006. UBS continues to disclose and discuss the impaired lending portfolio, which is a key component of its internal credit risk management and control processes. As in previous years, non-performing loans, as defined under Swiss Federal Banking Commission (SFBC) regulation, will be reported in the notes to the annual financial statements.

Other new disclosures, changes in presentation

Some minor enhancements have been made to UBS's disclosure in 2007, as part of the firm's continuing effort to improve the transparency of its financial reporting and provide the best possible understanding of its business.

In first quarter 2007, UBS introduced key performance indicators in the Wealth Management International & Switzerland business unit to better illustrate the productivity of UBS client advisors. As a result, UBS now reports revenues, net new money and invested assets per advisor in all its wealth management businesses (the indicator "revenues per advisor" was already a part of Wealth Management US disclosure).

Moreover, in discussion of its financial businesses results, UBS changed the breakdown of net interest and trading income to better reflect the structure of the business.

Accounting changes in 2008

Share-based payment: disclosure (IFRS 2)

In January 2008, the International Accounting Standards Board (IASB) issued an amendment to IFRS 2 Share-based Payment. The amended standard, entitled IFRS 2 *Sharebased 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 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 on, most of UBS's share 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). With the restatement, an additional compensation expense of approximately CHF 800 million will be recognized in 2007 to account for higher share-based awards, mainly in the Investment Bank. For further details please see Note 1 in *Financial Statements 2007.*

Discontinuation of the adjusted expected credit loss concept

Starting in first quarter 2008, UBS will cease using the adjusted expected credit loss concept and begin to book actual credit losses (recoveries) in the respective business groups in its internal management reporting. This will affect the results of the business groups in future management reports and simplify Note 2 in *Financial Statements 2007.*

Industrial Holdings to be reported in Corporate Center

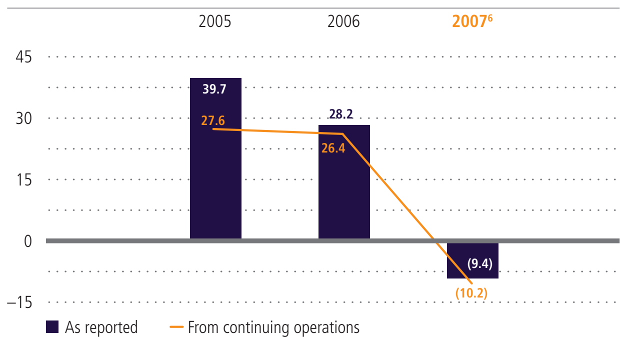
As UBS has continuously reduced its private equity business in Industrial Holdings over the last three years to a very low level, it has been decided to report these activities under Corporate Center from first quarter 2008 onwards. As in previous years, the strategy to de-emphasize and reduce exposure to private equity while capitalizing on orderly exit opportunities as they arise continues.

Performance indicators

	For the year ended		
	31.12.07	31.12.06	31.12.05
RoE (%) [1]			
as reported	**(9.4)**	28.2	39.7
from continuing operations	**(10.2)**	26.4	27.6
Diluted earnings per share (CHF) [2]			
as reported	**(2.28)**	5.95	6.68
from continuing operations	**(2.49)**	5.57	4.65
Cost / income ratio of the financial businesses (%) [3,4]	**110.3**	69.7	70.1
Net new money, financial businesses (CHF billion) [5]	**140.6**	151.7	148.5

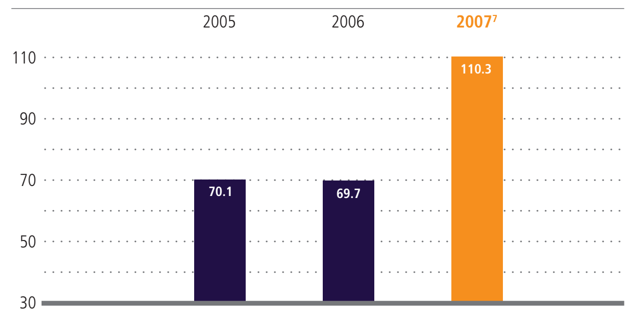
RoE [1]

in %



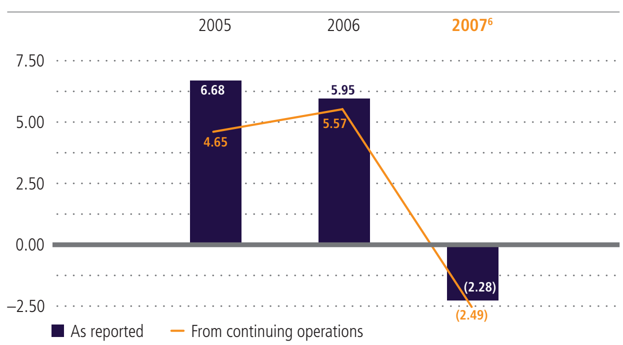
Cost / income ratio of the financial businesses [3, 4]

in %



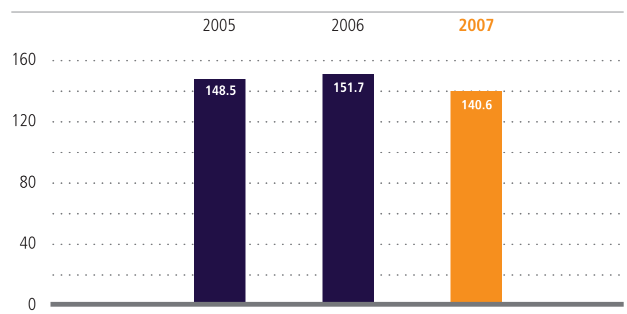
Diluted EPS [2]

CHF



Net new money, financial businesses [5]

CHF billion



1 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders less distributions (where applicable). 2 Details of the EPS calculation can be found in Note 8 in *Financial Statements 2007*. 3 Excludes results from Industrial Holdings. 4 Operating expenses / operating income less credit loss expense or recovery. 5 Excludes interest and dividend income. 6 Includes gain on sale of 20.7% stake of Julius Baer (CHF 1,926 million, post-tax) and costs related to the closure of Dillon Read Capital Management (DRCM) (CHF 229 million, post-tax). 7 Includes gain on sale of 20.7% stake of Julius Baer (CHF 1,950 million, pre-tax) and costs related to the closure of DRCM (CHF 384 million, pre-tax).

2007

UBS focuses on four key performance indicators, designed to measure the continuous delivery of improving returns to shareholders. Each indicator is calculated based on results from continuing operations. The first two indicators, return on equity and diluted earnings per share, are based on the results of the entire firm. The cost/income ratio and net new money indicators are limited to the financial businesses. On this basis, performance indicators 2007 show:

– return on equity for full-year 2007 at negative 10.2%, down from positive 26.4% in the same period a year earlier, while the strong results posted by UBS's wealth and asset management businesses were more than offset by substantial losses in the Investment Bank;
– negative diluted earnings per share of CHF 2.49, compared with positive CHF 5.57 in 2006;
– a cost/income ratio for the financial businesses of 110.3% in 2007, significantly up from 69.7% a year ago; and
– net new money at CHF 140.6 billion, down from a record in 2006 of CHF 151.7 billion. The decrease was mostly driven by full-year outflows in Global Asset Management, mainly in institutional which had net new money outflows of CHF 16.3 billion. The net new money outflows in core/value equity mandates and, to a lesser extent, in fixed income mandates were only partly offset by net new money inflows into all other asset classes, particularly alternative and quantitative investments and money market funds. Record net new money inflows were seen in Swiss and international wealth management (where net new money inflows increased by CHF 27.5 billion from 2006), particularly in Europe and Asia Pacific. Net new money inflows of CHF 26.6 billion in the US wealth management business were an increase of CHF 10.9 billion from prior year, reflecting the recruitment of experienced advisors and reduced outflows from existing clients. The Swiss retail business recorded net new money inflows of CHF 4.6 billion.

Net new money [1]

	For the year ended		
CHF billion	**31.12.07**	31.12.06	31.12.05
Wealth Management International & Switzerland	**125.1**	97.6	68.2
Wealth Management US	**26.6**	15.7	26.9
Business Banking Switzerland	**4.6**	1.2	3.4
Global Wealth Management & Business Banking	**156.3**	114.5	98.5
Institutional	**(16.3)**	29.8	21.3
Wholesale intermediary	**0.6**	7.4	28.2
Global Asset Management	**(15.7)**	37.2	49.5
UBS excluding Private Banks & GAM	**140.6**	151.7	148.0
Corporate Center			
Private Banks & GAM [2]	**0.0**	0.0	0.5
UBS	**140.6**	151.7	148.5

1 Excludes interest and dividend income. 2 Private Banks & GAM was sold on 2 December 2005.

Invested assets

	As of			% change from
CHF billion	**31.12.07**	31.12.06	31.12.05 [1]	31.12.06
Wealth Management International & Switzerland	**1,294**	1,138	982	14
Wealth Management US	**840**	824	752	2
Business Banking Switzerland	**164**	161	153	2
Global Wealth Management & Business Banking	**2,298**	2,123	1,887	8
Institutional	**522**	519	441	1
Wholesale intermediary	**369**	347	324	6
Global Asset Management	**891**	866	765	3
UBS	**3,189**	2,989	2,652	7

1 Private Banks & GAM was sold on 2 December 2005.

2006

From continuing operations, performance indicators show:

- return on equity in full-year 2006 at 26.4%, down from 27.6% in 2005. Higher attributable profit was offset by an increase in average equity following strong retained earnings;
- diluted earnings per share (EPS) in 2006 at CHF 5.57, up 20% from CHF 4.65 in 2005, a reflection of increased earnings and a slight reduction in the average number of shares outstanding (–2%) following share repurchases;
- a cost/income ratio for the financial businesses of 69.7% in 2006, down 0.4 percentage points from 70.1% in 2005, reflecting the increase in net trading income and net fee and commission income, partly offset by higher personnel and general and administrative expenses (in 2006, over 8,500 employees were added in areas where UBS saw long-term strategic opportunities); and
- for the whole of 2006, net new money of CHF 151.7 billion, up from CHF 148.0 billion a year earlier (excluding Private Banks & GAM), corresponding to an annual growth rate of 5.7% of the asset base at the end of 2005. Inflows remained strong worldwide.

UBS results

Income statement

	For the year ended			% change from
CHF million, except per share data	**31.12.07**	31.12.06	31.12.05	31.12.06
Continuing operations				
Interest income	**109,112**	87,401	59,286	25
Interest expense	**(103,775)**	(80,880)	(49,758)	28
Net interest income	**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	**30,634**	25,456	21,184	20
Net trading income	**(8,353)**	13,743	8,248	
Other income	**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	**24,798**	23,591	20,067	5
General and administrative expenses	**8,465**	7,980	6,504	6
Depreciation of property and equipment	**1,251**	1,252	1,247	0
Amortization of intangible assets	**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	**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	**135**	879	5,094	(85)
Tax expense	**(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)	**(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)	**(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)

2007

In 2007, UBS reported a Group net loss attributable to UBS shareholders ("attributable loss") of CHF 4,384 million – a loss of CHF 4,785 million from continuing operations and a profit of CHF 401 million from discontinued operations. In 2006, UBS recorded a Group net profit attributable to UBS shareholders ("attributable profit") of CHF 12,257 million.

The financial businesses reported an attributable loss from continuing operations of CHF 5,235 million in 2007. This compares with an attributable profit of CHF 11,249 million in 2006.

Dividend

As agreed by the extraordinary general meeting on 27 February 2008, the cash dividend for 2007 was replaced by a stock dividend. Furthermore, the Board of Directors (BoD) is authorized, at any time until 27 February 2010, to increase the share capital by a maximum of CHF 10,370,000 through the issuance of a maximum of 103,700,000 fully paid registered shares with a par value of CHF 0.10 each. Existing shareholders will be granted subscription rights for the acquisition of the new shares without payment in proportion to their shareholdings after the annual general meeting (AGM) to be held on 23 April 2008. The exchange ratio will be determined by the BoD, and shareholders will be informed of it on or by the date of the AGM. The allotted entitlements will be tradable on virt-x and therefore allow shareholders to choose whether they wish to receive new UBS AG shares or monetize the value of the entitlements by selling them in the market.

For the performance year 2006 (paid in 2007), UBS paid a cash dividend of CHF 2.20 a share. Total payout for the 2005 financial year (paid in 2006), which included a par value repayment of CHF 0.30 a share for the gain realized from the sale of Private Banks & GAM, was CHF 1.90 a share.

2006

In 2006, attributable profit was CHF 12,257 million.

The financial businesses contributed CHF 11,253 million to attributable profit, of which CHF 11,249 million was from continuing operations. This was an improvement of 19% from CHF 9,442 million in 2005. Discontinued operations contributed CHF 4 million net profit to financial businesses. Attributable profit benefited by CHF 1,004 million from Industrial Holdings with CHF 220 million stemming from continuing operations.

Financial businesses results

Income statement [1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Continuing operations				
Interest income	**109,112**	87,401	59,286	25
Interest expense	**(103,775)**	(80,880)	(49,758)	28
Net interest income	**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	**30,634**	25,456	21,184	20
Net trading income	**(8,353)**	13,743	8,248	
Other income	**3,652**	1,295	561	182
Total operating income	**31,032**	47,171	39,896	(34)
Cash components	**22,300**	21,282	18,275	5
Share-based components [2]	**2,387**	2,187	1,628	9
Total personnel expenses	**24,687**	23,469	19,903	5
General and administrative expenses	**8,421**	7,929	6,448	6
Services (to) / from other business units	**(124)**	(9)	(14)	
Depreciation of property and equipment	**1,243**	1,245	1,240	0
Amortization of intangible assets	**276**	148	127	86
Total operating expenses	**34,503**	32,782	27,704	5
Operating profit from continuing operations before tax	**(3,471)**	14,389	12,192	
Tax expense	**1,275**	2,751	2,296	(54)
Net profit from continuing operations	**(4,746)**	11,638	9,896	
Discontinued operations				
Profit from discontinued operations before tax	**7**	4	4,564	75
Tax expense	**(258)**	0	489	
Net profit from discontinued operations	**265**	4	4,075	
Net profit	**(4,481)**	11,642	13,971	
Net profit attributable to minority interests	**489**	389	454	26
from continuing operations	**489**	389	454	26
from discontinued operations	**0**	0	0	
Net profit attributable to UBS shareholders	**(4,970)**	11,253	13,517	
from continuing operations	**(5,235)**	11,249	9,442	
from discontinued operations	**265**	4	4,075	
Additional information				
Personnel (full-time equivalents)	**83,560**	78,140	69,569	7

1 Excludes results from Industrial Holdings. 2 Additionally includes social security contributions and expenses related to alternative investment awards.

2007

Results

Last year was one of the most difficult in UBS's history. While most UBS businesses, in particular the wealth management businesses, continued their strong revenue and profit growth momentum and finished the year with record results, this performance was overshadowed by the developments in the Investment Bank's positions related to the US residential mortgage market. The sudden and serious deterioration in the US housing market, in combination with a large exposure in sub-prime mortgage related securities and derivatives, has deeply impacted UBS.

Attributable net loss in 2007 was CHF 4,970 million. Discontinued operations contributed a profit of CHF 265 million, compared with CHF 4 million in 2006. Net loss from continuing operations was CHF 5,235 million, down from a profit of CHF 11,249 million in 2006.

Operating income

Total operating income was CHF 31,032 million in 2007, down 34% from CHF 47,171 million in 2006. *Net interest income* at CHF 5,337 million was down 18% compared with CHF 6,521 million a year earlier. *Net trading income* was negative CHF 8,353 million, sharply down from positive CHF 13,743 million in 2006.

As well as income from interest margin-based activities (loans and deposits), net interest income includes income earned as a result of trading activities (for example, coupon and dividend income). This component is volatile from period to period, depending on the composition of the trading portfolio. In order to provide a better explanation of the movements in net interest income and net trading income, UBS analyzes the total according to the business activities that give rise to the income, rather than by the type of income generated.

Net income from trading businesses was down significantly from a positive CHF 13,730 million in 2006 to a negative CHF 10,658 million in 2007. The second half of 2007 was severely impacted by losses on positions related to the US mortgage market (see Note 3 in *Financial statements 2007* for further details). Fixed income, currencies and commodities (FICC) results were very weak. As credit markets continued to worsen towards the end of 2007, the credit business in FICC delivered negative revenues, especially in proprietary strategies. Structured products results were down, especially in Europe and the US, reflecting the decrease in customer demand for complex derivatives transactions. Markdowns on highly leveraged underwriting commitments also had a negative impact. The result for emerging markets was helped by gains from the sale of UBS's stake in Brazil Mercantile & Futures Exchange after demutualization. In addition, UBS had a gain of CHF 397 million on credit default swaps (CDS) hedging loan exposures, compared with a loss of CHF 245 million the previous year.

Revenues from the equities business were up, mainly as a result of very strong gains in the derivatives business in China. Equity capital markets and equity prime brokerage revenues were up in Latin America following the acquisition of Banco Pactual at the end of 2006. Exchange-traded derivatives profited from the acquisition of ABN AMRO's global futures and options business towards the end of 2006. Mark-to-market gains of UBS's stake in Bovespa, the Brazilian stock exchange, helped the equities result. These positive performances were partially offset by losses recorded in proprietary trading as all regions were impacted by the market dislocation.

As a result of observed market widening of UBS's credit spread, both equities and FICC recorded gains in net trading income on structured liabilities for which the fair value option was elected. In full year 2007, the Investment Bank recorded a gain of CHF 659 million.

Net income from interest margin businesses was CHF 6,230 million, up 9% from CHF 5,718 million in 2006, reflecting an increase in spreads for Swiss franc, euro and US dollar deposits and growth in wealth management's collateralized lending business. The US wealth management business also benefited from increased levels of deposits.

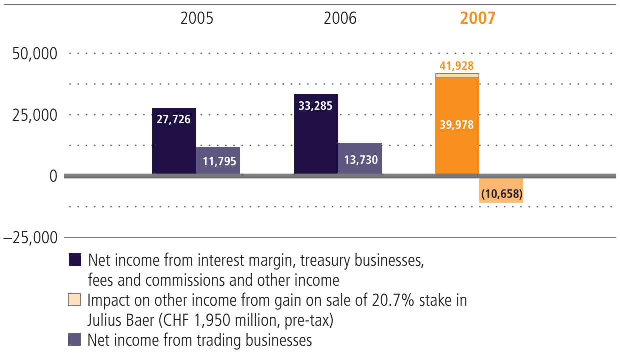
Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.07**	31.12.06	31.12.05	31.12.06
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				
Net income from trading businesses [1]	**(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.

Trading versus non-trading income

CHF million



At CHF 1,412 million, *net income from treasury activities and other* in 2007 was CHF 596 million, 73% higher than CHF 816 million in 2006. The accounting treatment of interest rate swaps, which hedge the economic interest rate risk of accrual-accounted balance sheet items (for example, loans or money market and retail banking products), positively affected income. They are carried on the balance sheet at fair value and, if they qualify for cash flow hedge accounting under IAS 39, changes in fair value are recorded in equity, thereby avoiding volatility in the group income statement. In 2007, these hedges were not fully effective, leading to a gain that was booked to UBS's income statement. Higher interest income was also recorded as a result of increased yield on a slightly higher average capital base.

In 2007, UBS experienced a *net credit loss expense* of CHF 238 million, compared to a net credit loss recovery of CHF 156 million in 2006. The market dislocations stemming from the US sub-prime mortgage market during the second half of 2007 were the main reasons for the significant increase, mainly in the Investment Bank.

Net credit loss recovery at Global Wealth Management & Business Banking amounted to CHF 28 million in 2007 compared with a net credit loss recovery of CHF 109 million in 2006. The reduced level of credit loss recovery was a consequence of the continued reduction in the impaired lending portfolio and related allowances to a level such that recoveries realized from work-outs continue to trend lower and no longer compensate for the ongoing need to establish new allowances. The US mortgage market dislocation had no impact on these figures.

The Investment Bank realized a net credit loss expense of CHF 266 million in 2007, compared with a net credit loss recovery of CHF 47 million in 2006. This mainly relates to valuation adjustments taken in connection with the securitization of certain US commercial real estate assets.

→ ***Risk, Treasury and Capital Management 2007*** **details UBS's risk management approach, method of credit risk measurement and the development of credit risk exposures**

In 2007, *net fee and commission income* was CHF 30,634 million, up 20% or CHF 5,178 million from CHF 25,456 million in 2006. Asset-based revenues showed particular strength, reflecting higher average invested asset levels, following strong inflows into the wealth management businesses. Underwriting fees, at their highest level ever, were CHF 3,742 million, up 20% from CHF 3,113 million in 2006. Equity underwriting fees, at CHF 2,564 million, increased by CHF 730 million, or 40%, with double-digit growth in the Americas and Europe. Fixed income underwriting fees were CHF 1,178 million, down 8% or CHF 101 million from CHF 1,279 million, reflecting the adverse conditions in credit markets and a decline in investor sentiment affecting volume and pricing of debt issuance. At CHF 2,768 million, mergers and acquisitions and corporate finance fees in 2007 were up significantly by 49% from CHF 1,852 million a year earlier. Advisory gross revenues increased during 2007, as clients took advantage of strategic opportunities in the brisk merger and acquisition environment and UBS's growing franchises across all regions. Net brokerage fees were CHF 7,671 million in 2007, up 25% or CHF 1,522 million from CHF 6,149 million in 2006, mainly driven by higher revenues in Europe, the US and Asia, due to additional services from a new equities trading platform, and a considerable increase in client activity in all client segments. Additionally, the equity derivatives business also posted higher revenues due to increased business volume. Investment fund fees, at their highest level ever, were CHF 7,422 million in 2007, up 27% from CHF 5,858 million in 2006, mainly reflecting higher asset-based fees for the wealth management businesses, driven by strong client money inflows. Global Asset Management also increased management and performance fees globally. Fiduciary fees were slightly higher in 2007, increasing from CHF 252 million in 2006 to CHF 297 million, reflecting an increase in business volume. At CHF 1,367 million, custodian fees in 2007 were up 8% from CHF 1,266 million in 2006. This increase was

Credit loss (expense) / recovery

	For the year ended			% change from
CHF million	**31.12.07**	31.12.06	31.12.05	31.12.06
Global Wealth Management & Business Banking	**28**	109	223	(74)
Investment Bank	**(266)**	47	152	
UBS	**(238)**	156	375	

due to an enlarged asset base. Portfolio and other management and advisory fees increased by 18% to CHF 7,790 million in 2007 from CHF 6,622 million in 2006. The increase is again the result of rising invested asset levels driven by strong net new money inflows and to a lesser extent due to higher management fees. Insurance-related and other fees, at CHF 423 million in 2007, decreased by 6% from a year earlier. Lower insurance fees paid in Global Asset Management were only partially offset by increased sales and asset-based fees from the wealth management businesses. Credit-related fees and commissions increased slightly by 4% to CHF 279 million in 2007 from CHF 269 million in 2006. Commission income from other services decreased by 4% from CHF 1,064 million in 2006 to CHF 1,017 million in 2007, mainly driven by equity derivative products, partially offset by higher fees for account keeping.

Other income was up considerably in 2007 by CHF 2,357 million or 182% from last year's CHF 1,295 million. This was mainly relating to the sale of a 20.7% stake in Julius Baer in second quarter 2007. The demutualization of UBS's stake in Bovespa, the Brazilian stock exchange, and in the Brazil Mercantile & Futures Exchange positively affected the other income line as well. In 2006 UBS recorded gains on the New York Stock Exchange membership seats, which were exchanged into shares when it went public in March 2006. In the same year UBS sold its stakes in the London Stock Exchange, Babcock & Brown and EBS group.

Operating expenses

Total operating expenses increased by 5% to CHF 34,503 million in 2007 from CHF 32,782 million in 2006.

Personnel expenses increased CHF 1,218 million, or 5%, to CHF 24,687 million in 2007 from CHF 23,469 million in 2006. The rise was driven by higher salaries due to the 7% increase in personnel over the year, mainly in wealth management businesses which added 1,400 client and financial advisors. Performance-related compensation decreased, reflecting the losses incurred in the Investment Bank. Personnel expenses are managed on a full-year basis with final fixing of annual performance-related payments in fourth quarter. Share-based components were up 9%, or CHF 200 million, to CHF 2,387 million from CHF 2,187 million, mainly reflecting accelerated amortization of deferred compensation awarded for senior managers who have left UBS. Contractors' expenses, at CHF 630 million, were CHF 192 million below 2006's, mainly due to the transfer of Perot contractors into permanent staff. Insurance and social security contributions declined by 11% to CHF 1,219 million in 2007 compared with CHF 1,374 million in 2006, reflecting lower bonus payments. Contributions to retirement benefit plans rose 15% or CHF 120 million to CHF 922 million in 2007 as a result of both higher salaries paid and the increased staff levels. At CHF 1,956 million in 2007, other personnel expenses increased by CHF 392 million from 2006, mainly driven by severance payments relating to the reduction in staff levels.

At CHF 8,421 million in 2007, *general and administrative expenses* increased by 6% from CHF 7,929 million a year ago. Administration costs increased due to elevated business volumes in Latin America related to the acquisition of Banco Pactual in 2006 and higher levels of UBS staff. The increased number of employees pushed occupancy costs, as well as

Net fee and commission income

	For the year ended			% change from
CHF million	**31.12.07**	31.12.06	31.12.05	31.12.06
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
Mergers and acquisitions 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

Indicative tax rates for financial businesses

	For the year ended		
in %	**31.12.07**	31.12.06	31.12.05
Global Wealth Management & Business Banking	**20**	20	19
Wealth Management International & Switzerland	**19**	19	18
Wealth Management US	**42**	42	40
Business Banking Switzerland	**20**	20	17
Global Asset Management	**20**	24	24
Investment Bank	**N/A**	31	29

travel and entertainment expenditures, higher. Professional fees were up on higher legal fees and IT and other outsourcing expenses were higher in all UBS businesses. This increase was only partially offset by lower provisions.

Depreciation was CHF 1,243 million in 2007, almost unchanged from CHF 1,245 million in 2006. Lower depreciation on IT and communication equipment was offset by higher real estate charges.

At CHF 276 million, *amortization of intangible assets* was up 86% from CHF 148 million a year earlier, related to acquisitions made at the end of 2006, mainly Banco Pactual.

Tax

Tax expense from continuing operations for 2007 was CHF 1,275 million, compared with a tax expense for 2006 of CHF 2,751 million. The tax charge for 2007 reflects tax expenses on profits earned outside the US during the year, partially offset by US and Swiss tax benefits on the writedowns incurred related to the US sub-prime crisis. The US tax benefits recognized have arisen mainly as a result of the ability to carry back losses against US profits earned in the two prior years. The remainder of the losses are carried forward to offset against future US taxable earnings. Only a portion of these losses have been recognized as deferred tax assets on the balance sheet in line with the requirements of IAS 12, which limits the ability to recognize such assets when losses have been incurred.

Business group tax rates

Indicative business group and business unit tax rates are calculated on an annual basis based on the results and statutory tax rates of the financial year. These rates are approximate calculations, based upon the application to the year's adjusted earnings of statutory tax rates for the locations in which the business groups operated. These tax rates, therefore, give guidance on the tax cost of each business group doing business during 2007 on a stand-alone basis, without the benefit of tax losses brought forward from earlier years.

No tax rate has been presented for the Investment Bank, since the combination of applying statutory tax rates to losses related to the US sub-prime crisis and profits in other locations would not result in a meaningful overall tax rate for the Investment Bank. The indicative tax rate for Global Asset Management of 20% takes into account tax benefits related to closure costs of Dillon Read Capital Management. Excluding these tax benefits, the indicative tax rate for Global Asset Management would have been 24%, at the same level as in the last two years.

Please note that these tax rates are not necessarily indicative of future tax rates for the businesses or UBS as a whole.

Fair value disclosure of shares and options

The fair value of shares granted in 2007 rose to CHF 2,116 million. This is 258 million, or 14%, more than the CHF 1,858

Business group performance from continuing operations before tax

	For the year ended			% change from
CHF million	**31.12.07**	31.12.06	31.12.05	31.12.06
Wealth Management International & Switzerland	**6,306**	5,203	4,161	21
Wealth Management US	**718**	582	312	23
Business Banking Switzerland	**2,460**	2,356	2,189	4
Global Wealth Management & Business Banking	**9,484**	8,141	6,662	16
Global Asset Management	**1,315**[1]	1,392	1,057	(6)
Investment Bank	**(15,525)**	5,943	5,181	
Corporate Center	**1,255**[2]	(1,087)	(708)	
Financial businesses	**(3,471)**	14,389	12,192	

1 Includes costs related to the closure of Dillon Read Capital Management (CHF 384 million, pre-tax). 2 Includes gain on sale of 20.7% stake in Julius Baer (CHF 1,950 million, pre-tax).

million granted in 2006, with the increase largely due to a rise in the proportion of bonuses being delivered in restricted shares.

The fair value of options granted as of 31 December 2007 was CHF 501 million, down CHF 63 million, or 11%, from CHF 564 million in 2006. The decrease reflects a lower fair value per option, related to changes in market parameters. Additionally, the number of options granted in 2007 was lower.

Most share-based compensation is granted in the first quarter of the year, with any further grants mainly under the Equity Plus program, a continuing employee participation program under which voluntary investments in UBS shares each quarter are matched with option awards.

These amounts, net of forfeited awards, will be recognized as compensation expense over the service period, which is generally equal to the vesting period. Most UBS share and option awards vest incrementally over a three-year period.

2006

Results

Attributable net profit in 2006 was CHF 11,253 million, of which discontinued operations contributed CHF 4 million, compared with CHF 4,075 million in 2005 following the sale of Private Banks & GAM. Net profit from continuing operations was CHF 11,249 million, up 19% from CHF 9,442 million in 2005. Higher revenues in practically all businesses drove the increase, outpacing growth in costs. Asset-based revenues showed particular strength, a reflection of rising market levels as well as strong inflows into the wealth and asset management businesses. UBS saw a strong increase in brokerage, corporate finance and underwriting fees. Income from trading activities was driven by higher gains from equity derivatives, prime brokerage and equity proprietary trading. Fixed income activities saw stronger results driven by positive market conditions and improved performances in derivatives, mortgage-backed securities and commodities. Revenues from interest margin products increased, a reflection of the success and growth of lending activities to wealthy private clients worldwide. UBS also reported credit loss recoveries. Expenses continued to increase (+18%) in the context of strategic expansion. Personnel expenses were up 18% from 2005, performance-related payments rose with revenues and there was a 12% increase in staff numbers. For 2006, 53% of personnel expenses took the form of bonus or other variable compensation, up from 50% in 2005. General and administrative expenses were up 23% from 2005. Provision expenses rose, mainly as a result of the settlement agreement with Sumitomo Corporation and the sublease of unused office space in New Jersey, US. The rise in costs was outpaced by the improvement in revenues, driving the cost/income ratio down to 69.7% – the lowest level ever recorded.

Operating income

Total operating income was CHF 47,171 million in 2006, up 18% from CHF 39,896 million in 2005.

Net interest income was CHF 6,521 million in 2006, down from CHF 9,528 million in 2005. *Net trading income* was CHF 13,743 million, up from CHF 8,248 million in 2005.

Net income from trading businesses increased by 16%, or CHF 1,935 million, from CHF 11,795 million in 2005 to CHF 13,730 million in 2006. Equities trading income in 2006 was up as it saw a large increase in derivatives trading, as well as in prime brokerage. Additionally, the proprietary business recorded higher results. These gains were partially offset by lower revenues in the cash equity business, partly due to increased client facilitation requirements by clients in the US and Europe. Fixed income trading revenues were up. The rates business recorded significant increases with business expansion in energy trading and in mortgage backed securities driven by higher client activity and favorable market conditions. This was partially offset by lower derivatives income due to declining customer flows. The metals business was positively affected by active markets. Revenues from the credit fixed income business were up slightly compared with 2005, while a loss of CHF 245 million was recorded in relation to credit default swaps (CDSs) hedging existing credit exposure in the loan book, against a gain of CHF 103 million in 2005.

Net income from interest margin businesses increased by 8% to CHF 5,718 million in 2006, a reflection of the growth in collateralized lending to wealthy clients worldwide. It also reflected an increase in spreads for US dollar, euro and Swiss franc deposits and higher volumes of mortgages to Swiss clients. The wealth management business in the US achieved higher levels of deposits, and benefited from higher spreads on them. This increase was partially offset by lower income from the shrinking Swiss recovery portfolio, which dropped by CHF 0.7 billion compared to year-end 2005.

At CHF 816 million, *net income from treasury activities and other* in 2006 was CHF 127 million or 18% higher than CHF 689 million in 2005. Interest income increased due to a higher consolidated capital base. Compared with 2005, income benefited from mark-to-market gains on US dollar foreign exchange options used to hedge the currency exposure arising from future earnings. The US dollar fell against the Swiss franc in 2006 while it increased in 2005. During 2005, treasury revenues were negatively affected by the accounting treatment of interest rate swaps, as these hedges were not fully effective.

In 2006, UBS experienced a *net credit loss recovery* of CHF 156 million, compared to a net credit loss recovery of CHF 375 million in 2005. The positive macro-economic environment in key emerging markets allowed the release of CHF 48 million of collective loan loss provisions for country risk.

Net credit loss recovery at Global Wealth Management & Business Banking amounted to CHF 109 million in 2006 compared with a net credit loss recovery of CHF 223 million in 2005. The benign credit environment in Switzerland, where the corporate bankruptcy rate continued to fall in 2006, coupled with the measures taken in recent years to improve the quality of the credit portfolio has again resulted in a low level of new defaults. The management of the impaired portfolio, which continues to shrink, has also contributed to this result.

The Investment Bank realized a net credit loss recovery of CHF 47 million in 2006, compared with a net credit loss recovery of CHF 152 million in 2005. This continued strong performance was the result of further recoveries of previously established allowances and provisions from the workout of the impaired portfolio, and no new defaults in 2006.

In 2006, *net fee and commission income* was CHF 25,456 million, up 20% from CHF 21,184 million in 2005. Underwriting fees were CHF 3,113 million in 2006, up 20% from CHF 2,605 million in 2005. Equity underwriting fees, at CHF 1,834 million, increased by CHF 493 million, or 37%, in all geographical regions. This was partially due to UBS's role in the initial public offering of the Bank of China during second quarter 2006, where the firm acted as joint coordinator and bookrunner. Fixed income underwriting fees, at CHF 1,279 million, were slightly up by CHF 15 million. At CHF 1,852 million, mergers and acquisitions and corporate finance fees in 2006 were up 27% from CHF 1,460 million in 2005. Advisory gross revenues increased during 2006, as clients took advantage of strategic opportunities in the brisk merger and acquisition environment and UBS's growing franchise in this area. Net brokerage fees were CHF 6,149 million in 2006, up 21%, or CHF 1,062 million, from CHF 5,087 million in 2005, a reflection of the improved markets and the resulting higher confidence of institutional and individual clients. Additionally, higher income from exchange-traded derivatives was driven by the acquisition of ABN AMRO's global futures and options business. Investment fund fees were CHF 5,858 million in 2006, up 23% from CHF 4,750 million in 2005, mainly a reflection of higher asset-based fees for the wealth and asset management businesses, driven by strong client money inflows and favorable market conditions. Fiduciary fees were slightly higher in 2006, increasing from CHF 212 million in 2005 to CHF 252 million, reflecting an increase in the underlying asset base. At CHF 1,266 million, custodian fees in 2006 were up 8% from CHF 1,176 million in 2005. This increase was due to an enlarged asset base. Portfolio and other management and advisory fees increased by 25% to CHF 6,622 million in 2006 from CHF 5,310 million in 2005. The increase was again the result of rising invested asset levels driven by market valuations and strong net new money inflows. Insurance-related and other fees, at CHF 449 million in 2006, increased by 21% from 2005, due to higher commissions from insurance related products. Credit-related fees and commissions decreased by 12% to CHF 269 million in 2006 from CHF 306 million in 2005, a reflection of declining business volumes and lower income from loans.

Commission income from other services increased by 4% from CHF 1,027 million in 2005 to CHF 1,064 million in 2006, mainly driven by equity derivative products and higher fees for credit cards.

Other income increased by 131% to CHF 1,295 million in 2006 from CHF 561 million in 2005. This was driven by gains on UBS's New York Stock Exchange membership seats, which were exchanged into shares when it went public in March 2006. In addition, UBS sold its stakes in the London Stock Exchange, Babcock & Brown and EBS group.

Operating expenses

Total operating expenses increased by 18% to CHF 32,782 million in 2006 from CHF 27,704 million in 2005.

Personnel expenses increased CHF 3,566 million, or 18%, to CHF 23,469 million in 2006 from CHF 19,903 million in 2005. The rise was driven by higher performance-related compensation which reflected the better performance in all UBS businesses. Salary expenses rose due to the 12% increase in personnel over 2006, reflecting the expansion of UBS's business as well as annual pay rises. Share-based components were up 34% or CHF 559 million to CHF 2,187 million from CHF 1,628 million, mainly a reflection of more share awards being granted in 2006 and the higher fair value of options, driven by the rise in the share price. Contractors' expenses, at CHF 822 million, were CHF 1 million below 2005's. Insurance and social security contributions rose by 9% to CHF 1,374 million in 2006 compared with CHF 1,256 million in 2005. Contributions to retirement benefit plans rose 13% or CHF 90 million to CHF 802 million in 2006 as a result of both higher salaries paid and the increased staff levels. At CHF 1,564 million in 2006, other personnel expenses increased CHF 174 million from 2005, mainly driven by increased levels of staff.

At CHF 7,929 million in 2006, *general and administrative expenses* increased CHF 1,481 million from CHF 6,448 million in 2005. The increase was driven by a number of provisions, mainly for the Sumitomo settlement and the long-term lease on an office building in New Jersey, US. Professional fees rose for projects that support UBS's growth strategy. IT and other outsourcing costs, marketing and public relations as well as expenses for market data services were driven up by increased business volume. Higher staff levels resulted in increased costs for occupancy and for travel.

Depreciation was CHF 1,245 million in 2006, almost unchanged from CHF 1,240 million in 2005. Higher depreciation on real estate was partially offset by falling IT-related charges.

At CHF 148 million, *amortization of intangible assets* was up 17% from CHF 127 million in 2005, related to acquisitions made during 2006.

Tax

The tax expense for 2006 was CHF 2,751 million, resulting in an effective tax rate of 19.1%, compared with the full-year 2005 tax rate of 18.8%. The tax rate for 2006 was positively influenced by the release of deferred tax valuation allowances, mainly reflecting improved forecast earnings in certain group companies and branches.

Fair value disclosure of shares and options

The fair value of shares granted in 2006 rose to CHF 1,858 million, 35% higher than CHF 1,381 million in 2005. The increase compared with 2005 was primarily driven by higher performance-based compensation and a rise in the proportion of bonuses being delivered in restricted shares.

The fair value of options granted as of 31 December 2006 was CHF 564 million, up 56% from CHF 362 million in 2005. The increase reflected a higher fair value per option, primarily due to a higher UBS share price.

Balance sheet and off balance sheet

Balance sheet

			% change from
CHF million	**31.12.07**	31.12.06	31.12.06
Assets			
Cash and balances with central banks	**18,793**	3,495	438
Due from banks	**60,907**	50,426	21
Cash collateral on securities borrowed	**207,063**	351,590	(41)
Reverse repurchase agreements	**376,928**	405,834	(7)
Trading portfolio assets	**610,061**	627,036	(3)
Trading portfolio assets pledged as collateral	**164,311**	251,478	(35)
Positive replacement values	**428,217**	292,975	46
Financial assets designated at fair value	**11,765**	5,930	98
Loans	**335,864**	297,842	13
Financial investments available-for-sale	**4,966**	8,937	(44)
Accrued income and prepaid expenses	**11,953**	10,361	15
Investments in associates	**1,979**	1,523	30
Property and equipment	**7,234**	6,913	5
Goodwill and intangible assets	**14,538**	14,773	(2)
Other assets	**18,000**	17,249	4
Total assets	**2,272,579**	2,346,362	(3)
Liabilities			
Due to banks	**145,762**	203,689	(28)
Cash collateral on securities lent	**31,621**	63,088	(50)
Repurchase agreements	**305,887**	545,480	(44)
Trading portfolio liabilities	**164,788**	204,773	(20)
Negative replacement values	**443,539**	297,063	49
Financial liabilities designated at fair value	**191,853**	145,687	32
Due to customers	**641,892**	555,886	15
Accrued expenses and deferred income	**21,848**	21,527	1
Debt issued	**222,077**	190,143	17
Other liabilities	**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)

UBS's total assets stood at CHF 2,272.6 billion on 31 December 2007, down from CHF 2,346.4 billion on 31 December 2006. These shifts were driven by declines in the Investment Bank, where deliberate balance sheet reductions led to lower collateral trading portfolio (down CHF 173.4 billion) and lower trading portfolio assets (down CHF 104.1 billion). The positive and negative replacement values grew by CHF 135.2 billion and CHF 146.5 billion respectively and the loan portfolio was up CHF 38.0 billion. Currency movements against the Swiss franc (mainly the 7% depreciation of the US dollar) strongly supported the decline in total assets. Total liabilities decreased due to lower collateral trading liabilities (down CHF 271.1 billion) and trading portfolio liabilities (down CHF 40.0 billion), however, these movements were partially offset by higher unsecured borrowings, which went up CHF 106.2 billion.

Lending and borrowing

Lending

Cash was CHF 18.8 billion on 31 December 2007, up CHF 15.3 billion from a year earlier, mainly related to temporarily higher sight deposit balances held with central banks. At CHF 60.9 billion on 31 December 2007, the Due from banks line increased by CHF 10.5 billion, largely related to short-term over-the-counter margin calls. Loans to customers stood at CHF 335.9 billion on 31 December 2007, up by CHF 38.0 billion from a year earlier, reflecting increased collateralized lending (lombard lending), mainly in the international wealth management businesses, and higher mortgage volumes in Switzerland. Additionally, this was further accentuated by an increase in the Investment Bank's collateralized lending to prime brokerage clients. This was partially offset by the exit of certain US legacy positions which were built up by Dillon Read Capital Management (DRCM).

Borrowing

The Due to banks declined sharply by CHF 57.9 billion to CHF 145.8 billion, mainly due to efforts from the Investment Bank's foreign exchange and money market desk. This reduced UBS's dependency on the short-term inter-bank market by replacing related liabilities with longer-term money market papers (up by CHF 32.7 billion). Total debt issued (including money market paper and financial liabilities designated at fair value) increased to CHF 413.9 billion on 31 December 2007, up CHF 78.1 billion from a year earlier. The amount of long-term debt issued (including financial liabilities designated at fair value) grew by CHF 45.4 billion to CHF 261.7 billion. The Due to customers line was up CHF 86.0 billion, mainly reflecting larger time deposits from private clients in the wealth management franchise around the globe and in Switzerland from the retail banking business. Growth in customer deposits in the Investment Bank occurred primarily in prime brokerage and the exchange-traded derivatives business.

Repurchase agreements and securities borrowing / lending

In 2007, cash collateral on securities borrowed and reverse repurchase agreements significantly decreased by CHF 173.4 billion, or 23% to CHF 584.0 billion, while the sum of securities lent and repurchase agreements declined by CHF 271.1 billion or 45% to CHF 337.5 billion. This occurred almost entirely in the Investment Bank, where the matched book (a repurchase agreement portfolio comprised of assets and liabilities with equal maturities and equal value, so that the market risks substantially cancel each other out) was reduced. In addition, the fixed income book decreased as a result of lower short trading inventories and, to a lesser extent, through lower equity securities borrowing activities.

Trading portfolio

Between 31 December 2006 and 31 December 2007, trading assets declined sharply by CHF 104.1 billion to CHF 774.4 billion. This included a currency impact of approximately CHF 33 billion. Trading assets inventory in debt instruments dropped by CHF 97 billion in all major securities categories such as commercial paper, government bonds, asset-backed securities and corporate bonds due to either disposals or markdowns. Equity instruments also slightly decreased, while precious metals inventory continued to grow.

Replacement values

In 2007, the positive replacement value of derivative instruments increased by CHF 135.2 billion to CHF 428.2 billion, while the negative replacement values of derivative instruments increased by CHF 146.5 billion to CHF 443.5 billion. Both changes are due to movements in interest rates and currencies, as well as because of increased spread volatility in credit default swaps on products related to the US mortgage trading business.

Other assets / liabilities

Investments in associates increased by 30% to CHF 2.0 billion on 31 December 2007, mainly due to a direct investment of Global Asset Management's infrastructure business. Property and equipment were marginally up by 5% to CHF 7.2 billion, mainly driven by new investments, partially offset by write-offs and currency impact. Goodwill and other intangible assets, at CHF 14.5 billion on 31 December 2007, declined slightly by 2% from a year earlier, mainly related to currency movements, partially offset by UBS's acquisitions during 2007 of McDonald Investments and Daehan Investment Trust Management Company Ltd. (DIMCO).

Equity

At CHF 35.6 billion on 31 December 2007, equity attributable to UBS shareholders decreased by CHF 14.1 billion from 2006. The decline reflects the attributable loss of CHF 4.4 billion and dividend payments for the performance year 2006 of CHF 4.3 billion. In addition, the cancellation of secondary trading line treasury shares that were purchased under the share buy-back program 2006/2007 of CHF 2.4 billion also reduced UBS's equity.

Equity attributable to minority interests increased by 14% to CHF 7.0 billion on 31 December 2007 from CHF 6.1 billion on the same date a year ago, mainly reflecting the new issuance of preferred securities of CHF 1.0 billion and the minority interest profit and loss of CHF 0.5 billion. This was partially offset by a decrease in dividend payments of CHF 0.5 billion and the foreign currency impact of CHF 0.3 billion.

Off-balance sheet

Contractual obligations

The table below summarizes UBS's contractual obligations as of 31 December 2007. All contracts, with the exception of purchase obligations (those where UBS is committed to purchasing determined volumes of goods and services), are either recognized as liabilities on UBS's balance sheet or, in the case of operating leases, disclosed in Note 25 in *Financial Statements 2007*.

The following liabilities are recognized on the balance sheet and excluded from the table below: provisions, current and deferred tax liabilities, liabilities to employees for equity participation plans, settlement and clearing accounts and amounts due to banks and customers.

Within purchase obligations, the obligation to employees under the mandatory notice period is excluded (this the period in which UBS must pay employees contractually agreed salaries).

On 31 December 2007, UBS had a firm commitment to acquire Caisse Central de Réescompte Group (CCR). The transaction was completed in February 2008. The terms and conditions of this agreement are disclosed in Note 35 in *Financial Statements 2007*.

Off-balance sheet arrangements

In the normal course of business, UBS enters into arrangements that, under International Financial Reporting Standards (IFRS), are not initially recognized on the balance sheet and do not affect the income statement. These types of arrangements are kept off-balance sheet, unless (i) they become onerous, (ii) they are considered derivative instruments, or (iii) UBS incurs an obligation from them or becomes entitled to a specific asset. As soon as such an obligation is incurred, it is recognized on the balance sheet, with the resulting loss recorded in the income statement.

However, it should be noted that in many instances, the amount recognized on the balance sheet does not represent the full potential for loss inherent in such arrangements. For the most part, the arrangements discussed below either meet the financial needs of customers or offer investment opportunities through entities that are not controlled by UBS. The following paragraphs discuss several distinct areas of off-balance sheet arrangements and any potential obligations that may arise from them as of 31 December 2007.

Off-balance sheet arrangements include purchased and retained interests, derivatives and other involvements in non-consolidated entities and structures. UBS has originated such structures and has acquired interests in structures set up by third-parties.

Risk concentrations

UBS's main concentrations of risk are disclosed in detail in the audited section "Risk concentrations" in *Risk, Treasury and Capital Management 2007*. These risk concentrations include exposures to US mortgage markets, monoline insurers, auction rate certificates and leveraged finance. The quantitative summary about each risk concentration includes exposures of on- and off-balance sheet arrangements.

The importance and the potential impact of such risk concentrations to UBS (with respect to liquidity, capital resources or market and credit risk support), including off-balance sheet structures, is also described in *Risk, Treasury and Capital Management 2007*.

The losses of approximately CHF 21.3 billion (USD 18.7 billion) resulting from UBS's involvement in the US residential sub-prime and Alt-A mortgage markets are disclosed in detail in Note 3 in *Financial Statements 2007*.

Contractual obligations

	Payment due by period			
CHF million	Less than 1 year	1–3 years	3–5 years	More than 5 years
Long term debt	58,869	68,517	35,735	98,553
Capital lease obligations	163	301	222	0
Operating leases	1,085	1,929	1,595	3,769
Purchase obligations	873	973	41	99
Other long term liabilities	2,549	21	1,564	7
Total	**63,539**	**71,741**	**39,157**	**102,428**

Off-balance sheet arrangements, risks, consolidation and fair value measurements	Disclosure in the Annual Report
Credit guarantees, performance guarantees, undrawn irrevocable credit facilities, and similar instruments	*Strategy, Performance and Responsibility,* section Off-balance sheet arrangements, and *Risk, Treasury and Capital Management,* section Liquidity and funding management
Contractual obligations	*Strategy, Performance and Responsibility,* section Off-balance sheet arrangements
Derivative financial instruments	Financial Statements, Note 23 Derivatives and Hedge Accounting
Leases	Financial Statements, Note 25 Operating Lease Commitments
Non-consolidated securitization vehicles – agency transactions	*Strategy, Performance and Responsibility,* section Off-balance sheet arrangements
Non-consolidated securitization vehicles – non-agency transactions	*Strategy, Performance and Responsibility,* section Off-balance sheet arrangements
Risk concentrations	*Risk, Treasury and Capital Management,* section Risk concentrations
Credit risk information	*Risk, Treasury and Capital Management,* section Credit risk
Market risk information	*Risk, Treasury and Capital Management,* section Market risk
Investment risk information	*Risk, Treasury and Capital Management,* section Investment positions
Liquidity risk information	*Risk, Treasury and Capital Management,* section Treasury and Capital Management, Liquidity and funding management
Consolidation	Financial Statements, section Critical accounting policies
Fair value measurements, including Level 3 sensitivity and Level 3 impact on the income statement	Financial Statements, Note 26 Fair Value of Financial Instruments

Liquidity facilities and similar obligations
UBS has no significant exposure through liquidity facilities, guarantees and similar obligations to structured investment vehicles (SIVs), conduits and other types of SPEs. Losses resulting from such obligations were not significant in 2007.

Non-consolidated securitization vehicles and collateralized debt obligations
UBS sponsors the creation of special purpose entities (SPEs) that facilitate the securitization of acquired residential and commercial mortgage loans, other financial assets and related securities. UBS also securitizes customers' debt obligations in transactions that involve SPEs which issue collateralized debt obligations. A typical securitization transaction of this kind would involve the transfer of assets into a trust or corporation in return for beneficial interests in the form of securities. Generally, UBS intends a sale of the beneficial interests to third-parties shortly after securitization. Due to illiquid markets for certain instruments linked to the US mortgage market in the second half of 2007, several retained interests could not be sold in the short-term.

UBS does do not have material exposures from guarantees or other forms of credit support to these SPEs. Financial assets are no longer reported in the consolidated financial statements once their risks and rewards are transferred to a third-party. For discussion of UBS's accounting policies regarding securitization activities, see Note 1a11) in *Financial Statements 2007.*

In a securitization, UBS generally represents that certain securitized assets meet specific requirements, such as credit rating, type of credit, collateral or documentary attributes. UBS may be required to repurchase the assets and/or indemnify the purchaser of the assets against losses due to any breaches of such representations or warranties. In general, the Group could be required to make future payments under such repurchase and/or indemnification provisions. The maximum amount of these payments corresponds to the amount of assets held by such securitization-related SPEs as of 31 December 2007 and, under certain circumstances, accrued and unpaid interest on such assets and certain expenses. UBS performs due diligence to ensure the assets comply with requirements set forth in the representations and warranties of the contractual agreements with its counterparties – and this mitigates the potential loss due to such repurchase and/or indemnity. UBS receives no compensation for representations and warranties, and it is not possible to determine their fair value because they rarely, if ever, result in a payment. Historically, losses incurred on such obligations have been insignificant. No liabilities related to such representations, warranties and indemnifications are included in the balance sheet as at 31 December 2007 and 2006.

UBS continually evaluates its involvements with consolidated and non-consolidated SPEs as required under IFRS. Certain events – such as restructurings, the vesting of potential rights and the acquisition, disposition or expiration of interests, etc. – may prompt reconsideration of the initial consolidation conclusions made by UBS at the inception of its involvement with

Non-consolidated securitization vehicles and Collateralized debt obligations – agency transations[1, 2]

CHF billion	SPE assets		Purchased and retained interests
As of 31 December 2007	Original principal outstanding	Current principal outstanding	Fair value
Securitizations originated by UBS[3]			
Residential mortgage	2.1	1.9	0.6
Commercial mortgage	0.4	0.3	0.1
Total	2.5	2.2	0.7
Securitizations not originated by UBS			
Residential mortgage [4]			33.9

1 Reflects material exposures. **2** Residential or commercial mortgage securities backed by an agency of the US Government; the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), or the Federal Home Loan Mortgage Corporation (FHLMC). **3** Structures originated by UBS include transactions within the scope of US GAAP, Financial Accounting Standard 140 paragraph 17. **4** Information for special purpose entity assets is not available.

such entities. In these instances, SPEs may be consolidated or de-consolidated as the conditions warrant. In December 2007, due to market conditions, various non-consolidated CDOs in which UBS held a majority stake in super-senior securities were declared to have breached technical default provisions pursuant to the entities' governing documents. In these instances, various contingent decision-making rights became immediately vested in the super-senior class holders. UBS determined that, in certain instances, the rights arising from such events caused it to be in control of these entities. The affected SPEs are consolidated in UBS's statement of financial position as of 31 December 2007. The impact of consolidation was not material to UBS's financial position or results of operations.

The portion of purchased and retained interests and derivatives in non-consolidated securitization vehicles and CDOs which relates to the US residential sub-prime, Alt-A and commercial real estate market is included in the section "Risk concentrations" in *Risk, Treasury and Capital Management 2007.*

UBS's involvements in non-consolidated securitization vehicles and CDOs disclosed here are typically managed on a portfolio basis alongside hedges and other offsetting financial instruments. The tables do not include these offsetting factors and do not represent a measure of risk. For UBS's risk concentrations refer to *Risk, Treasury and Capital Management 2007.*

Non-consolidated securitization vehicles and Collateralized debt obligations – non-agency transactions[1]

CHF billion	Total SPE assets			Purchased and retained interests held by UBS	Derivatives held by UBS
As of 31 December 2007	Original principal outstanding	Current principal outstanding	Delinquency amounts	Fair value	Fair value
Originated by UBS[2]					
CDOs and CLOs					
Residential mortgage	2.8	2.8	0.0	0.8	(0.1)
Commercial mortgage	6.0	6.0	0.0	0.2	0.0
Other ABS	12.8	[3]	0.0	5.3	0.0
Securitizations					
Residential mortgage	2.9	2.6	0.2	0.4	0.0
Commercial mortgage	7.8	7.8	0.0	0.5	0.0
Other ABS	2.1	[3]	[3]	0.2	0.0
Total	**34.4**	[3]	[3]	**7.4**	(0.1)
Not originated by UBS					
CDOs and CLOs					
Residential mortgage	103.9	100.5	0.0	0.2	0.3
Commercial mortgage	38.8	35.1	0.0	2.0	(0.6)
Other ABS	51.6	[3]	0.0	11.5	(3.9)
Securitizations					
Residential mortgage	742.6	[3]	16.9	21.4	0.2
Commercial mortgage	224.2	206.3	0.7	5.2	0.1
Other ABS	182.2	[3]	2.8	10.7	0.0
Total	**1,343.3**	[3]	**20.4**	**51.0**	**(3.9)**

1 Reflects material exposures. **2** Structures originated by UBS presented in this SEC disclosure include transactions within the scope of US GAAP, Financial Accounting Standard 140 paragraph 17. **3** Information is not available.

Investment funds

Purchase of commercial papers and other securities
UBS Global Asset Management has not purchased commercial paper or other securities issued by an off-balance sheet entity (including investment funds) that it manages (other than seed money at origination of the fund).

In its wealth management business, UBS issues in the ordinary course of business investment certificates to third-parties which are linked to the performance of non-consolidated investment funds. Such investment funds are either originated by UBS or by third-parties. For hedging purposes, UBS generally invests into the funds to which its obligations from the certificates are linked. Risks resulting from those contracts are minimal, as the full performance of the funds is passed on to third parties. The Investment Bank is involved in similar structures, such as those due to the issuance of notes, index certificates and related hedging activities.

Other types of support
In the second half of 2007, UBS Global Asset Management purchased financial assets from investment funds managed by UBS. The acquisition of financial assets owned by these investment funds was executed to maintain a stable net asset value of USD 1 per unit or to facilitate the orderly redemption of a fund in an unfavorable market environment. The acquired financial assets include predominantly asset-backed US mortgage instruments. The total loss resulting from the purchases, writedowns and sales of acquired financial assets amounts to USD 68 million in 2007, of which USD 66 million relates to transactions with a fund consolidated at 31 December 2007 in UBS's financial statements. The support provided to these investment funds has been made on a voluntary basis and cannot be expected to be provided to other investment funds in similar situations.

During 2007, and until 6 March 2008, UBS was not required to support any money market fund which is subject to the Investment Company Act due to past industry practice.

In the ordinary course of business, UBS's wealth and asset management businesses provide short-term funding facilities to UBS managed investment funds. This bridges time lags in fund unit redemptions and subscriptions. These bridge financings did not incur past losses and are not expected to result in significant future losses.

Should UBS be required to consolidate previously unconsolidated investment funds in the future, it expects no significant impact on debt covenants, capital ratios, credit ratings and dividends.

Depending on market developments in 2008 and beyond, it is possible that Global Asset Management may decide to provide financial support to one or more of its investment funds. The risks incurred by providing such support will depend on the type of support provided and the riskiness of the assets held by the fund(s) in question. If UBS were to provide extensive financial support to some of its investment funds, losses incurred as a result of such support could become material.

Leveraged finance deals

UBS has leveraged finance commitments entered into both before and after the market dislocation in July 2007.

Transactions since this dislocation typically have pricing terms and covenant and credit protection that are more favorable to underwriters and investors than those entered into in the first half of 2007. On 31 December 2007, of the total commitments of USD 11.4 billion, commitments entered into by UBS before the dislocation ("old deals") amounted to USD 5.6 billion while those entered into subsequent to the dislocation ("new deals") totaled USD 5.8 billion. Commitments in the amount of USD 4.2 billion are unfunded.

Guarantees and similar obligations

UBS issues the following in the normal course of business: various forms of guarantees; commitments to extend credit; standby and other letters of credit to support its customers; commitments to enter into repurchase agreements; note issuance facilities; and revolving underwriting facilities. With the exception of related premiums, these guarantees and similar obligations are kept off-balance sheet unless a provision to cover probably losses is required.

On 31 December 2007, the net exposure to credit risk for contingent claims, based on IFRS numbers, was CHF

Contingent claims and undrawn credit facilities

	31.12.07			31.12.06		
CHF million	**Gross**	**Sub-participations**	**Net**	Gross	Sub-participations	Net
Credit guarantees and similar instruments	13,381	(593)	12,788	12,142	(813)	11,329
Performance guarantees and similar instruments	3,969	(464)	3,505	3,199	(333)	2,866
Documentary credits	3,474	(517)	2,957	2,567	(238)	2,329
Total contingent claims	**20,824**	**(1,574)**	**19,250**	**17,908**	**(1,384)**	**16,524**
Undrawn irrevocable credit facilities	**83,980**	**(2)**	**83,978**	**97,287**	**(2)**	**97,285**

19.3 billion compared to CHF 16.5 billion one year earlier. Fee income from issuing guarantees is not material to total revenues.

Guarantees represent irrevocable assurances, subject to the satisfaction of certain conditions, that the Group will make payment in the event that customers fail to fulfill their obligations to third-parties. The Group also enters into commitments to extend credit in the form of credit lines that are available to secure the liquidity needs of customers but have not yet been drawn on by them, the majority of which range in maturity from one month to five years. If customers fail to meet their obligations, the maximum amount at risk for the Group is the contractual amount of these instruments. The risk is similar to the risk involved in extending loan facilities and is subject to the same risk management and control framework. For the year ended 31 December 2007, the Group recognized net credit loss recoveries of CHF 3 million; and for the years ended 31 December 2006 and 2005, the Group recognized net credit loss recoveries of CHF 10 million and CHF 39 million respectively, related to obligations incurred for contingencies and commitments. Provisions recognized for guarantees, documentary credits and similar instruments were CHF 63 million at 31 December 2007 and CHF 76 million at 31 December 2006. See also Note 20 in *Financial Statements 2007*.

The Group generally enters into sub-participations to mitigate the risks from commitments and contingencies. A sub-participation is an agreement by another party to take a share of the loss in the event that the obligation is not fulfilled by the obligor and, where applicable, to fund a part of the credit facility. The Group retains the contractual relationship with the obligor, and the sub-participant has only an indirect relationship. The Group will only enter into sub-participation agreements with banks to which UBS ascribes a credit rating equal to or better than that of the obligor.

Furthermore, UBS provides representations, warranties and indemnifications to third-parties in connection with numerous transactions, such as asset securitizations (as described earlier in this section).

Clearinghouse and future exchange memberships

UBS is a member of numerous securities and futures exchanges and clearinghouses. In association with some of those memberships, UBS may be required to pay a share of the financial obligations of another member who defaults, or otherwise be exposed to additional financial obligations as a result. While the membership rules vary, obligations generally would arise only if the exchange or clearinghouse had exhausted its resources. The maximum exposure to credit loss is not reflected in the table on exposure to credit risk in the section "Credit risk" in *Risk, Treasury and Capital Management 2007*. UBS considers the probability of a material loss due to such obligations to be remote.

Swiss deposit insurance

Effective 1 January 2006, Swiss Banking Law and the newly established deposit insurance system require Swiss banks and securities dealers to jointly guarantee an amount of up to CHF 4 billion for privileged client deposits in the event that a Swiss bank or securities dealer becomes insolvent. For the period from 1 July 2007 to 30 June 2008, the Swiss Federal Banking Commission estimates UBS's share in the deposit insurance system to be CHF 846 million. The deposit insurance is a guarantee and exposes UBS to additional risk which is not reflected in the table on exposure to credit risk in the section "Credit risk" in *Risk, Treasury and Capital Management 2007*. At 31 December 2007, UBS considers the probability of a material loss from its obligation to be remote.

Private equity funding commitments

The Group enters into commitments to fund external private equity funds and investments, which typically expire within five to ten years. The commitments themselves do not involve credit or market risk as the funds purchase investments at market value at the time the commitments are drawn. The amount committed to fund these investments at 31 December 2007 and 31 December 2006 was CHF 440 million and CHF 766 million respectively.

Cash flows

2007

At the end of 2007, the level of cash and cash equivalents rose to CHF 149.1 billion, up CHF 13.0 billion from CHF 136.1 billion at end-2006.

Operating activities

Net cash flow used in operating activities was CHF 51.3 billion in 2007 compared to a cash outflow of CHF 4.9 billion in 2006. Operating cash outflows (before changes in operating assets and liabilities and income taxes paid) totaled CHF 2.9 billion in 2007, a decrease of CHF 17.9 billion from 2006. Net profit decreased by CHF 16.6 billion compared to 2006.

Cash inflow of CHF 218.9 billion was generated by the net decrease in operating assets. This cash inflow was used to partially repay operating liabilities which totaled CHF 263.6 billion. Payments to tax authorities were CHF 3.7 billion in 2007, up CHF 1.1 billion from a year earlier.

Investing activities

Investing activities generated a cash inflow of CHF 2.8 billion. The net cash outflow for investments in subsidiaries and associates was CHF 2.3 billion due to the acquisitions of McDonald Investments and Daehan Investment Trust Management Company Ltd. (DIMCO) and a net increase in purchases of property and equipment of CHF 1.8 billion. The net divestment of financial investments available for sale was CHF 6.0 billion, mainly due to the sale of Julius Baer which contributed CHF 3.9 billion. Disposals of subsidiaries and associates in 2007 generated a cash inflow of CHF 0.9 billion. In 2006, net cash inflow from investing activities was CHF 4.4 billion. Cash inflows of CHF 6.4 billion were offset by the acquisition of new businesses for CHF 3.5 billion. Purchases of property and equipment totaled CHF 1.8 billion and the net divestment of financial investments available for sale totaled CHF 1.7 billion. Disposals of subsidiaries and associates in 2006 generated a cash inflow of CHF 1.2 billion.

Financing activities

In 2007, financing activities generated cash flows of CHF 73.8 billion, which were used to finance the expansion of business activities. This reflected the net issuance of money market paper of CHF 32.7 billion and the issuance of CHF 110.9 billion in long-term debt – the latter significantly outpacing long-term debt repayments, which totaled CHF 62.4 billion. That inflow was partly offset by outflows attributable to net movements in treasury shares and own equity derivative activity (CHF 3.6 billion), and dividend payments (CHF 4.3 billion). In 2006, UBS also had a net cash inflow of CHF 47.6 billion from financing activities. The difference between the two years was mainly due to the fact that net long-term debt issuance and money marked paper increased by CHF 26.3 billion in 2007.

2006

At the end of 2006, the level of cash and cash equivalents rose to CHF 136.1 billion, up CHF 45.1 billion from CHF 91.0 billion at end-2005.

Operating activities

Net cash flow used in operating activities was CHF 4.9 billion in 2006 compared to a cash outflow of CHF 63.2 billion in 2005. Operating cash inflows (before changes in operating assets and liabilities and income taxes paid) totaled CHF 15.0 billion in 2006, an increase of CHF 0.4 billion from 2005. The net profit decreased by CHF 1.9 billion compared to 2005.

Cash of CHF 98.7 billion was used to fund the net increase in operating assets, while a net increase in operating liabilities generated cash inflows of CHF 81.3 billion. The increase in cash was used to fund operating assets – in line with the expansion of business. Payments to tax authorities were CHF 2.6 billion in 2006, up CHF 0.2 billion from a year earlier.

Investing activities

Investing activities generated a cash inflow of CHF 4.4 billion. Cash inflows of CHF 2.9 billion reflected cash equivalents received of CHF 6.4 billion, partly offset by the acquisition of new businesses for CHF 3.5 billion. Purchases of property and equipment totaled CHF 1.8 billion and the net divestment of financial investments available for sale was CHF 1.7 billion. Disposals of subsidiaries and associates in 2006 generated a cash inflow of CHF 1.2 billion, mainly due to the sale of Motor-Columbus. In 2005, UBS saw a net cash outflow from investing activities of CHF 2.4 billion. This was due to the acquisition of new businesses worth CHF 1.5 billion and because UBS made CHF 1.6 billion in net purchases of property and equipment. This was only partially offset by disposals of subsidiaries and associates.

Financing activities

In 2006, financing activities generated cash flows of CHF 47.6 billion, which was used to finance the expansion of business activities. This reflected the net issuance of money market paper of CHF 16.9 billion and the issuance of CHF

97.7 billion in long-term debt – the latter significantly outpacing long-term debt repayments, which totaled CHF 59.7 billion. That inflow was partly offset by outflows attributable to net movements in treasury shares and own equity derivative activity (CHF 3.6 billion), and dividend payments (CHF 3.2 billion). In 2005, UBS also had a net cash inflow of CHF 64.5 billion from its financing activities. The difference between the two years was mainly due to the fact that net long-term debt issuance and money marked paper decreased by CHF 14.2 billion in 2006.

UBS employees

UBS employees

- UBS invests in its employees – increasing their value to both the firm and its clients
- Business operations are supported by high-quality people management processes
- UBS places importance on skill-development and career-building opportunities
- Employees are appropriately rewarded for their performance, results and commitment

Strategic focus

UBS relies on the skill and dedication of its employees to deliver the solutions and service its clients demand.

The firm continually invests in its people and ensures organization-wide processes are in place to support this.

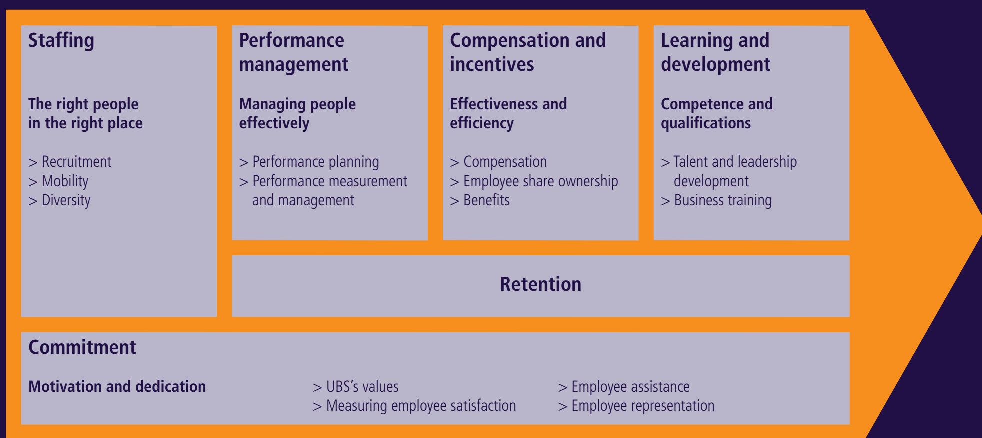
Increases in employee skill and productivity over time will support the growth of UBS's businesses. To drive business growth from within, UBS seeks to retain and develop its own workforce, as illustrated by the firm's staffing, people management, training and compensation policies and practices. The chart "Investing in employees" on the opposite page illustrates this.

Collaboration and respect underpin the firm-wide culture of valuing individual contributions and excellence. UBS fosters a performance-oriented environment, in which pay is linked to performance and compensation is linked to the achievement of business objectives.

Developments in 2007

- The UBS workforce (in terms of total full-time equivalents) grew to 83,560, up 5,420, or 7%, from 78,140 on 31 December 2006
- Global Wealth Management & Business Banking accounted for more than half of the growth, with 3,056 new staff
- Graduate recruiting remained strong; hiring increased about 10% from 2006
- This growth occurred despite the difficult market conditions and related staff reductions of about 900 in the Investment Bank
- Other significant achievements included: opening the Singapore-based UBS Wealth Management Campus – Asia Pacific, the launch of the "UBS Career Comeback" program, allowing people to resume their career in financial services after a break, and ongoing external recognition as an excellent employer

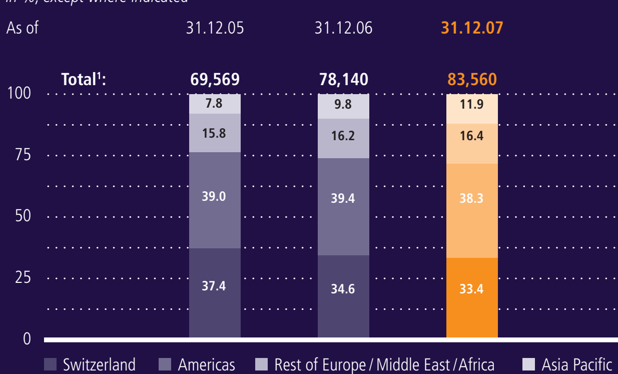
Investing in employees



Financial businesses personnel

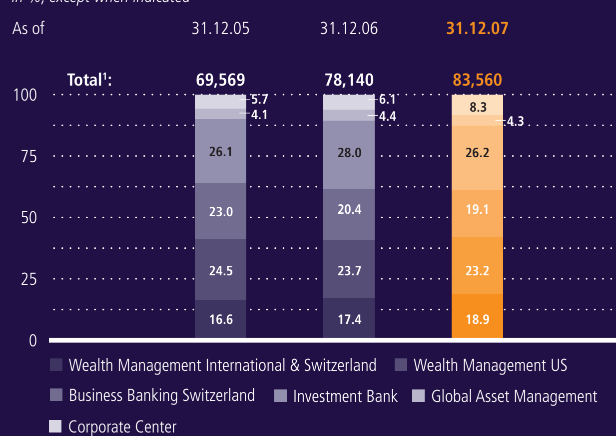
Regional distribution

in %, except where indicated



Business unit distribution

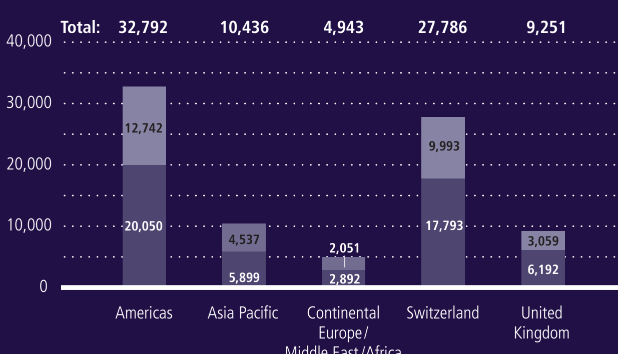
in %, except when indicated



1 Total full-time equivalents (FTE).

Gender distribution by region[1]

As of 31.12.07



Male
Female

1 Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this graph only. This accounts for the total UBS end-2007 employee number of 85,208 in this graph. Excludes staff from UBS card center, Hotel Seepark Thun, Wolfsberg and Widder Hotel.

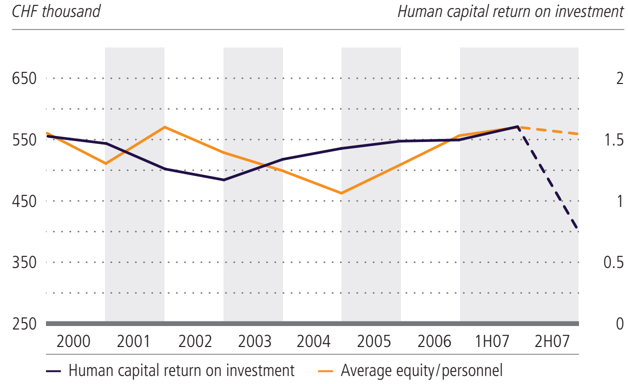
UBS employees

Investing in UBS employees

UBS relies on the expertise and commitment of its employees to deliver the solutions and the quality of service demanded by its clients. "Human capital return on investment" is used by UBS as an indicator of the increase in skill and productivity of its workforce, in combination with financial performance. In 2007, UBS's human capital return on investment showed a decrease for the year. As shown in the graph at the right, following a steady increase from 2002 until the first half of 2007, its return on investment declined in the second half of 2007. This decrease is principally the result of a continued investment in the bank's workforce despite the quick and steep deterioration in market conditions in the second half of 2007. This investment, however, should prove to be central to UBS's ability to grow when market conditions stabilize.

The firm invests in developing and motivating its employees, whether they are new hires, seasoned employees, key talent or senior managers. The graph below highlights the most important factors driving the value created by UBS personnel.

The value added by UBS's investment in its employees



Note: Human capital return on investment is defined as: (profit + wage cost)/wage cost

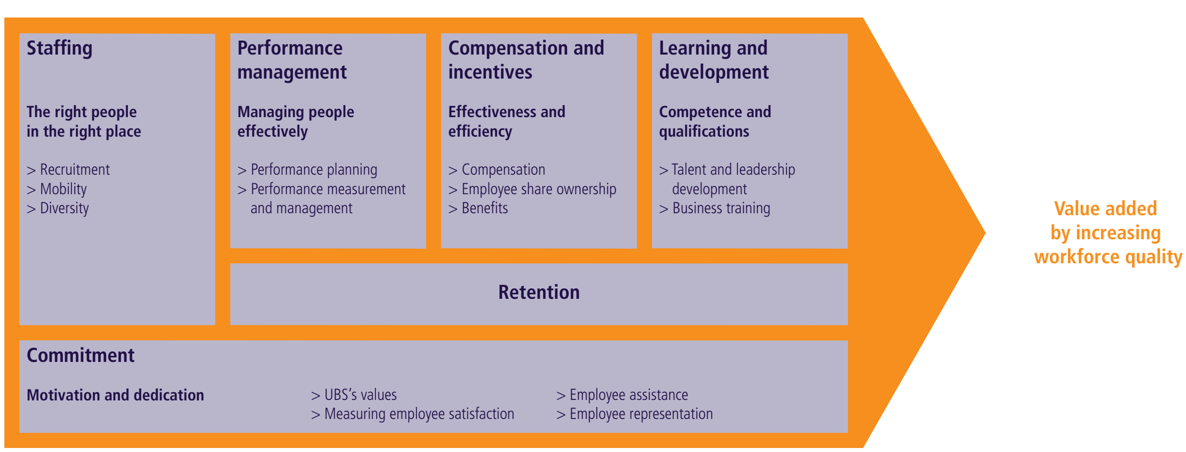
Staffing

UBS workforce

The number of people employed in the financial businesses was 83,560 on 31 December 2007, up 7%, or 5,420, from 78,140 at the end of 2006. Staff levels increased in all UBS businesses over the course of the year.

In the Swiss and international wealth management business, where personnel increased by 2,247, investment continued in growth markets such as Asia Pacific and Europe. The number of client advisors in Switzerland also increased. Staff levels in the US-based wealth management business rose by 790, after the February 2007 integration of the McDonald Investments private client network and related hiring (in support of divisional and home office growth initiatives). This was partly offset by staff reductions in certain business areas, mainly IT and operations. The Swiss commercial and retail banking business increased personnel numbers by 19, as more IT staff were required to support both growing business volumes and new hires in the Swiss domestic banking business. The asset management business raised staff levels across all areas, hiring a total of 189 new employees in the context of business growth and acquisitions. The increase was partly offset by declines re-

Investing in employees



lated to the closure of Dillon Read Capital Management (DRCM) in second quarter 2007. The Investment Bank's staff levels were essentially flat year-on-year, only increasing by 33. As announced in October, the Investment Bank reduced its personnel levels by 901 people during fourth quarter and informed around 430 employees that they will have to leave the bank in the course of first quarter 2008. This decrease was offset by the annual intake of graduates and reintegration of DRCM staff. In Corporate Center, personnel numbers were up by 2,142, mainly a result of converting former Perot staff members to permanent IT Infrastructure employees. Demand for offshoring services increased as well, driving up staff levels in the UBS Service Centre in Hyderabad.

In 2007, UBS personnel worked in more than 50 countries, with about 38% of staff employed in the Americas, 33% in Switzerland, 16% in Europe, the Middle East & Africa and 12% in Asia Pacific. Growth continued to be strongest in Asia Pacific, where staff levels rose 31% in 2007, following a 41% rise in 2006.

Internal job mobility, across both businesses and regions, drives business innovation and individual career development. The exchange of knowledge and experience benefits employees and their teams, allowing UBS to better implement and benefit from its integrated "one-firm" approach. In 2007, 1,062 employees moved to roles in a different region. The highest number of employees transferred from Switzerland, with 125 going to the Americas, 107 to Asia Pacific, 67 to the UK and 53 to locations in Europe, the Middle East & Africa. Overall, mobility in the businesses was slightly lower in 2007 than in 2006, with 903 employees transferring from one business group to another during the course of the year, versus 909 in 2006. The highest number of transfers (at 184 employees) were between the Investment Bank and Global Wealth Management & Business Banking.

Recruiting staff

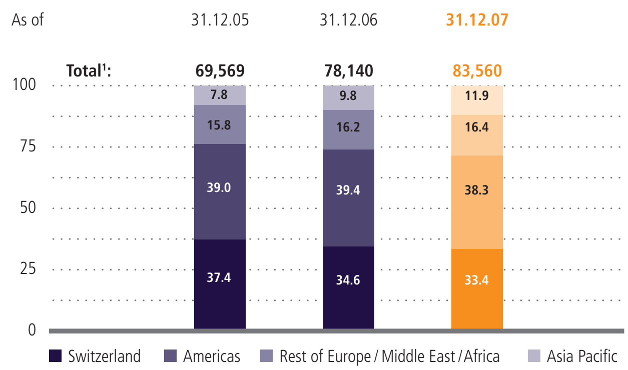
Recruiting efforts aim at hiring highly qualified people in order to maintain and expand UBS's long-term position as a major global financial services institution. In 2007, the firm significantly increased recruitment in the key markets in which it operates and sought to recruit specialists in non-traditional markets such as India and Poland.

The number of university graduates UBS hired for its undergraduate and MBA training programs across the firm was over 1,000 in 2007, an increase of about 10% from 2006. In Asia Pacific, where the business grew strongly last year, the number of undergraduate, MBA and intern hires rose by 52%. In Switzerland, the UBS apprenticeship program (for students in secondary schools specializing in banking or IT) hired 286 apprentices in 2007, 26 more apprentices than in 2006, bringing the total number of apprenticeship positions

Financial businesses personnel

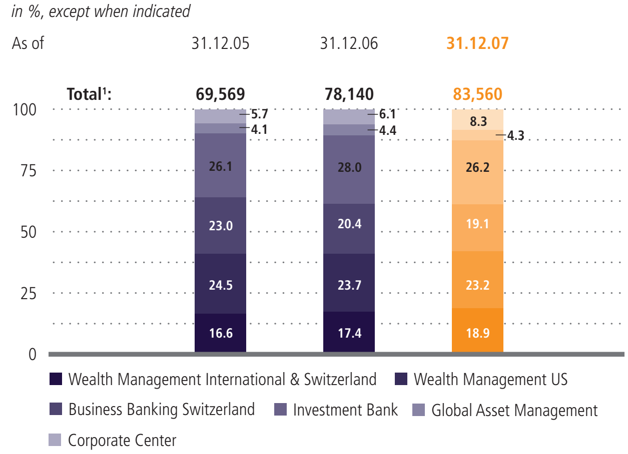
Regional distribution

in %, except where indicated



Business unit distribution

in %, except when indicated



1 Total full-time equivalents (FTE).

to 830. In total, around 1,900 young people participated in vocational training in Switzerland in 2007.

UBS also remained one of the top-ranked employers for university graduates in Switzerland, with global consultant Universum ranking UBS number one for business students in Switzerland for the third straight year. In the UK, UBS was the 24th "most ideal employer" among business students, up from forty-first two years earlier. In the US, *BusinessWeek* magazine named UBS among the top 50 places to launch a career in 2007.

A new service for all new employees, both graduates and professional hires, was the introduction of the "New Joiner Experience" in 2007. Its core is a series of locally customizable online guides to allow new employees to gain an overview of UBS's global organization and culture and to settle quickly into their role. It also includes networking and information events, as well as a survey and measurement framework.

Gender distribution by employee category [1]

	Officers		Non-officers		Total	
As of 31.12.07	Number	%	Number	%		
Male	34,622	73.5	18,204	47.8	**52,826**	**62.0**
Female	12,496	26.5	19,886	52.2	**32,382**	**38.0**
Total	47,118	100.0	38,090	100.0	**85,208**	**100.0**

1 Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this table only. This accounts for the total UBS end-2007 employee number of 85,208 in this table. Normally, UBS expresses employee numbers in terms of full-time equivalents (FTEs), which is measured as a percentage of the standard hours normally worked by permanent full-time staff. When calculated according to full-time equivalents, the end-2007 total is 83,560.

Developing and sustaining a diverse workforce

UBS considers diversity to include the recognition and appreciation of multiple backgrounds, cultures and perspectives. Citizens from 154 countries comprise the UBS workforce. The largest number of employees, as measured by primary citizenship, hold US or Swiss citizenship (34% and 27%, respectively), followed by British citizenship (9%).

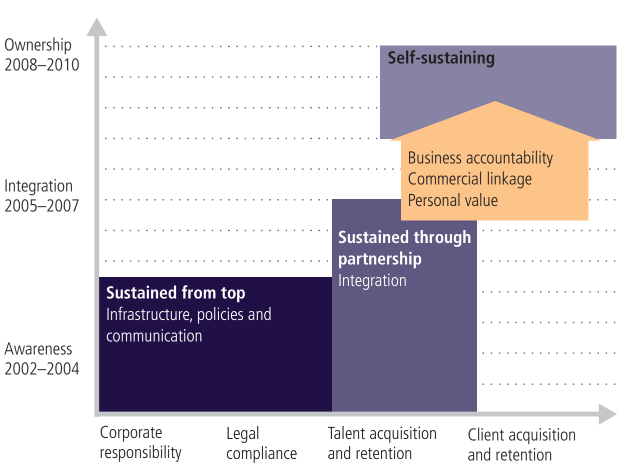
Over the past five years, UBS has promoted diversity in three stages. At the start of this program, a focus was placed on raising basic awareness of diversity, its meaning and its implications. UBS concentrated on developing policies, creating teams and building senior management commitment. The second phase integrated diversity into UBS's working practices, such as recruiting, performance management and talent development. In 2007, the third phase was launched, in which diversity will ultimately become a self-sustaining part of UBS's culture. This will require personal ownership, line manager accountability and successfully linking diversity to revenue generation.

In 2007, UBS also continued to build a diverse workforce through a variety of programs and processes across the organization. Managing and executive directors were asked to set personal diversity objectives in the performance management system. Additionally, since 2005, more than 3,000 senior managers have attended actor-based diversity training sessions that give them demonstrated behavioral options to handle potential issues within teams. In 2007, online diversity training was rolled out to Investment Bank, Global Asset Management and operational Corporate Center staff to provide basic diversity education and extend the actor-based training concepts to a wider audience. Approximately 10,000 employees took the training in the first three months. Global Wealth Management & Business Banking employees were offered access to the training in early 2008.

New programs and policies were introduced in 2007 that help employees better manage their work and personal lives. In the UK for example, the maternity support program aims to prepare employees for maternity or adoption leave, as well as training line managers in the handling of related issues. In the US, UBS introduced two annual paid family care days in 2007, available in addition to regular vacation and personal days. UBS also has over 20 employee networks addressing cultural awareness, disability, family, heritage, sexual orientation, gender and other aspects of diversity, which provide a forum for employees' involvement in diversity-related activities.

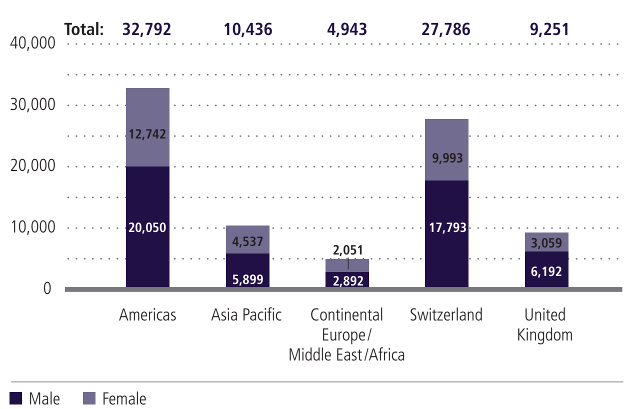
Efforts aimed at external audiences in 2007 included "UBS Career Comeback", a new program targeting professional

Diversity roadmap



Gender distribution by region [1]

As of 31.12.07



1 Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this graph only. This accounts for the total UBS end-2007 employee number of 85,208 in this graph. Excludes staff from UBS card center, Hotel Seepark Thun, Wolfsberg and Widder Hotel.

Composition of UBS's workforce by citizenship [1]

As of 31.12.07

Country	Number	% change from 2006	Total % of citizenship
USA	**29,019**	(1.5)	34.1
Switzerland	**23,412**	(1.6)	27.5
United Kingdom	**8,008**	(0.2)	9.4
Germany	**3,669**	0.3	4.3
India	**2,422**	1.1	2.8
Australia	**1,865**	0.0	2.2
Italy	**1,794**	0.0	2.1
Singapore	**1,536**	0.2	1.8
France	**1,372**	0.1	1.6
Hong Kong	**1,329**	0.2	1.6
Japan	**1,163**	0.1	1.4
China	**921**	0.5	1.1
Canada	**799**	0.0	0.9
Spain	**762**	0.0	0.9
Russia	**452**	0.0	0.5
Taiwan	**451**	0.1	0.5
Ireland	**339**	0.0	0.4
Austria	**298**	0.0	0.4
Malaysia	**259**	0.0	0.3
Belgium	**226**	0.0	0.3
Other countries	**5,112**	0.6	6.0
Total	**85,208**		100.0

1 As measured by primary citizenship. Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this table only. This accounts for the total UBS end-2007 employee number of 85,208 in this table. Normally, UBS expresses employee numbers in terms of full-time equivalents (FTEs), which is measured as a percentage of the standard hours normally worked by permanent full-time staff. When calculated according to FTEs, the end-2007 total is 83,560.

women, and in some instances men, who had left the workforce and now would like to return to professional employment in the financial industry. Participants must have a minimum of five years of relevant work experience and be seeking to return to the workforce after an 18-month to seven-year period away from the industry. In March 2007, the program was launched with the Wharton School (of business) of the University of Pennsylvania. Three months later, 28% of the 60 participants were working either full-time or part-time at various companies, including UBS. The program was expanded to Hong Kong and Sydney in November 2007 and to London in March 2008.

Diversity and clients

UBS believes cross-cultural, diverse teams generate new ideas and creative solutions for its increasingly diverse client base. And, as clients come to recognize the positive influence of diversity on business success, the issue is becoming an increasingly important topic for them. As a result, UBS actively targets a broad range of clients and prospects in marketing its services.

In 2007, UBS hosted the second annual Women's Leadership Conference in Zurich, which attracted nearly 2,000 professional women and men who were either UBS clients or employed in the financial services industry. In addition, the UBS Women's Conference Monaco, designed exclusively for existing and prospective high net worth European women clients, drew nearly 100 attendees, while a UBS Diversity Conference, attended by more than 160 clients and representatives from financial institutions, universities and government, was held in Hong Kong in March 2007.

Employee retention

A number of factors influence employee retention. These include compensation, and incentives, performance management and learning and development opportunities. UBS manages these elements at all levels and offers targeted career development opportunities to talented employees across the company. The retention of key staff is also tracked. Among the Group Executive Board (GEB), Group Managing Board (GMB) and managing director (MD) populations, 87% have been with the firm three years or more, 26% have worked at UBS between five and ten years, 34% between 11 and 20 years, and 19% have been with the firm for 21 years or more. 128 of the 188 managing directors hired in 2004 or 2005 were still employed at the end of 2007.

UBS grew significantly in 2006 and 2007 in certain geographical regions and business areas (Asia Pacific and wealth management, for example). This is visible in the number of staff hired, including hiring to replace staff who left UBS during that time. As of the end December 2007, 14.5% of UBS staff had between one and two years of experience at UBS. Due to the net hiring of staff, this is an increase from 11.6% in 2006. In Asia Pacific, 32.8% of staff have less than one year experience with UBS, while 23.4% have between one and two years of experience at UBS.

Performance management

The skills, expertise and ambition of UBS employees, together with a business culture that values meritocracy, are essential to achieving results for both clients and UBS alike. Performance management processes throughout the year support staff development, reinforce the firm's core values and help ensure employees have the skills necessary to implement the long-term strategy of taking advantage of the global trend of wealth creation.

As UBS believes employee-manager dialog underpins good performance management and demonstrable performance is the basis for meritocracy. All employees participate in a performance management process that assesses individual achievements against specific objectives. Implemented in 1996, the performance measurement and management (PMM) process specifies expectations for behavior and actions according to (and increasing with) experience and rank. As an example of this, evaluations for all employees include a "client focus" element, although the specific requirements to successfully fulfill this vary significantly according to their function or role.

Each employee and his or her evaluating manager agree upon specific performance objectives at the beginning of the year. These objectives relate to clients, people and team, economic goals and professional expertise. They can be updated in the PMM online application throughout the year. Then, in the fourth quarter, the employee's achievements are assessed against these previously defined targets – a process involving the employee, the line manager and, in many cases, peers, internal clients and direct reports.

This performance management framework allows UBS to target specific personnel development needs in its businesses and among specific types of employees. For example, in 2007, the PMM tool was used to support the building of staff development and management skills among the Global Wealth Management & Business Banking workforce, and also to design a training program targeted at first-level managers across the company to help them build a consistent set of management skills. The program was developed following a detailed analysis of UBS's management competency profile in the PMM system and is a focused solution for building relevant management capabilities among this population.

The PMM process for the executive members of the Board of Directors, members of the GEB and members of the GMB is broadly the same as for other employees. Achieving the financial targets set for both the Group and each business group plays a significant role. Leadership, cross-business cooperation, strategic thinking and cross-business group contribution are also evaluated.

The PMM assessment is one element defining individual incentive awards, with top performers receiving proportionately higher rewards. The total amount of money granted in incentive awards is determined by the financial performance of the firm and its individual businesses.

Compensation and incentives

To support its integrated business strategy, UBS endeavors to foster an entrepreneurial and performance-oriented culture. Compensation programs are results-oriented and market-focused. In the rigorous performance management process, total compensation is linked to stated business objectives, and pay and incentive programs are designed to pay for performance.

UBS's total compensation and benefits philosophy has five guiding principles. These require UBS to:

- use carefully selected performance measures, rigorous performance management and a strict pay-for-performance relationship to support UBS's business strategy;
- support the reward opportunities across the firm by consistently communicating the business strategy and promoting a meritocratic culture;
- provide competitive total compensation opportunities to enable UBS to attract and retain talent;
- balance the components of compensation to meet short-term needs while focusing on mid- to long-term objectives; and
- encourage employee share ownership to strengthen the alignment between employee and shareholder interests.

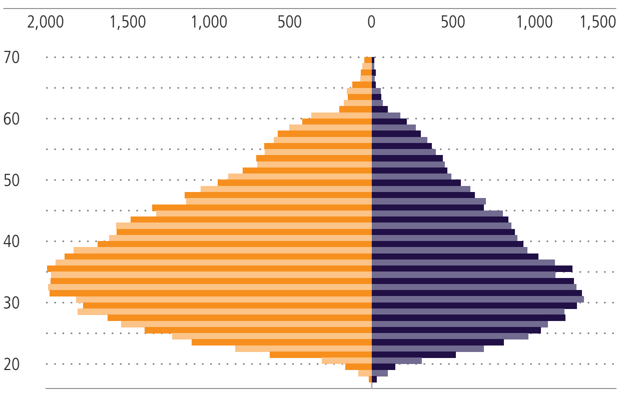
➔ A full discussion of UBS's compensation policy is available in *Corporate Governance and Compensation Report 2007*

Employee share ownership

UBS is committed to the principle of employee share ownership throughout the organization. Accountability for long-term implications of decisions and actions is encouraged through equity-based awards that vest and/or become unrestricted over time. Positions with a large scope of responsibility and a significant potential impact on the firm have higher equity exposure.

Age distribution at UBS

As of 31.12.2007

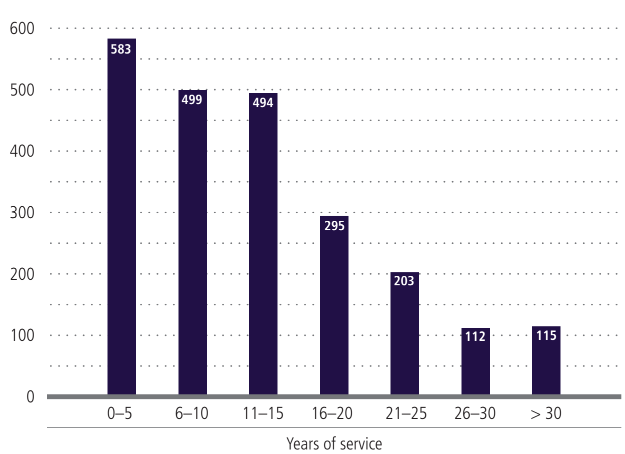


Note: x-axis: number of employees; y-axis: age.

Senior leadership years of service with UBS and predecessor firms (MDs, GMB/GEB members)

Number of people

As of 31.12.2007



To align the interests of UBS's management with those of its shareholders, UBS has stringent share ownership guidelines for senior executives**.**

Moreover, a voluntary equity-based program offers employees the chance to purchase UBS shares at fair market value (on the purchase date) and generally receive two free UBS options for each share purchased. Staff with annual incentive awards above a certain threshold are awarded a component in UBS shares or notional shares instead of cash. Select high-performing employees are granted stock options with a strike price not less than the fair market value of the shares on the date the options are granted.

On 31 December 2007, current UBS employees held an estimated 6% of shares outstanding (including approximately 3% in unvested/blocked shares), based on all known share holdings from employee participation plans, personal holdings and individual retirement plans. Additionally, approximately 1% could be imputed for stock options (based on the options' intrinsic value) for a total of 7%. At the end of 2007, an estimated 52% of all employees held UBS shares, while 40% of all employees held UBS stock options through employee participation plans.

➔ **For a full discussion of UBS's equity plans, see Note 30 "Equity participation and other compensation plans", in *Financial Statements 2007***

Learning and development

Leadership development

UBS invests in the career and skill development of its people. The firm recognizes that maintaining its leadership capabilities is an important factor in ensuring its long-term success and therefore takes a structured approach to leadership development.

Leadership development activities target people in key positions, their succession candidates and high potential employees across the company. UBS has defined Group-wide criteria to help identify and manage these talent pools.

UBS is an integrated firm with diverse leadership development needs. Learning and development teams in the business groups and the Leadership Institute, which is responsible for Group-wide senior leadership development, work together to provide consistent leadership development offerings across the company.

The key Group-wide leadership programs are the "Accelerated Leadership Experience" and the "Global Leadership Experience". The Accelerated Leadership Experience is an 18-month process aimed at strengthening the capabilities of high-potential managers. A set of three Global Leadership Experience programs targets key position holders and focuses on understanding the organization, leveraging cross-busi-

Expansion and growth in Asia Pacific

Asia Pacific has produced UBS's highest growth rate over the past few years. Between 2004 and 2006, UBS's wealth management business in Asia Pacific doubled its invested assets to CHF 151 billion. As the leading wealth manager in the region, UBS has drawn accolades from the financial media in 2007 and was named best private bank in Asia for the sixth consecutive year. Additionally, *Dealogic* figures confirm UBS as the most profitable investment bank in the region in 2007. This business growth necessitated substantial recruitment, together with strong retention and development efforts for experienced UBS employees in the region. To retain and attract wealth management professionals, the UBS Wealth Management Campus - Asia Pacific was launched in Singapore in April 2007. Following Switzerland, Singapore is UBS's second largest wealth management center for international clients, and this campus acts as the regional hub for employee and client education. Developed in close collaboration with Singapore's government, the campus is accredited by the Singapore Institute of Banking and Finance.

UBS anticipates that 5,000 wealth management staff will be trained at the campus by 2010. In addition to financial education, employees learn about the "UBS Client Experience" (a structured advisory process employed by client advisors), leadership principles, business strategy and values. Internal subject matter experts and external trainers deliver a comprehensive training offering with formal professional accreditation. Open dialog and constructive challenges foster the sharing of work experience and specialist knowledge. The campus appeals to potential and existing employees who desire career advancement that is supported by well-structured learning pathways and curricula for competency development.

In addition, UBS's wealth management clients, their children and grandchildren are able to participate in a range of specifically developed programs to enable them to remain well informed in a fast changing market. The most recent event, delivered on campus in December 2007, was the "UBS Young Generation Seminar". It was the first of four modules designed to enhance clients' understanding of investment fundamentals and wealth planning in a fun and inspiring way. Clients are thus enabled to take better advantage of UBS's wealth management expertise and content, which, in turn, can deepen UBS's relationship with them over time.

ness group opportunities and building personal leadership capabilities. More than 2,400 leaders have participated in at least one of these programs since 1999.

Senior executives at UBS play a direct role in teaching and mentoring key talent. A structured, firm-wide program sees GEB members mentor GMB members, who in turn mentor people in key positions. Senior executives also participate in forums that enable them to develop a common understanding and goals, advance the firm's business agenda and learn from one another. In June 2007, the top 86 leaders participated in the Annual Strategic Forum to analyze factors shaping the firm's strategy. The Senior Leadership Conference in October 2007 brought 675 senior executives together to build a common understanding of the firm's key business goals.

Business group leadership development courses also play a role in developing the firm's leaders. An example is the intensive "Leading for Growth" program run by Global Wealth Management & Business Banking, where participants examine their personal leadership practices and are encouraged to use them to optimize performance in their teams. At the end of 2007, 77% of managing directors and 35% of executive directors had attended this program. At the Investment Bank, ASCENT, a 24-month mid-career program designed to expose high-potential employees to current business challenges and develop their client and leadership skills, has trained 750 people since 2005. SUMMIT was launched in 2007 to develop networks and partnerships among the Investment Bank's 1,400 managing directors. Global Asset Management's AMSLE program helps "managers of managers" strengthen their strategic leadership skills by focusing on both leadership and core technical skills. Over 100 managers have participated since 2005.

Business training

All employees have access to professional and personal skill development opportunities. As business or regulatory needs require, additional educational initiatives are developed to meet the training need. The promotion of cross-business collaboration is one example. A mandatory online course, "Introducing Global WM&BB to the IB", was introduced for Investment Bank employees in 2007 to strengthen participant understanding of UBS's wealth management business and highlight opportunities for cross-business group partnership.

For graduate trainees, the Investment Bank's new 18 to 24-month EXPLORE program combines tailored business-specific training with personal development initiatives and networking opportunities. Launched in 2007, the program helps graduate trainees develop a better understanding of the firm's business, culture and values. About 700 employees are part of the inaugural class.

Building a common people management culture across the firm is addressed by the "Essential Management Skills" program, which also focuses on developing fundamental managerial skills among the firm's first-level line managers. 1,320 line managers across the company have participated in this program since its launch in late 2006.

Clients are the focus of the Client Leadership Experience, launched in February 2008 and consisting of 20 regional workshops focusing on specific client segments, including family offices, hedge funds or financial institutions. This Group-wide business development initiative allows senior client advisors to share opportunities to deliver all of UBS's capabilities to specific clients and thus enable UBS to increase its share of business with these clients.

Commitment

UBS's corporate values form the foundation of what the firm does and how it does it. These values are integrated into the commercial decision making process, management techniques and ways in which people interact with one another during the daily course of business. The implementation of this vision is underpinned by UBS's ethical beliefs of diversity, integrity and privacy, and corporate responsibility. Entrepreneurial leadership, partnership and meritocracy are the core competencies that help UBS succeed. And client focus is UBS's ultimate purpose.

Measuring employee satisfaction

Employee engagement is central to workforce retention and performance. An annual employee survey is used to assess the UBS corporate culture, engagement and the incorporation of its core values into daily business activities. While surveys are customized for each business group, a core set of questions and themes are the same in order to provide a comprehensive view of employee responses across UBS.

47,468 employees took the survey in May 2007, and overall, 80% were satisfied with UBS as a place to work. This compared with the MIDAS industry benchmark of 73% (MIDAS is a consortium of financial services companies). Additionally, 83% agreed they were highly motivated to contribute to the success of the firm beyond what is expected. 76% of employees said that diverse perspectives were valued in their team (the MIDAS benchmark is 73%), while 79% felt encouraged to come up with new ways to do things (the MIDAS benchmark is 76%).

Each business group, and the individual businesses within them, take the results seriously. Clear processes exist to review and manage results. For example, following feedback that more dialog on career development was desirable, Global Wealth Management & Business Banking invited employees and managers to hold development discussions in mid-2007, supported by the PMM process, so as to agree on individual career development activities.

Employee assistance

UBS is committed to being a conscientious employer. The firm supports its employees during all stages of their careers.

The employee assistance programs (EAPs) and the COACH program are examples of this commitment.

UBS offers EAPs in a number of locations to provide employees with confidential support to help balance work, family and personal issues. The US EAP provides a wide range of services on issues such as personal conflicts, depression, grief and work performance issues. It also provides information, referrals and ongoing support for child care, academic services and elder care issues. The EAP program in the UK is part of a wider health and wellbeing program that includes onsite medical specialists and emergency childcare, in addition to counseling and referral services.

In Switzerland, UBS offers professional assistance for current and retired employees, as well as their family members, through its HR Social Counseling service. A new online Health Portal gives employees direct access to the many health management offerings for staff in Switzerland.

The COACH transfer and severance process was launched in early 2003 to help staff in Switzerland who lose their jobs in a restructuring. It advises employees and supports them in finding new jobs in UBS or externally. Employees who have been dismissed as a result of restructuring have their standard notice term extended by two months in addition to the period stipulated in the employment contract. They also retain full salary and benefits during this time and receive counseling and support to help them apply for new jobs. Financial assistance is available for job-related training, if applicable. To date, more than 2,150 staff have enrolled in COACH.

Employee representation

Established in February 2002, the UBS Employee Forum facilitates the exchange of information between employees and management on pan-European issues with the potential to impact the performance and prospects of UBS and, in particular, its operations in Europe. This forum fulfills the obligations contained in EU Directive 94/45 on the establishment of a European Works Council.

A UK Employee Forum meets on a bi-annual basis to discuss topics like health and safety issues, changes to workplace conditions, pension arrangements and collective redundancies.

Employee representation in Switzerland is led by the Employee Representation Committee (ERC). This group of elected, internal representatives represents the interests of employees whose work contracts are governed by Swiss law and the Agreement on Conditions of Employment for Bank Staff. The ERC is the partner of UBS management in the annual salary negotiations and is involved in employee matters, including health and safety issues, social security and pension issues. The ERC also monitors and encourages communication between management and employees.

Selected 2007 awards

Top 10 Companies for Working Mothers in the US
(Working Mother magazine, US)

Top 50 Best Places to Launch a Career
(Business Week)

Top 50 Best Workplaces in the UK
Top 100 in Europe
(Financial Times)

No.2 Employer in Japan
(Hewitt Associates)

Top Leadership Award for Learning Programs
(Corporate University Xchange)

Corporate Equality Index (Perfect Score)
(Human Rights Campaign Foundation, US)

Corporate responsibility

Corporate responsibility

- Corporate responsibility is integral to the way UBS does business
- UBS helps clients consider corporate responsibility opportunities and risks, by providing relevant research, advisory services and product offerings
- UBS actively maintains its strong track-record in managing environmental challenges
- The firm seeks to positively influence the well-being of its local communities

UBS's commitment

Active advancement of corporate responsibility: UBS has participated in the UN Global Compact initiative since its inception and is a long-standing member of the UNEP Finance Initiative, a founding member of the Carbon Disclosure Project and a founding financial partner of the Energy Efficiency Building Retrofit Program (a project of the Clinton Climate Initiative)

Prevention of financial crime: a founding member of the Wolfsberg Group, UBS maintains an effective risk-based approach to anti-money laundering

Established environmental management: ISO 14001 certified for its environmental management system since 1999, UBS set a group-wide CO_2 emission reduction target in 2006, a 40% reduction of 2004 levels by 2012

Respect of human rights: UBS adopted its own statement on human rights in 2006 – a clear indication that the firm recognizes the significance of promoting and respecting human rights in its sphere of influence

Assisting local communities: the firm has established partnerships in the communities where it does business, focusing on the key themes of "Empowerment through education" and "Building a stronger community"

External recognition of corporate responsibility activities: UBS is a component of the Dow Jones Sustainability Indexes, the FTSE4Good Index and the Climate Leadership Index

Milestones 2007

- **Socially Responsible Investments (SRI):** SRI invested assets increased by 116% (to CHF 38.9 billion) in 2007. UBS launched new SRI products in Japan and Taiwan and launched strategy certificates for climate change, water and demographics

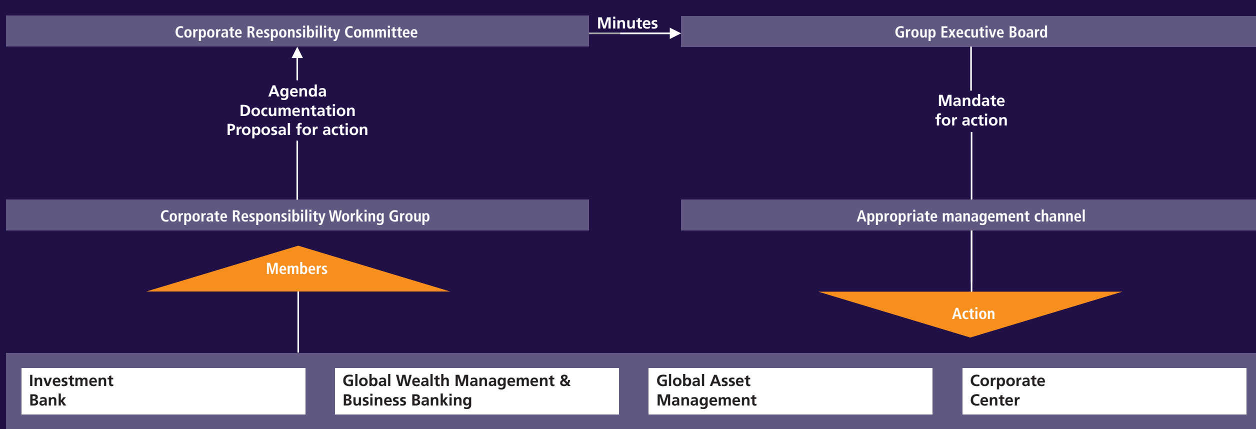
- **Climate Change:** UBS reduced its own CO_2 emissions by 22% from 2004, provided financial and advisory services to companies in renewable energy sectors, published major research reports on the impacts of climate change on companies and sectors and launched the UBS Global Warming Index and the UBS Greenhouse Index

- **Wolfsberg Group's statement against corruption:** UBS actively participated in the drafting and release of this statement, which clarifies the link between financial institutions and international corruption fighting efforts and outlines ways financial institutions can prevent both corruption and the misuse of their operations in relation to corruption

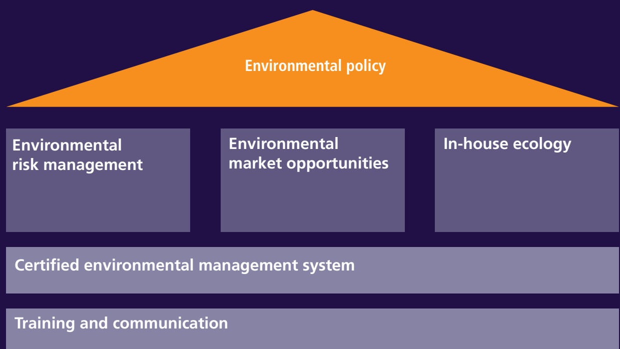
- **More than CHF 46 million contributed to charitable causes around the globe:** nearly 8,000 employees spent over 80,000 hours in volunteering services

Operational corporate responsibility

Corporate responsibility structure and process at UBS



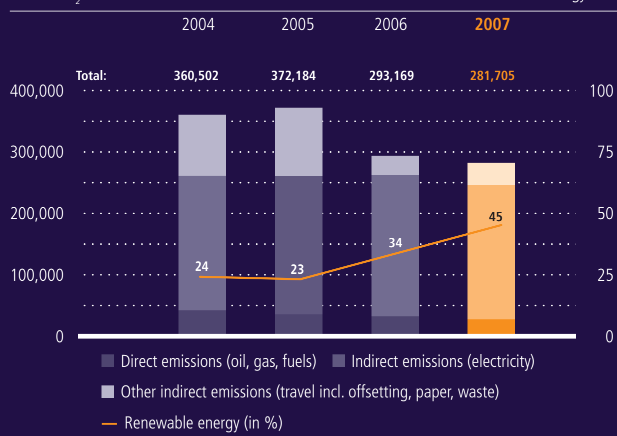
Five principles of UBS's environmental policy



CO_2 footprint

in tons CO_2

Share of renewable energy in %



Corporate responsibility

As a leading financial services firm, one of UBS's main purposes is to create long-term value. UBS believes this can be best achieved by providing clients with value-added products and services and by promoting a corporate culture that adheres to high ethical standards. The firm also firmly believes that, for any business, long-term value creation is also dependent on what it does above and beyond what laws and regulations require. It is why UBS dedicates itself to creating a working environment based on the values of equal opportunity, diversity and meritocracy.

UBS has adopted measures to protect the environment, is committed to affirmative social standards and contributes to the communities it is a part of. All of the firm's activities are underpinned by its governance structure and are implemented along existing business processes.

➔ For more on UBS's workforce, see the "UBS employees" section in this report

➔ For more on governance, see *Corporate Governance and Compensation Report 2007*

Adherence to the UN Global Compact initiative

In 2000, UBS was one of the first companies to join the UN Global Compact, which comprises ten principles covering the areas of human rights, labor standards, environment and corruption. Its geographic reach is now global, with over 3,700 business participants from 120 countries adhering to it at the end of 2007. Although it is an important component in any discussion with the public about the role of business in society, it is ultimately aimed at concrete actions. Key among these, from UBS's point of view, is the "Who cares wins" initiative which, initiated by 20 financial institutions in June 2004, maps the progress made by different actors in integrating environmental, social and governance issues into mainstream investment decisions. UBS has been involved in this initiative since its inception and also participates in other Global Compact-related endeavors, including the Swiss network, which was established in 2006.

Labor standards and human rights

UBS has recognized human rights issues for many years. Indeed, human resource policies addressing employment, diversity, equal opportunity and discrimination, by definition, also tackle human rights issues, as can policies relating to health and safety practices. UBS has well-established human resources policies and practices in these areas and they are regularly reviewed to ensure that labor standards are respected.

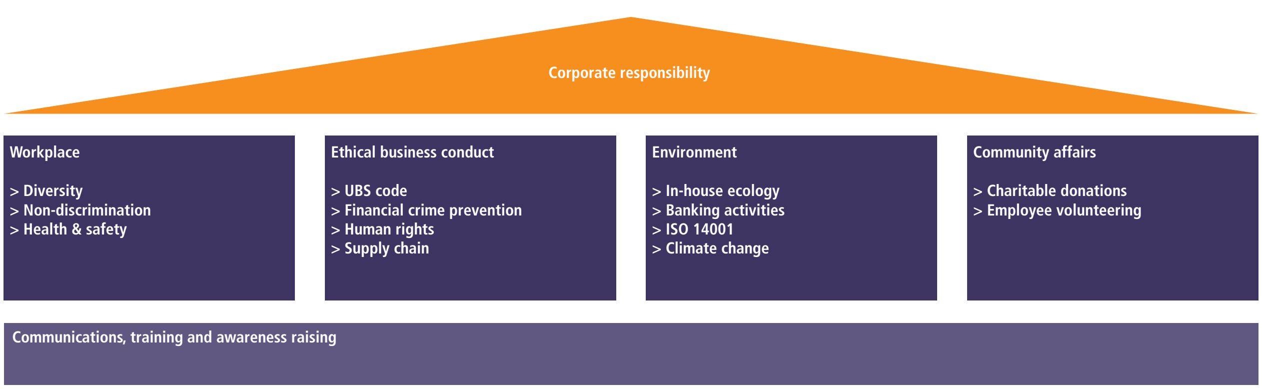
In 2006, UBS adopted a statement supporting basic human rights, signaling to employees, clients and society that the firm recognizes the significance of promoting and respecting human rights in its sphere of influence. The "UBS Statement on Human Rights" both sets out the firm's position and embraces key issues in a single document.

The firm is in the process of implementing initiatives relating to the statement's focus on employees, suppliers and clients. In 2007, it continued to build a diverse UBS workforce through a variety of programs.

➔ For more on labor standards and diversity programs, see the "UBS employees" section of this report

Responsible procurement is a key aspect of UBS's approach to human rights and the environment. In the past few years, UBS has established processes to manage environmental and human rights issues in key areas of its supply chain (such as client gifts, IT equipment and energy sourcing). For example,

Operational corporate responsibility



after UBS's encouragement five years ago, the supplier of UBS's branded umbrellas started to take account of environmental and labor rights concerns in its production facilities in Guangzhou, China. In the meantime, this supplier has developed a positive reputation in the area of corporate responsibility and this has helped attract new clients that are concerned about environmental and human rights issues in their own supply chain. In order to further incorporate these issues into procurement processes, UBS has developed a supply chain guideline that provides guidance for identifying, assessing and monitoring environmental and human rights risks of suppliers and in support of consistent decision-making throughout all business groups and regions. This guideline focuses on high risk suppliers and contractors with whom UBS has influence through direct contractual agreements.

A number of industry sectors with higher potential environmental and social risks have also been identified, and UBS is developing sector guidelines for assistance and guidance when doing business with clients in these environmentally and socially sensitive industry sectors.

Environment

UBS was one of the first signatories of the United Nations Environment Program's Bank Declaration (UNEP) in 1992, which committed the firm to integrating appropriate environmental measures within its activities. Today, the efforts of UBS to protect the environment, which started in the 1970s, have grown into a well-developed, global environmental management system certified to the ISO 14001 standard covering banking activities and in-house operations. UBS considers efficient and sustainable management of the firm's energy requirements, and the measures it is taking to reduce its carbon emissions, as an important factor in being a responsible corporation. With this in mind, the firm set a target in February 2006 to reduce its carbon emissions in 2012 by 40% from 2004 levels. UBS acknowledges that climate change represents one of the most significant environmental challenges of current times. It will have wide-ranging effects on ecosystems, societies and economies worldwide. To support its clients in responding to these challenges, UBS incorporates climate change issues into its research, advisory services and product offerings.

➔ For more information on the environment, see the end of this section and www.ubs.com/environment

Fighting corruption

UBS has long been committed to assisting in the fight against money laundering, corruption and terrorist financing by operating an effective and dynamic risk-based approach to its internal anti-money laundering (AML) process. In early 2007, the Wolfsberg Group, of which UBS is a founding member, released a statement against corruption. It describes the role of the Wolfsberg Group and financial institutions more generally in support of international efforts to fight corruption and identifies some of the measures financial institutions may consider to prevent corruption in their own business and protect against the misuse of their operations in relation to corruption.

➔ For more information on UBS's AML activities, please see the next page

External recognition

The firm's corporate responsibility work has been widely recognized, and UBS has been included in many indexes that track such efforts, including being a component of the Dow Jones Sustainability indexes since their inception in 1999. The indexes track the financial performance of the leading sustainability-driven companies worldwide. UBS is also included in the FTSE4Good Index, which measures the performance of global companies in the areas of environmental sustainability, stakeholder relations and support for human rights. The firm has been a member of the Climate Leadership Index (CLI) since its launch in 2004. The CLI discloses to investors which FT500 companies have the most comprehensive climate-change disclosure practices in place, judged on the basis of each company's individual response to the Carbon Disclosure Project (CDP) questionnaire.

Corporate responsibility governance

The Corporate Responsibility Committee, a Board of Directors (BoD) committee, was created in 2001 and assesses how to meet the evolving expectations of UBS's stakeholders in relation to the firm's corporate conduct. If the Corporate Responsibility Committee concludes that there is a gap between what stakeholders expect and what UBS practices – and that this gap represents either a risk or an opportunity to the firm – it suggests appropriate actions to the Group Executive Board (GEB).

The Corporate Responsibility Committee is chaired by Stephan Haeringer, Executive Vice-Chairman of UBS. It includes another member of the BoD, eight senior UBS executives representing UBS businesses, and a number of corporate functions, including legal and communications. The committee meets two to three times a year. It is supported by a working group that comprises 22 functional experts from all UBS business groups and is chaired by the firm's Chief Communication Officer, a member of the Corporate Responsibility Committee.

Neither the Corporate Responsibility Committee nor the working group runs operational processes related to corporate responsibility; it is the GEB that has overall responsibility for corporate responsibility strategy and that decides on specific corporate responsibility measures. The implementation of these measures is then undertaken within existing processes in the different business groups.

For example, the GEB is responsible for UBS's environmental policy and nominates a Group Environmental Representative. Each business group also nominates a representative, and together with the Group Representative, they form a committee that oversees the implementation of UBS's environmental policy. This committee also provides guidance to the different business groups in their implementation of "UBS's Statement on Human Rights". It is chaired by the Group Chief Credit Officer and is supported by coordinators and functional units across the business groups.

Corporate responsibility: training and raising awareness

It is important that employees are aware of UBS's corporate responsibility efforts and processes. Apart from the general information published on the firm's intranet and website, in 2007, UBS directly provided nearly 3,000 employees in all businesses with information on the approach taken by the firm towards corporate responsibility through a range of training and awareness-raising activities. They extended from short presentations, in particular at new employee induction events, to longer presentations and workshops. In Global Wealth Management & Business Banking, for example, a module on ethics, corporate and personal responsibility forms part of the business group's management training program.

Training is also integral to the more specialized areas of environmental management and anti-money laundering (AML). AML and compliance staff have to complete mandatory training every two years, and all new joiners go through an AML and compliance induction training. In 2007, 6,000 employees participated in training on environmental issues.

Contributing to society – preventing money laundering, corruption and terrorist financing

Extensive and constant efforts to prevent money laundering, corruption and terrorist financing are important contributions to society. The integrity of the financial system is the responsibility of all those involved in it. UBS takes its duties extremely seriously – in protecting both the overall financial system and its own operations. The threats posed by money laundering and terrorism are real, and everyone has a role in contributing to the fight against them as effectively as possible.

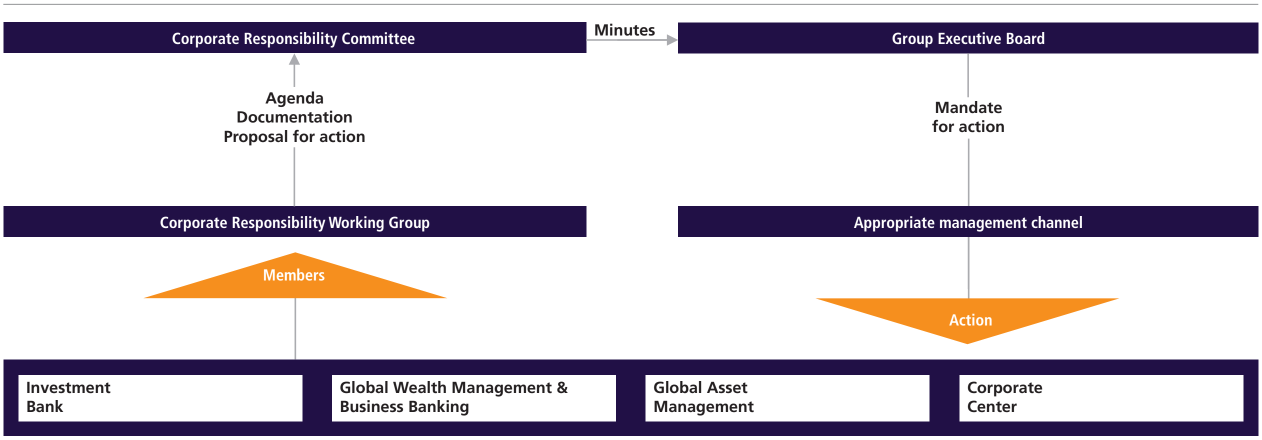
UBS's Group Money Laundering Prevention Unit leads its efforts to fight money laundering, corruption and the financing of terrorism. Its key task is to help employees to recognize and then manage and report suspicious activities – in a way that neither treats all clients as criminals nor unduly hinders normal business. While doing so, the firm also remains completely committed to the respect and protection of its clients' privacy, a cornerstone of the firm's philosophy.

The best way to achieve such goals is through a spirit of partnership across the firm – between those who manage client relationships and the risk managers and controllers who support them. Employees should be focused on really getting to know clients, understanding their needs – and then asking questions when things do not make sense. To assist employees in their "know your customer" (KYC) skills and the identification of new trends in suspicious behavior, employees undertake regular training courses, both in the form of on-line training and seminars.

To prevent money laundering, UBS takes a risk-oriented approach that is tailored to its different business lines and their particular risks and exposures. This includes establishing consistent criteria by which a business relationship should be judged "higher-risk" from an AML perspective. UBS also utilizes advanced technology to assist the firm in the identification of transaction patterns or unusual dealings.

A particular focus in the last few years has been on enhancing UBS's controls around dealings with regimes and countries with heightened risks. This included establishing

Corporate responsibility structure and process at UBS



and implementing an approach where UBS decided to exit commercial and client business dealings with a limited number of countries – reflecting increasing international concern and a commitment by UBS to actively managing its global security risk, notwithstanding that its legacy involvement was in any event very small. Countries involved included Iran, Myanmar, North Korea and Sudan.

In 2007, UBS continued to work with the public sector to better define how and in what areas financial institutions can contribute to the wider efforts of society against money laundering. In particular, as regulators continue to shift from the traditional "rule-based" approach to AML regulation to "principle-based" regulation (including the so-called "risk-based" approach), the firm actively contributed to the Financial Action Task Force's (FATF) development of their "Guidance on the Risk-Based Approach to Combating Money Laundering and Terrorist Financing". The "risk-based" approach requires UBS to continue to reassess its own policies and procedures, focusing on the firm's particular risks, and continually develop its own risk-based models, something that UBS did throughout 2007. Where possible, UBS seeks to streamline and increase consistency between business groups in their AML/KYC policies and procedures using consistent methodologies and tools (for example, the creation of a consistent country risk framework for identifying sensitive countries).

UBS remains strongly committed to promoting the development and implementation of AML standards for the financial industry as a whole. As an example of this, UBS was one of the driving forces behind the launch of the Wolfsberg Group, which issued its first global AML principles in 2000. In subsequent years, UBS has contributed substantially to other guidances, including on corruption; correspondent banking; mutual funds and investment and commercial banking. Most recently, during 2007, UBS has played an active role in the work undertaken by the Wolfsberg Group and the Clearing House Association to develop and issue a statement endorsing measures to enhance the transparency of international wire transfers to promote the effectiveness of global AML and anti-terrorist financing programs.

Community investment

In addition to the economic impact generated through its business activities, UBS, together with its employees, seeks to have a positive influence on the social and environmental well-being of local communities in which it is active. The firm does this through its well established community affairs program.

This program encompasses activities such as direct cash donations to selected organizations, employee volunteering, matched-giving schemes, in-kind donations, disaster relief efforts, and/or partnerships with community groups, educational institutions and cultural organizations. Dedicated teams around the world work closely with staff at all levels to build partnerships with organizations in the communities, focusing on the key themes of "Empowerment through education" and "Building a stronger community".

Overall, in 2007, UBS and its affiliated foundations donated more than CHF 46 million to support charitable causes. UBS employees, through their donations and volunteer efforts, make further significant contributions to the communities they live in. Last year, almost 8,000 employees spent over 80,000 hours volunteering. UBS supports their commitment by matching their donations and offering, depending on location, up to two working days a year for volunteering efforts.

UBS has also established a number of foundations and associations that donate money to worthy causes in Switzerland. The association "A Helping Hand from UBS Employees" assists disabled and disadvantaged people to lead active, independent lives. UBS encourages this employee involvement by matching the funds raised in 2007. The UBS Cultural Foundation fosters creativity, appreciation of different forms of art, and contact between artists and society. The foundation financially supports fine arts, film, literature, music, preservation of historic buildings, archaeological projects and studies in history and philosophy in Switzerland. In similar fashion, the purpose of the UBS Foundation for Social Issues and Education is to support deprived communities in Switzerland in various forms. Non-profit, charitable organizations, projects and initiatives aiming at improving social welfare receive monetary assistance from these funds.

Client foundation

Besides the engagement of the firm and its employees, UBS also provides its clients with the opportunity to contribute to charitable causes. The UBS Optimus Foundation invests donations from UBS clients into a number of programs and organizations, focusing on the key themes of children and medical and biological research. The projects involve close collaboration with respected partner organizations and are selected by a team of specialists within the foundation, who also closely monitor their implementation. The costs of managing and administering the UBS Optimus Foundation are borne by UBS, so that the full contribution from the firm's clients reaches the projects. In 2007, UBS Optimus Foundation spent almost CHF 11 million supporting 55 projects in Africa, Asia Pacific, Europe and North and South America.

Examples of UBS's 2007 global community affairs activities

In the **Asia Pacific** region, UBS supports the Child Welfare and Holistic Organization for Rural Development (CHORD) in Hyderabad, India. The organization provides a bridge education program and emotional support to child workers, helping them to return to normal schooling. As part of a "buddy" program, UBS employees assist the children with their schoolwork, and act as mentors, guiding them in their development and their efforts to return to school. Over the past year, the UBS India Service Centre (ISC) has organized a "Fun Day" for 420 CHORD children, a "Teachers' Day" at the CHORD school as well as a field visit to the ISC itself, giving many students their first look inside a large corporation. One of the students at the CHORD school said: "I was working in a shop previously. I have seen many customers and many faces. But no one ever bothered about me and my feelings. After I joined CHORD school I had the privilege of interacting with UBS. They bring smiles back on our sad faces."

In the **UK**, UBS is working in partnership with two other City firms to support the regeneration of Shoreditch. Situated in East London, Shoreditch is one of the most deprived areas in the UK with 82% of its population living in social housing and more than 30% of school leavers unable to find a job. Working directly with government and non-profit social regeneration agencies, the corporate collaboration known as Project Shoreditch focuses on matching the skills, expertise and enthusiasm of UBS employees to the needs of Shoreditch organizations. Since the project's inception in April 2005, over 1,500 UBS volunteers have supported a wide variety of Shoreditch-based community groups, charities and schools, through team challenges, business planning, mentoring, training, web design, workplace visits, the provision of employment advice and fundraising. Volunteers provide direct support for Shoreditch-based organizations while also assisting with the regeneration of the area. In 2007, Project Shoreditch was awarded the "Positive Impact on London" Award from Business in the Community.

In **Switzerland**, a notable volunteering project is the support of business training for students called "Fit for business". The training is aimed at young people aged 14 to 16. UBS employees conduct the training sessions and support students with career guidance, help them write job applications and give them advice in managing their own money. UBS makes direct donations to charitable projects such as Swiss mountain aid, an organization that tries to stop the significant population outflows from poor mountainous areas in Switzerland by financing projects and businesses that help alpine communities achieve or maintain sustainable rates of economic subsistence. In addition, UBS helps Swisscontact, a Swiss foundation for technical cooperation, to give young girls and boys in Benin, Africa, training in various professions including carpentry, tailoring and hairdressing. The youths participating in the program learn how to read and write and are informed about important health issues they face, including AIDS and how to prevent it.

In the **Americas**, the wealth management business launched a new philanthropic focus "Education as a Pathway to a Better Future", concentrating its charitable activities in the US on improving the education of students in kindergarten, elementary and high school in low-income areas. In conjunction with the new focus, a national volunteer initiative, called "Building Brighter Futures", was launched in October 2007 with the goal of cultivating community, school and civic collaboration to help paint, garden and liven up schools and organizations related to education. During the month, over 2,100 UBS employees, family and friends volunteered in over 90 projects across the country. The Investment Bank launched a pilot education program in conjunction with Earthwatch International, a non-profit organization that engages people worldwide in scientific field research and education to promote the understanding and action necessary for a sustainable environment. Six UBS employees were selected as Earthwatch Fellows together with three public school teachers to participate in climate change expeditions in the northern reaches of Canada and on the coast of central Mexico. After the eight-day expeditions, the Fellows returned to share their experiences with colleagues and students from Medill Elementary school in Chicago, Illinois, the Hart Magnet School in Stamford, Connecticut; and the Manhattan Center for Science and Math in New York City. In 2008, the program will be expanded to include other UBS business areas in the Americas as employees work with their local schools to increase awareness of global environmental issues.

➔ **For more information on UBS's community affairs program, see www.ubs.com/corporateresponsibility**

UBS and the environment

UBS's commitment to the environment is underpinned by a global environmental management system certified under the ISO 14001 standard since 1999. The system covers both banking activities and in-house operations and was successfully re-certified in 2005 by the firm's auditor, SGS.

The firm remains committed to integrating environmental considerations into all its business activities. Its environmental policy is based on five principles:

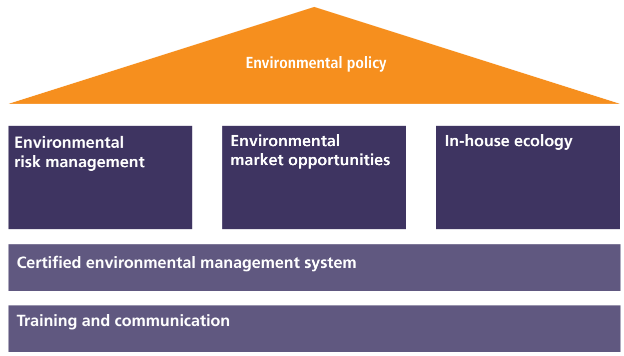
– seeking to consider environmental risks in all UBS businesses, especially in lending, investment banking, advisory and research, and its own investments;
– seeking to pursue opportunities in the financial market for environmentally friendly products and services, such as socially responsible investments;
– seeking ways to reduce UBS's direct environmental impact on air, soil and water from in-house operations, with a primary focus on reducing greenhouse gas emissions. UBS will also seek to assess the environmental impact of its suppliers' products and services;
– ensuring efficient implementation of UBS's policy through a global environmental management system certified according to ISO 14001 – the international environmental management standard; and
– integrating environmental considerations into internal communications and training.

Environmental performance indicators

Every year, UBS provides a detailed description of its environmental performance using key performance indicators (KPIs), which allow for annual comparisons. They are based on industry standards such as the Global Reporting Initiative (GRI), the Greenhouse Gas Protocol and ISO 14064.

The management indicators below provide an overview of the firm's environmental management system.

Five principles of UBS's environmental policy



Environmental market opportunities

UBS has strong expertise in incorporating environmental and social aspects into its research and advisory activities. A socially responsible investments (SRI) team was established in Global Asset Management as early as 1996. Socially responsible investments are sustainable investments that take ecological and social criteria into account alongside classical financial analysis. Today, SRI teams operate in all business groups and regions, allowing UBS to produce original SRI research and to offer a broad range of SRI investment products. Furthermore, the Investment Bank actively pursues related market opportunities, for example by trading emissions on behalf of clients, or by arranging finance and providing advisory services to re-

Environmental management indicators

		For the year ended			% change from
Full-time equivalent, except where indicated	GRI[1]	**31.12.07**	31.12.06	31.12.05	31.12.06
Financial businesses personnel[2]		**83,560**	78,140	69,569	7
In specialized environmental units[3]		**38**	30	25	28
Environmental awareness raising					
Employees trained	F5	**5,090**	2,489	2,251	104
Training time (hours)	F5	**2,133**	1,498	1,214	42
Specialized environmental training					
Employees trained	F5	**976**	977	1,010	0
Training time (hours)	F5	**1,420**	1,758	2,066	(19)
External environmental audits[4]					
Employees audited	F6	**37**	30	147	23
Auditing time (days)	F6	**8**	6	17	40
Internal environmental audits[5]					
Employees audited	F6	**121**	154	216	(21)
Auditing time (days)	F6	**38**	44	39	(15)

1 Global Reporting Initiative (see also www.globalreporting.org). F stands for the Environmental Performance Indicators defined in the GRI Financial Services Sector Supplement. 2 All employment figures represent the state as of 31 December 2007. 3 2007: 32 UBS and six external employees (FTE). 4 Audits carried out by SGS Société Générale de Surveillance SA. Surveillance audits took place in 2006 and 2007. The more comprehensive Re-Certification Audit was done in 2005. 5 Audits / reviews carried out by specialized environmental units. The implementation of environmental risk policies is also audited by Group Internal Audit.

newable energy companies. Finally, Global Wealth Management & Business Banking has decided to integrate SRI into the UBS Client Experience framework by adapting relevant client profiling tools, adding new proprietary and selected third-party products to its SRI offering and enhancing internal platforms that provide information and sales documentation. These measures should help client advisors identify, understand and meet client demand for SRI products more effectively. After a successful pilot in Switzerland in 2007, which contributed to the overall increase of SRI invested assets, this approach will also be rolled out to the other regions.

Investment products and advisory

UBS's asset management business is rapidly expanding its offering in the area of SRI to respond to growing demand from a number of markets. In 2007, for example, UBS launched SRI products in Japan and Taiwan. The SRI offering is diversified and includes products managed according to "best-in-class" practice and theme-based approaches. "Best-in-class" is an active equity management approach based on stock selection of companies that generate above-average environmental, social and economic performance and offer significant growth potential. The "best-in-class" offering includes a Global fund, a European fund, a Japanese fund and a Taiwanese fund. The theme-based approach focuses investment around particular issues and themes such as energy, water and demographics. Products offered include a Global Innovators fund and segmented Climate Change, Water and Demographics strategies.

Additionally, the Global Asset Management offering comprises customized client portfolios in the form of segregated mandates / institutional accounts based on "negative" screening, which is the exclusion or avoidance of certain stocks or sectors from the portfolio based on their perceived negative social or environmental impact by the client. UBS's global platform and investment research enable the firm to offer such tailor-made solutions to meet its client needs.

In the UK, the asset management business seeks to influence the corporate responsibility and corporate governance practices of the companies it invests in.

UBS also offers structured products that take into account environmental and social topics, such as the UBS Climate Change Strategy Certificate and UBS Water Strategy Certificate.

In the Investment Bank, the UBS Global Warming Index, the UBS Greenhouse Index and other index-linked products have been introduced to clients. The SRI Equity Sales team provides stock broking and account management services to alternative energy and SRI fund managers.

UBS's open architecture also allows clients to invest in SRI products from third-party providers.

Investment Bank: sell-side research

In 2004, the Investment Bank created an SRI team of sell-side analysts (sell-side analysts write recommendations and reports for professional investors) in its equity research area. Among other things, these sell-side analysts research areas of increasing or diminishing risk. Many SRI issues cannot easily be quantified, but, where possible, the team leverages UBS standard models, such as the Value Creation Analysis Model, to analyze the potential effects of social and environmental issues on companies' share prices. Identifying the material SRI issues presents challenges as, essentially, three things help determine which environmental and social issues are critical: what society sees as important; the nature of the competitive pressures facing firms in an industry; and how costs and benefits are (or will be) distributed between stakeholders.

Since the team was established, client interest in some aspects of SRI – most notably climate change – has grown, and so has research coverage. The SRI team regularly collaborates with analysts in sector teams to write about emerging SRI themes, and relevant research content is regularly published by a growing number of specialists within the mainstream research effort. An SRI page is available to UBS's institutional clients on UBS's Research Web. This brings together publications of the SRI team, as well as relevant sector reports from other teams.

Socially responsible investments invested assets

		For the year ended			% change from
CHF billion, except where indicated	GRI[1]	**31.12.07**	31.12.06	31.12.05	31.12.06
UBS		**3,189**	2,989	2,652	7
UBS socially responsible investments (SRI) products and mandates					
Positive criteria	F9	**5.42**	1.84	1.05	194
Exclusion criteria	F9	**32.06**	16.17	10.73	98
Third-party	F9	**1.38**	N/A	0.61	N/A
Total SRI invested assets	F9	**38.86**	18.01	12.39	116
Proportion of total invested assets (%)[2]		**1.22%**	0.60%	0.47%	

1 Global Reporting Initiative (see also www.globalreporting.org). F stands for the Environmental Performance Indicators defined in the GRI Financial Services Sector Supplement. 2 Total socially responsible investments / UBS's invested assets.

Positive criteria: applies to the active selection of companies, focusing on how a company's strategies, processes and products impact its financial success, the environment and society. This includes "best-in-class" or thematic investments.

Exclusion criteria: companies or sectors are excluded based on environmental, social or ethical criteria. For example, companies involved in weapons, tobacco, gambling, or with high negative environmental impacts.

Third-party: UBS's open product platform gives clients access to SRI products from third-party providers. This includes both positive and exclusion critiria.

Global Asset Management: buy-side research

In the asset management business, an SRI buy-side (internal proprietary research) team was established in Switzerland in 1996 and has expanded to the US and Singapore. The team carries out in-depth, theme-based research in the areas of climate change, water and demographics. It also leverages the asset management business's research platform of more than 100 analysts to construct all of its SRI portfolios. The internal research is complemented by specialized rating agencies. An academic board of experts also provides strategic support.

Global Wealth Management & Business Banking: secondary research

The secondary research team in UBS's wealth management business helps private investors navigate large volumes of global financial data. It monitors and interprets research information on most traded asset classes. The team established an SRI competence center in 2007 in order to provide sound advice to clients. It publishes in-depth studies of emerging socio-economic and environmental trends such as climate change by assessing their potential impact on investment markets.

Financing and advisory services

UBS's renewable energy investment banking business arranges financing and provides strategic and financial advisory services for companies in the biofuels, solar, wind, wave and other renewable energy sectors. Since 2006, UBS has led over 20 financing transactions, raising over USD 5 billion for renewable energy companies worldwide and winning a top-five ranking two years in a row (including the prestigious "Top Underwriter" award in 2006) from New Energy Finance, a specialist provider of financial information and analysis to investors in clean energy. UBS provides advice on a number of high-profile strategic combinations including the merger between US BioEnergy Corporation and VeraSun Energy Corporation, the largest transaction of its type in the history of the biofuel sector.

UBS is also a founding financial partner in the Clinton Foundation's Climate Initiative (CCI), Energy Building Retrofit Program. The program, which includes five other major financial institutions, four of the world's largest energy service companies and 15 large cities, is designed to reduce energy consumption in existing buildings. Under the program, participat-

Engaging investors in climate change issues

As a leading wealth and asset manager, UBS wants to help investors evaluate risks and opportunities presented by climate change in their investments. To do so, the firm produces relevant research and raises investors' awareness by hosting dedicated conferences and seminars. It also seeks to increase the availability of data by collaborating in the Carbon Disclosure Project.

At the end of January 2007, the research team in the wealth management business published a report examining the scientific, technological and economic effects of climate change. Its authors argued that climate change will have far-reaching implications for the global economy and the worldwide investment climate and concluded that measures to combat global warming will increasingly influence people's behavior, the risk profiles of certain industries and prospects for investment. The analysis suggests that products and processes that improve energy efficiency, as well as the development of renewable or low-CO_2 energy sources, have great potential to slow climate change.

In the Investment Bank, over 60 analysts were involved in collaborative work on climate change in 2007. The utilities team wrote on the link between CO_2 and the share price of utilities since 2004. This team also now writes on and forecasts the CO_2 price traded on carbon exchanges. Elsewhere, sector teams cover photovoltaics, wind and other alternatives, as well as energy efficiency.

In addition to producing research on the effects of climate change on certain companies and sectors, UBS regularly invites institutional investors and other clients to attend conferences focusing on these topics. In 2007 alone, UBS hosted eight conferences and seminars featuring distinguished speakers on climate change related topics in London, Tokyo, Hong Kong, Amsterdam, Stockholm, Paris and New York. For example, the UBS Global Alternative Energy Conference in New York City is one of the largest of its kind and represents an opportunity to meet investors and executives from leading companies in the sector.

UBS is a founding member of the Carbon Disclosure Project. In collaboration with other institutional investors, it seeks information from the world's largest companies concerning the business risks and opportunities presented by climate change and greenhouse gas emissions data. In 2007, unlike in previous years, responding companies appear to have moved beyond awareness and have implemented carbon strategies: 76% of respondents disclosed existing greenhouse gas emissions reduction efforts with targets and timelines. This marks a significant shift from 48% in 2006.

ing city governments and local building owners will retrofit buildings for increased energy efficiency. Participating cities include London, Paris, New York, Mexico City and Tokyo, among others. UBS has committed expertise and other resources to create financial structures capable of delivering capital effectively to public and private projects in this program.

Carbon trading

UBS is an active participant in emissions trading markets and is a member of the Intercontinental Exchange (ICE), an electronic marketplace for energy and emissions trading in conjunction with the European Climate Exchange (ECX). In "cap and trade" emissions markets, such as the EU Emissions Trading Scheme, companies are issued with permits that limit, or cap, their emissions. Companies who are able to reduce their emissions at low cost have the ability to sell their unused permits to other companies requiring them, thereby creating an emissions allowances market and ensuring that emission reductions are achieved in a cost-effective manner. Through the use of carbon financial instruments UBS is able to help clients manage their exposure to the emissions markets.

Environmental risk management

For UBS, it is important to identify, manage and control environmental risks in its business transactions. An example of such a risk is when a counterparty's cash flow or assets are impaired by environmental factors such as inefficient production processes, or polluted or contaminated property. Another is liability risk, such as when a bank takes over environmentally unsound collateral onto its own books.

UBS has a long track record in managing environmental risks: an environmental credit assessment procedure was introduced for Swiss corporate clients as early as 1994, and the Investment Bank's first environmental guideline was issued in 1999. Since then, UBS has constantly sought to adapt and refine its environmental risk framework.

The general approach to managing environmental risks is derived from the methodology of the ISO 14001 standard: the first step is to assess and rate the potential for material environmental risks arising in the various products and services offered by the bank. The result of this analysis is reviewed every year and currently shows that the potential for material risk is greater within the context of lending and capital markets practices for commercial lending, investment banking and direct infrastructure investments. In a second step, for each product and client segment rated with high potential risk, UBS designs environmental procedures and tools that are adapted to their specific risk profile and integrated into existing processes, such as due diligence on transactions or investments and ongoing risk management.

Global Wealth Management & Business Banking

Environmental risks are assessed in a three-stage process in the Global Wealth Management & Business Banking business group. The client advisor carries out a first screening, covering financial risks linked to environmental aspects such as compliance with environmental legislation, workplace safety, contaminated sites and natural hazards. If the risks cannot be fully ruled out during the first screening, a credit officer initiates a second screening and decides whether the risks identified are transparent enough for the credit decision to be taken. Transactions entailing significant environmental risk undergo a third step, a detailed environmental assessment – a service provided by the business group's environmental risk competence center. In 2007, 36 such detailed assessments took place. If a transaction poses substantial environmental risks, the bank can take several courses of action. It can adapt the terms of the loan contract, it may engage the client in a dialog about possible remedial action, or it may decline the transaction altogether.

Investment Bank

The Global Environmental Risk Guidelines apply to all transactions, services and activities within the Investment Bank. This requirement is supported by an Environmental Risk Framework that is integrated into the Investment Bank's due diligence and approval processes. Investment Bank staff identify potential environmental risks in the initial due diligence phase and alert the Investment Bank's Environmental Risk Group (ERG) of significant potential risks. Assessments by lawyers and/or external consultants are routinely sought for certain sectors and products. The ERG works with the relevant business and control functions to assess the risks, determine any mitigating measures and direct further due diligence, as required, so that the relevant senior business committee may fully consider the potential environmental risk in the course of its review of the transaction and/or client. The ERG reinforces this requirement with training and awareness raising activities. In 2007, the ERG provided sector-specific training on the Environmental Risk Framework to 500 bankers and support functions and high-level training to a further 600 employees and advised on environmental issues in 108 transactions.

Global Asset Management

The formal environmental risk matrix introduced in 2004 within Global Asset Management, which assesses the reputation and environmental risks that investments on behalf of its clients might imply, is reviewed annually for applicability and comprehensiveness. It forms part of the environmental management system employed within the business group.

Environmental and CO_2 footprints

The firm directly impacts the environment in a number of ways. Its businesses consume electricity, employees travel for business purposes, they use paper and generate waste in the course of their work, and offices require heating and cooling systems. Improving the use of these resources can boost operating margins and enhance environmental performance and, therefore, UBS has a series of measures that manage its environmental impact efficiently.

UBS has a long track record for managing its environmental impact and CO_2 footprint, with the first energy unit having been established in the 1970s.

CO_2 strategy and emission reduction

The Group Executive Board decided in February 2006 to set a group-wide CO_2 emission reduction target of 40% below 2004 levels by 2012. UBS seeks to achieve this target by implementing:

– in-house energy efficiency measures that reduce energy consumption in buildings it operates in;
– increasing the proportion of renewable energy to avoid emissions at source; and
– offsetting and neutralizing emissions that cannot be reduced by other means.

These measures allowed UBS to reduce its CO_2 emissions by 22% compared with 2004, an important step toward achieving the 40% reduction target by 2012.

Energy consumption and energy efficiency

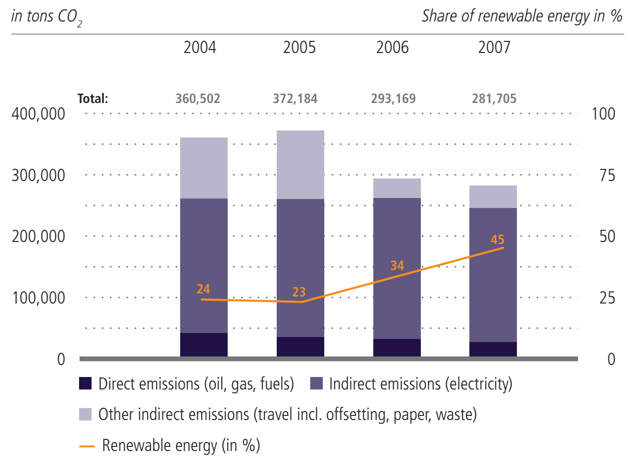
Energy represents an important environmental impact area for UBS and is a major contributor to its overall greenhouse gas emissions. Energy efficiency measures are therefore an important component of UBS's program for achievement of the Group-wide CO_2 emission reduction target. Measures include investments in energy-efficient technology and encouraging good housekeeping measures. In 2007, UBS was awarded the "Energy Model Zurich" trophy for the firm's achievements in improving its energy efficiency in Switzerland by 17% since 1997. The firm's newly renovated offices in Stamford, Connecticut, were awarded the Silver Standard by the US Green Building Council's Leadership in Energy and Environmental Design (LEED). The building incorporates many energy optimizing features, such as light harvesting where sensors detect levels of sunshine, and the building automatically adjusts interior lighting depending on the level of exterior light. Going forward, UBS has adopted a technical standard supporting worldwide oversight of measures taken to improve energy efficiency in fields such as building operation, replacement investments and rehabilitations.

Renewable energy

In addition to its energy efficiency programs, UBS seeks to improve the energy mix it purchases towards a higher proportion of renewable energy. The percentage of renewable energy and district heating purchase rose from 24% in 2004 to 45% in 2007.

In 2007, UBS signed a new agreement (roughly 210 GWh per year) under which 90% of the electricity supply for its buildings in Switzerland now comes from renewable sources, such as water and solar power stations. In addition, UBS purchases Renewable Energy Credits (RECs) in the US electricity markets, which accounted for 10% of its electricity consumption in the US in 2007.

CO_2 footprint



Environmental indicators per full-time employee (FTE)

	Unit	2007	Trend	2006	2005
Total direct and intermediate energy	kWh / FTE	**11,942**	↘	12,736	12,925
Total indirect energy	kWh / FTE	**20,391**	↓	23,974	26,024
Total business travel	Pkm / FTE	**12,685**	→	12,544	10,659
Total paper consumption	kg / FTE	**190**	→	188	197
Total waste	kg / FTE	**299**	→	303	325
Total water consumption	m^3 / FTE	**26.7**	→	26.0	26.0
Total environmental footprint	kWh / FTE	**32,530**	↓	38,148	41,129
CO_2 footprint	t / FTE	**3.43**	↓	3.93	5.24

Legend: kWh = kilowatt hour; Pkm = person kilometer; kg = kilogram; m^3 = cubic meter; t = ton

Both these initiatives are a continuation of the renewable energy purchasing that began in 2000 in Switzerland and 2003 in London and represent an improvement on the previous contracts in terms of the increased volume derived from renewable sources.

Business travel and offsetting

Business travel is a significant contributor to UBS's greenhouse gas emissions. While the firm encourages its employees to use environmentally friendly alternatives to air and road travel, for example video conferences, travel is essential for a global financial services firm that strongly believes in personalized client relationships. Therefore, since 2006, UBS has decided to offset emissions from business related air travel, i.e. over 110,000 tons of CO_2, representing about a quarter of its total CO_2 emissions. Offsetting means that UBS indirectly neutralizes its business air travel emissions by investing in third-party projects that reduce an equivalent amount of greenhouse gas emissions. For 2007, UBS selected projects in Brazil, India, China and Germany, on the basis of their adherence to international quality standards and of their additional environmental and social benefits.

Paper and waste

UBS has agreed on new firm-wide targets for paper and waste. This includes the goal of reducing paper consumption per employee by 5% by 2009 when compared with 2006 levels. UBS also wants to have 20% of the paper it uses come from recycled sources. Across Europe, UBS has now switched to a 100% recycled paper for all internal printing. At the same time, the firm will be seeking to improve its environmental footprint by reducing waste (for example, plastic bottles or packaging) per employee by 10% and by sending 70% of waste to recycling sites.

➔ More detailed information on UBS's environmental management system is available at www.ubs.com/environment

Environmental indicators[1]

		2007[2]			2006[2]	2005[2]
	GRI[3]	**Absolute normalized[4]**	**Data quality[5]**	**Trend[6]**	Absolute normalized[4]	Absolute normalized[4]
Total direct and intermediate energy consumption[7]		**981 GWh**	***	→	**951 GWh**	**918 GWh**
Total direct energy consumption[8]	**EN3**	**130 GWh**	**	↘	**154 GWh**	**169 GWh**
natural gas		**83.3%**	**	→	85.5%	86.0%
heating oil		**12.1%**	***	→	11.8%	11.0%
fuels (petrol, diesel, gas)		**4.6%**	***	↑	2.7%	3.0%
renewable energy (solar power, etc.)		**0.03%**	***	↗	0.03%	0.02%
Total intermediate energy purchased[9]	**EN4**	**851 GWh**	***	↗	**797 GWh**	**749 GWh**
electricity from gas-fired power stations		**12.3%**	**	→	13.2%	14.3%
electricity from oil-fired power stations		**4.2%**	***	→	4.5%	4.3%
electricity from coal-fired power stations		**18.6%**	**	↘	21.7%	22.9%
electricity from nuclear power stations		**13.6%**	**	↓	20.5%	29.9%
electricity from hydroelectric power stations		**25.5%**	***	↑	21.4%	12.1%
electricity from other renewable resources		**22.0%**	***	↑	12.7%	11.1%
district heating		**3.8%**	***	↓	6.0%	5.4%
Total indirect energy consumption[10]	**EN4**	**1,674 GWh**	***	↘	**1,790 GWh**	**1,849 GWh**
Total business travel	**EN29**	**1,042 m Pkm**	***	↑	**936 m Pkm**	**757 m Pkm**
rail travel[11]		**3.3%**	**	↘	4.1%	3.7%
road travel[11]		**0.5%**	**	↓	0.6%	0.7%
air travel		**96.2%**	***	→	95.3%	95.6%
Number of flights (segments)		**446,274**	***	↑	**402,629**	**358,992**
Total paper consumption	**EN1**	**15,593 t**	***	↑	**14,013 t**	**14,020 t**
post-consumer recycled	EN2	**10.5%**	***	↑	6.2%	7.1%
new fibers FSC[12]		**10.7%**	***	↑	0.0%	0.0%
new fibers ECF + TCF[12]		**78.6%**	***	↓	93.8%	92.9%
new fibers chlorine bleached		**0.2%**	**	↑	0.0%	0.0%
Total waste	**EN22**	**24,589 t**	***	↗	**22,631 t**	**23,073 t**
valuable materials separated and recycled		**56.3%**	***	→	58.2%	64.8%
incinerated		**15.8%**	***	↑	12.7%	9.3%
landfilled		**27.9%**	**	→	29.1%	25.9%
Total water consumption	**EN8**	**2.19 m m^3**	**	↗	**1.94 m m^3**	**1.84 m m^3**
Total environmental footprint[13]		**2,671 GWh**	**	→	**2,848 GWh**	**2,922 GWh**
Total CO_2 footprint[14]		**281,705 t**	***	→	**293,169 t**	**372,184 t**
Total direct CO_2 (GHG scope 1)[15]	EN16	**26,701 t**	***	↓	31,519 t	34,556 t
Total indirect CO_2 (GHG scope 2)[15]	EN16	**218,681 t**	**	→	230,015 t	225,854 t
Total other indirect CO_2 (GHG scope 3)[15]	EN17	**149,323 t**	***	↑	132,635 t	111,773 t
Total CO_2e offsets (business air travel)[16]		**113,000 t**	***	↑	101,000 t	-

Legend: GWh = gigawatt hour; Pkm = person kilometer; t = ton; m^3 = cubic meter; m = million

1 All figures are based on the level of knowledge as of January 2008. 2 Reporting period: 2007 (1 July 2006–30 June 2007), 2006 (1 July 2005–30 June 2006), 2005 (1 July 2004–30 June 2005). 3 Global Reporting Initiative (see also www.globalreporting.org). EN stands for the Environmental Performance Indicators as defined in the GRI. 4 Non-significant discrepancies from 100% are possible due to roundings. 5 Specifies the estimated reliability of the aggregated data and corresponds approximately to the following uncertainty (confidence level 95%): up to 5% – ***, up to 15% – **, up to 30% – *. Uncertainty is the likely difference between a reported value and a real value. 6 Trend: at a ***/**/* data quality, the respective trend is stable (→) if the variance equals 5/10/15%, low decreasing/increasing (↘,↗) if it equals 10/20/30% and decreasing/increasing if the variance is bigger than 10/20/30% (↓,↑). 7 Refers to energy consumed within the operational boundaries of UBS. 8 Refers to primary energy purchased which is consumed within the operational boundaries of UBS (oil, gas, fuels). 9 Refers to energy purchased that is produced by converting primary energy and consumed within the operational boundaries of UBS (electricity and district heating). 10 Refers to primary energy, which is consumed to produce the electricity and district heating consumed by UBS. 11 Rail and road travel: Switzerland only. 12 Paper produced from new fibers. FSC stands for Forest Stewardship Council, ECF for Elementary Chlorine Free and TCF for Totally Chlorine Free. 13 Shows the environmental impact (through emissions, use of resources, waste) by a process including all relevant upstream and downstream processes. The environmental footprint is approximated using the equivalent of non-renewable energy consumed. 14 CO_2 footprint equals total CO_2 emissions (GHG scope 1, 2 and 3) minus CO_2e offsets. 15 Refers to ISO 14064 and the "GHG (greenhouse gas) protocol initiative" (www.ghgprotocol.org), the international standards for CO_2 reporting: direct CO_2 (Scope 1) accounts for direct CO_2 emissions by UBS; indirect CO_2 (Scope 2) accounts for indirect CO_2 emissions associated with the generation of imported/purchased electricity, heat or steam; other indirect CO_2 (Scope 3) accounts for indirect CO_2 emissions associated with business travel, paper consumption and waste disposal. 16 Offsets from third-party GHG reduction projects measured in CO_2 equivalents (CO_2e). These offsets neutralize CO_2 emission from our business air travel.

Verification by SGS Société Générale de Surveillance SA

"We have verified the correctness of the statements in the 2007 Environmental Report of UBS AG and, where necessary, have requested that proof be presented. We hereby confirm that the report has been prepared with the necessary care, that its contents are correct with regard to environmental performance, that it describes the essential aspects of the environmental management system at UBS AG and that it reflects the actual practices and procedures at UBS AG.

We have also conducted a third party verification of the CO_2 emissions in the years 2004 to 2007 against the principles of ISO 14064-I (2006). In our opinion, the reported CO_2 emissions are fair, accurate, transparent and free from material errors or misstatements and meet the materiality threshold."

Elvira Bieri, Dr Erhard Hug and Dr Jochen Gross, Zurich, February 2008

Corporate responsibility in UBS guidelines and policies

The importance UBS attaches to responsible corporate behavior is reflected in the various documents and policies defining the rules and principles the firm applies to the behavior of its employees. These guidelines define the way UBS does business and the firm regularly monitors compliance.

UBS's **vision and values** state that the firm is a member of the global community and should behave as a responsible corporate citizen. The firm and its employees should conduct themselves in a manner that is above reproach, as preserving UBS's integrity is vital to its most valuable asset – its reputation.

The firm has a **code of business conduct and ethics,** which sets forth the policies and practices UBS expects all its employees to follow. The code outlines the required standards of fairness, honesty and integrity in a general manner. It is the basis for all UBS policies.

Employment of staff
UBS provides equal employment and advancement opportunities for all its employees, regardless of gender, ethnicity, race, nationality, age, disability, sexual orientation or religion.

Whistleblowing protection
A whistleblowing policy allows employees to report any breach of law, regulations or codes of ethics to a senior manager without fear of retaliation.

Conflicts of interest
UBS is committed to ensuring fair treatment of all its stakeholders, while recognizing that conflicts of interest cannot always be avoided. The firm has therefore established guiding principles outlining its approach to properly identifying and managing conflicts of interest. In addition, various other policies address situations in which a conflict of interest might potentially arise, such as personal account dealing, or the providing and receiving of gifts. UBS's Investment Bank also has specific conflict of interest policies for its research activities.

Anti-money laundering and bribery of public officials
UBS is committed to fighting money laundering, corruption and terrorist finance. To do that, the firm has a number of policies in place, an effective risk management framework and a dedicated money laundering prevention unit. UBS aims to prevent bribery of public officials by requiring the pre-approval of any transfer of value by UBS or any employee to a public official.

Memberships and donations
A policy is in place to govern the handling and uniform treatment of memberships and donations by UBS globally. It specifies that donations are goodwill payments made to organizations whose activities serve (among others) non-profit, charitable, cultural and educational purposes.

Information security
UBS adheres to the highest standards of information security. It meets legal and regulatory requirements related to information security, satisfying the obligations it has to clients, employees and shareholders.

Environmental management
UBS is committed to integrating environmental considerations into all its business activities.

Human rights
The "UBS Statement on Human Rights" sets out the firm's approach to promote and respect human rights standards within its sphere of influence.

UBS’s businesses

Global Wealth Management & Business Banking

– Leading global provider of financial services for wealthy clients
– Top bank for individual and corporate clients in Switzerland
– Record profitability and net new money inflows in 2007

Business description

Global Wealth Management & Business Banking comprises the following business units, which are reported separately:

Wealth Management International & Switzerland provides a comprehensive range of products and services, individually tailored for wealthy and affluent clients around the world (except domestic US clients), via its extensive global branch network and through financial intermediaries. An open product platform gives clients access to a wide array of pre-screened, top-quality products from third-party providers that complement UBS's own lines

Wealth Management US offers sophisticated products and services specifically designed to address the needs of emerging affluent, affluent, high net worth and ultra-high net worth domestic US clients

Business Banking Switzerland offers high-quality, standardized products to the retail market for individual and small company clients, as well as more complex products and advisory services for larger corporate and institutional clients and financial institutions in Switzerland

Performance in 2007

Wealth Management International & Switzerland

– Record net new money intake of CHF 125.1 billion (CHF 97.6 billion in 2006) leading to an all-time high in invested assets of CHF 1,294 billion (up 14% from 2006)

– Record pre-tax profit of CHF 6,306 million (up 21% compared with 2006)

– Cost/income ratio improved for the fifth consecutive year to 50.9%

Wealth Management US

– 23% year-on-year increase in performance before tax to CHF 718 million despite weakening of the US dollar. Record recurring income and lower general and administrative expenses

– Strong net new money intake of CHF 26.6 billion (CHF 15.7 billion in 2006). Invested assets increased to CHF 840 billion reflecting rising markets, net new money intake and the first-time inclusion of McDonald Investments

Business Banking Switzerland

– Record performance before tax of CHF 2,460 million (CHF 2,356 million in 2006), mainly due to income growth

– Continued high level of efficiency with cost/income ratio of 57.3%

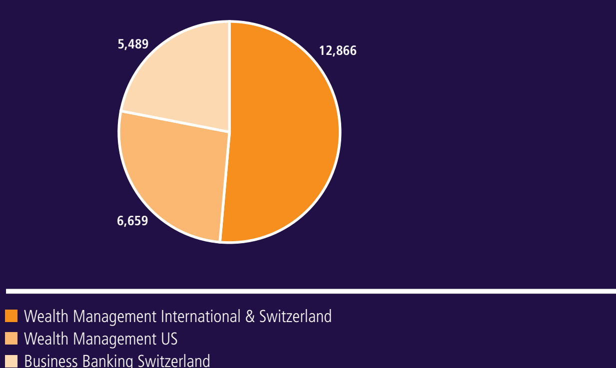
Business group / business unit reporting

CHF million, except where indicated	Wealth Management International & Switzerland		Wealth Management US		Business Banking Switzerland		Global Wealth Management & Business Banking	
As of or for the year ended	**31.12.07**	31.12.06	**31.12.07**	31.12.06	**31.12.07**	31.12.06	**31.12.07**	31.12.06
Total operating income	**12,866**	10,798	**6,659**	5,863	**5,489**	5,270	**25,014**	21,931
Total operating expenses	**6,560**	5,595	**5,941**	5,281	**3,029**	2,914	**15,530**	13,790
Business group / business unit performance before tax	**6,306**	5,203	**718**	582	**2,460**	2,356	**9,484**	8,141
Additional information								
Net new money (CHF billion)	**125.1**	97.6	**26.6**	15.7	**4.6**	1.2	**156.3**	114.5
Invested assets (CHF billion)	**1,294**	1,138	**840**	824	**164**	161	**2,298**	2,123
Personnel (full-time equivalents)	**15,811**	13,564	**19,347**	18,557	**15,932**	15,913	**51,090**	48,034

Total operating income

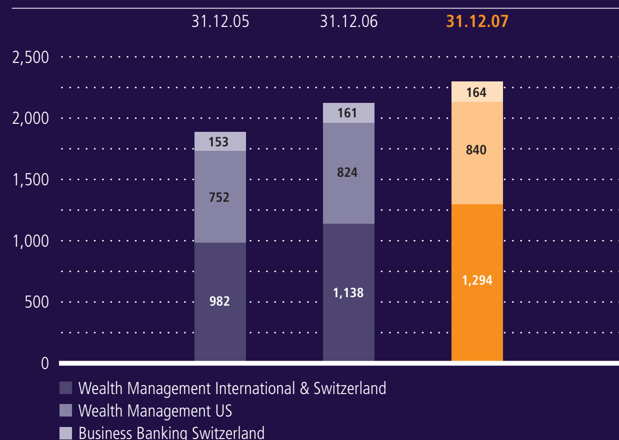
CHF million

For 2007 **Total: CHF 25,014 million**



Invested assets

CHF billion



Business structure

Global Wealth Management & Business Banking

- **Wealth Management International & Switzerland**
- **Wealth Management US**
- **Business Banking Switzerland**

Global Wealth Management & Business Banking

Global Wealth Management & Business Banking is the leading global provider of financial services for wealthy clients and the top bank for individual and corporate clients in Switzerland.

Business group reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Income	**24,841**	21,775	19,131	14
Adjusted expected credit loss[1]	**173**	156	107	11
Total operating income	**25,014**	21,931	19,238	14
Cash components	**10,535**	9,043	8,252	16
Share-based components[2]	**357**	306	237	17
Total personnel expenses	**10,892**	9,349	8,489	17
General and administrative expenses	**3,141**	3,028	2,845	4
Services (to)/from other business units	**1,171**	1,118	960	5
Depreciation of property and equipment	**241**	232	226	4
Amortization of intangible assets	**85**	63	56	35
Total operating expenses	**15,530**	13,790	12,576	13
Business Group performance before tax	**9,484**	8,141	6,662	16
Key performance indicators				
Cost/income ratio (%)[3]	**62.5**	63.3	65.7	
Capital return and BIS data				
Return on allocated regulatory capital (%)[4]	**41.9**	39.3	34.7	
BIS risk-weighted assets	**169,650**	155,158	147,348	9
Goodwill and excess intangible assets[5]	**5,828**	5,978	5,407	(3)
Allocated regulatory capital[6]	**22,793**	21,494	20,142	6
Additional information				
Invested assets (CHF billion)	**2,298**	2,123	1,887	8
Net new money (CHF billion)[7]	**156.3**	114.5	98.5	
Client assets (CHF billion)	**3,554**	3,337	2,895	7
Personnel (full-time equivalents)	**51,090**	48,034	44,612	6

1 In management accounts, adjusted expected credit loss rather than credit loss expense is reported for the business groups (see Note 2 in *Financial Statements 2007).* 2 Additionally includes related social security contributions and expenses related to alternative investment awards. 3 Operating expenses/income. 4 Business group performance before tax/average allocated regulatory capital. 5 Goodwill and intangible assets in excess of 4% of BIS Tier 1 capital. 6 10% of BIS risk-weighted assets plus goodwill and excess intangible assets. 7 Excludes interest and dividend income.

Business

The global branch network delivers comprehensive financial services to wealthy private individuals around the world and to private and corporate clients in Switzerland. Global Wealth Management & Business Banking provides all its clients with the advice, financial products and tools that fit their individual needs.

Organizational structure

On 1 July 2005, the business group called Global Wealth Management & Business Banking was formed to encompass UBS's global wealth management businesses, along with the Swiss corporate and retail banking unit. On this date, UBS also transferred the municipal finance unit, until then a part of the Wealth Management US unit, to the Investment Bank's fixed income area.

Global Wealth Management & Business Banking is managed in a fully integrated way along its main geographic markets, although financial results are reported for the following business units separately:

– Wealth Management International & Switzerland, serving wealthy and affluent clients around the world, except domestic clients in the US;
– Wealth Management US, serving wealthy and affluent domestic US clients; and
– Business Banking Switzerland, serving retail and corporate clients in Switzerland.

Businesses focusing on client needs can only fully exploit their potential if they are provided with a reliable and efficient infrastructure. Support areas within Global Wealth Management & Business Banking provide products and services to these three business units as well as to other UBS business groups, which are charged accordingly via a transfer pricing mechanism.

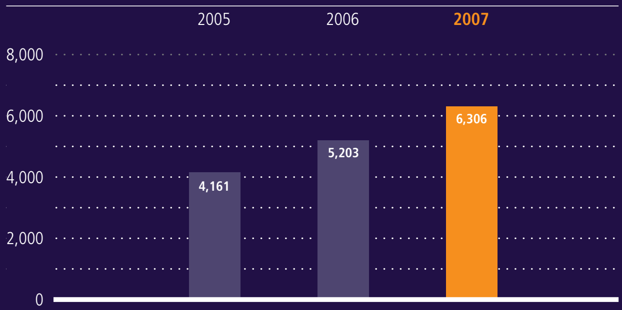
At the end of 2007, as a result of the strong growth of UBS's international wealth management business, Global Wealth Management & Business Banking broadened its regional management structure. The new regional business areas are now Asia Pacific; Western Europe, Mediterranean, Middle East & Africa; North, East & Central Europe; Switzerland; and Wealth Management Americas. This development will accelerate decision-making processes and help the business group better focus on local client needs worldwide.

Wealth Management International & Switzerland

- One of the leading wealth managers worldwide
- 2007 was a record year in terms of profitability, net new money intake and invested assets
- Global reach, with 5,774 client advisors in 110 offices in Switzerland and 93 offices worldwide
- Further business expansion through successful growth initiatives in Asia Pacific and the European onshore business

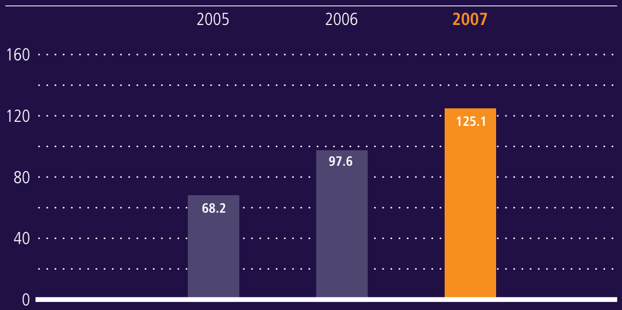
Performance before tax

CHF million



Net new money

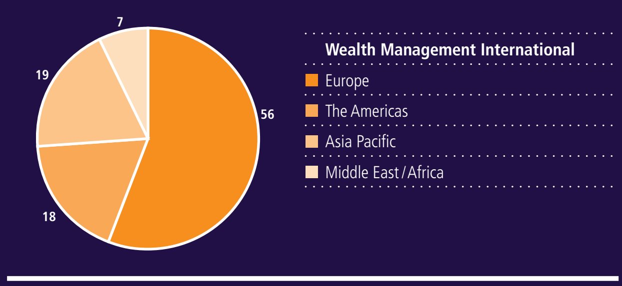
CHF billion



Invested assets by client domicile

in %, except where indicated

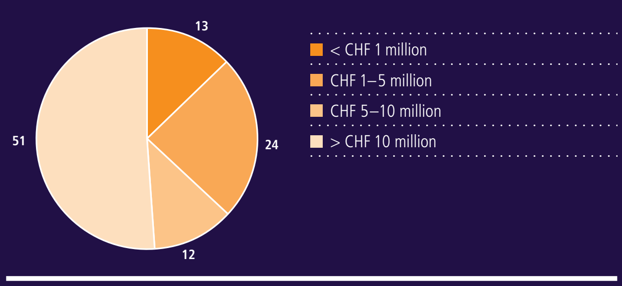
As of 31.12.07 **Total: CHF 1,013 billion**



Invested assets by client wealth

in %, except where indicated

As of 31.12.07 **Total: CHF 1,294 billion**



Wealth Management International & Switzerland
Business description

With more than 140 years of experience, an extensive global network and CHF 1,294 billion in invested assets on 31 December 2007, the 5,774 client advisors of this wealth management business deliver high-quality, individually tailored solutions to clients worldwide.

Business

The Wealth Management International & Switzerland business unit provides a comprehensive range of products and services, individually tailored for wealthy clients around the world, via its global branch network and through financial intermediaries.

Client advisors combine strong personal relationships with the resources that are available from across UBS, helping them to provide a full range of wealth management services – from asset management to estate planning and from corporate finance advice to art banking. An open product platform gives clients access to a wide array of pre-screened, top-quality products from third-party providers that complement UBS's own lines.

Organizational structure

The Wealth Management International & Switzerland business unit comprises the following management areas:
- Asia Pacific;
- Western Europe, Mediterranean, Middle East & Africa;
- North, East & Central Europe;
- The Americas; and
- Switzerland.

Competitors

Major competitors for the business unit comprise all globally active wealth managers, such as the wealth management operations of Credit Suisse, HSBC and Citigroup. Wealth Management International & Switzerland also competes with private banks that operate mainly within their respective domestic markets, such as Julius Baer and Pictet in Switzerland, Coutts in the UK, Deutsche Bank and Sal. Oppenheim in Germany and Unicredito in Italy and Swiss banks focused on international clients (such as Julius Baer and Pictet in Switzerland).

Clients and markets

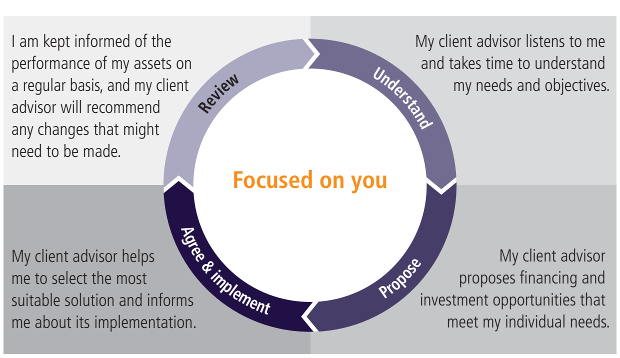
Wealth management is a market with strong long-term growth prospects. According to an internal UBS estimate, the global growth rate of liquid assets held by wealthy individuals is expected to grow by 5.7% annually between 2006 and 2010.

The wealth management market is very fragmented, and UBS's global market share, including the US wealth management business, is estimated at 3.5% (UBS internal estimate).

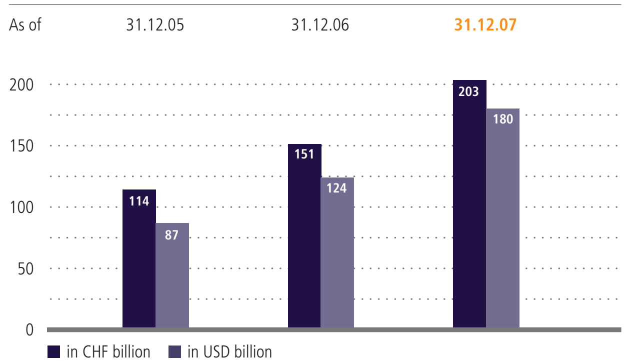
A clearly structured advisory process helps client advisors add value at each step and provides clients with a comprehensive service. The approach consists of four clear, mutually enhancing steps, which are shown in the UBS Client Experience graph on the bottom of this page.

Wealth Management International & Switzerland offers sophisticated products and services specifically designed to address the needs of:
- core affluent clients with investable assets of CHF 250,000 to CHF 2 million (international clients only);

UBS client experience



Invested assets development, APAC region



European wealth management office locations

■ Locations end-2000
□ New locations since 2001

France

1	Aix en Provence	□
2	Bordeaux	□
3	Cannes	□
4	Lille	□
5	Lyon	□
6	Marseille	□
7	Nantes	□
8	Paris	■
9	Strasbourg	□

Germany

10	Bad Homburg[2]	□
11	Berlin	■
12	Bielefeld	□
13	Bremen	□
14	Cologne	□
15	Dusseldorf	■
16	Essen	□
17	Frankfurt	■
18	Hamburg	■
19	Munich	■
20	Offenbach[3]	■
21	Stuttgart	■
22	Ulm	□

Italy

23	Bergamo	□
24	Bologna	■
25	Brescia	□
26	Cuneo	□
27	Florence	□
28	Genoa	□
29	Milan	■
30	Modena	□
31	Naples	□
32	Padua	□
33	Rome	■
34	Treviso	□
35	Turin	□
36	Varese	□

Spain

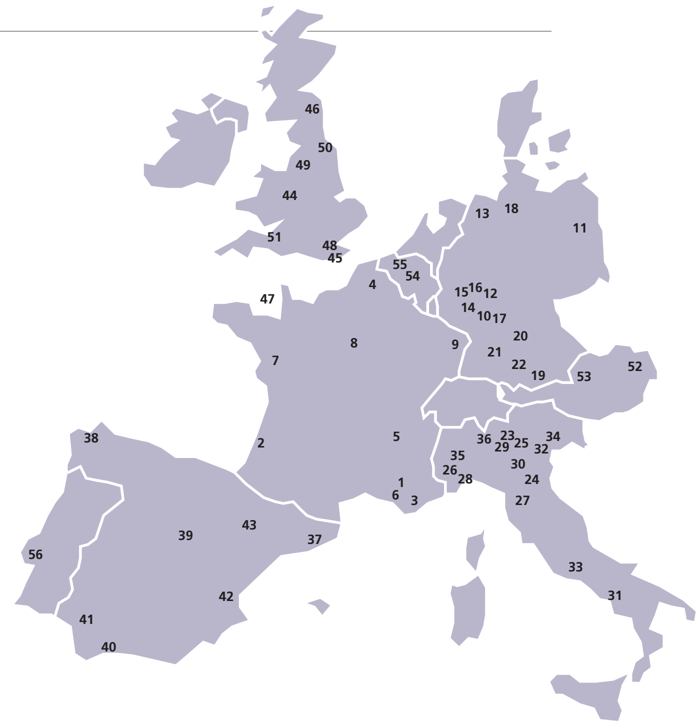
37	Barcelona	■
38	Coruna	■
39	Madrid	■
40	Marbella	□
41	Seville	□
42	Valencia	□
43	Zargoza	□

United Kingdom[1]

44	Birmingham	□
45	Brighton	□
46	Edinburgh	□
47	Jersey	□
48	London	■
49	Manchester	□
50	Newcastle	□
51	Taunton	□

Other countries

52	Austria (Vienna)	□
53	Austria (Salzburg)	□
54	Belgium (Brussels)	□
55	Belgium (Antwerp)	□
56	Portugal (Lisbon)	□



1 Includes five locations from the acquisition of Laing & Cruickshank. 2 Headquarters of UBS Sauerborn. 3 No front-office staff.

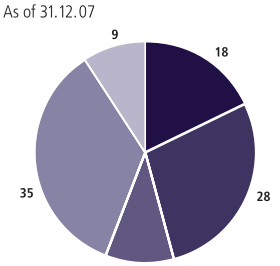
- high net worth clients with investable assets of CHF 5 million;
- private wealth management clients with investable assets of up to CHF 5 million to CHF 50 million; and
- ultra-high net worth clients with investable assets of more than CHF 50 million.

The business unit also provides financial intermediaries, both inside and outside Switzerland, with UBS's wealth management solutions, products and services.

European wealth management: invested assets by client domicile

in %, except where indicated

As of 31.12.07 | Total: CHF 167 billion



- Italy
- Germany
- France
- UK
- Spain

Growth initiatives

Wealth management in Asia Pacific

One of the main challenges for the wealth management business in the next few years will be to enhance its already strong business footprint in the Asia Pacific region. The region is very heterogeneous and, taken together, accounts for more than half the world's population, while contributing a quarter of total global gross domestic product (GDP).

The wealth management business has a presence in six domestic Asia Pacific markets (Australia, China, Japan, Hong Kong, Singapore and Taiwan) and plans to gradually expand its network of branches and offices into further high-potential locations. By cooperating with the other UBS business groups in the region, it is possible to realize mutually beneficial opportunities leveraging a wide array of products and services, as well as share infrastructure, to deliver significant revenue synergies as well as cost savings.

In 2007, wealth management offices were opened in Nagoya (Japan) and Brisbane (Australia). In addition, UBS also received regulatory approval to convert the non-business offices in Taichung and Kaohsiung (both in Taiwan) to full branches.

Given the strong demand for wealth management services in the region, UBS opened a regional training center for employees located in Singapore in 2007. It is the first institution to be accredited by the Financial Industry Competency Standards (FICS) as a financial training and assessment service provider in wealth management. Clients will also be able to take courses at the facility. UBS considers that its growth in Asia Pacific depends on much more than just hiring client advisors – the training and retaining of them is critical.

European on-shore business

The European wealth management business was launched in early 2001 and is aimed at wealthy clients in the five target countries of France, Germany, Italy, Spain and the UK. Over the past seven years, the number of European domestic branches (now 56) has more than trebled, while invested assets have risen to CHF 167 billion from CHF 16 billion in 2001, corresponding to an annual growth rate of 48%. Much of the rise in invested assets was due to the CHF 93 billion in net new money taken in during the past six years. The European wealth management business currently has a total of 1,056 client advisors, up from 177 advisors at the beginning of 2001. After having successfully established a European physical presence and made the business profitable, the European wealth management business has been profitable every quarter since first quarter 2006 and now forms an integral part of the business.

Products and services

Clients of Wealth Management International & Switzerland can count on the expertise of 4,000 professionals worldwide dedicated to developing wealth management solutions. In 2007, a new products and services consultancy group was formed to support client advisors in providing optimum solutions and capabilities to clients.

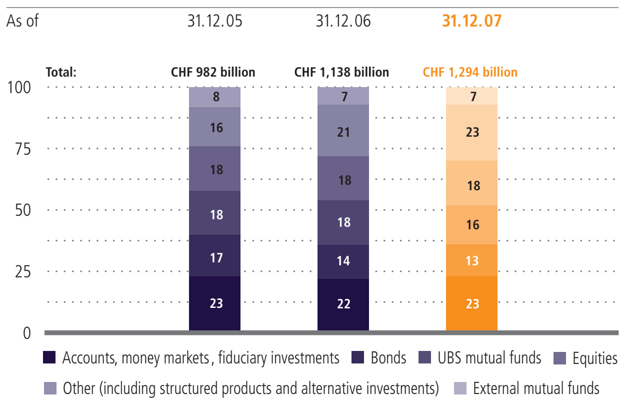
This ensures its private clients have access to what Wealth Management International & Switzerland judges to be high-quality investments, sourcing internally when the requisite expertise is considered to be available within UBS and otherwise screening the market for the best products. By aggregating private investment flows into institutional-size flows, the business unit is in a position to offer its private clients access to investments that would otherwise only be available to institutional clients.

Both discretionary and non-discretionary mandates are offered. Clients that opt for a discretionary mandate delegate the management of their assets, including investment decisions, to a team of professional portfolio managers who work according to an agreed investment strategy.

Clients that prefer to be actively involved in the management of their assets can choose a non-discretionary mandate, where investment professionals provide analysis and monitoring of portfolios, together with tailor-made proposals to support investment decisions. In both cases,

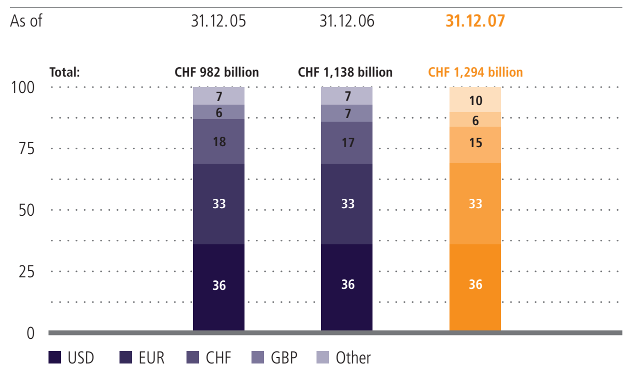
Invested assets by asset class

in %, except where indicated



Invested assets by currency

in %, except where indicated



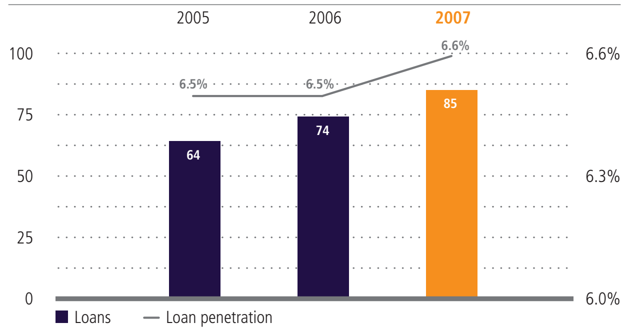
relative return programs that aim to outperform benchmarks are offered. For discretionary mandates, the business unit also offers absolute return programs that focus on preserving capital while still participating in market upturns. At the end of 2007, around 21% of assets invested with Wealth Management International & Switzerland were discretionary.

Wealth Management International & Switzerland's product and service offering covers the wide-ranging banking needs of its clients. Clients can trade in a full range of financial instruments – from single securities, such as equities and bonds, to structured products and alternative investments. The assets private clients have invested in alternative investment and structured products have grown from CHF 81 billion in 2004 to CHF 238 billion in 2007. The business unit also fulfills the basic banking needs of private clients with a wide variety of products, ranging from cash accounts and savings accounts to credit cards, mortgages and securities-backed lending.

The business unit's offering includes expert financial advice to support clients throughout the different stages of their lives. Wealth planning advice is also given on topics such as the funding of education, the giving of gifts to children, art banking and the planning of tax, inheritance and succession, trusts and foundations. Corporate finance advice is offered to support clients in the process of acquiring or disposing of corporate assets.

Loan penetration

CHF billion, except where indicated



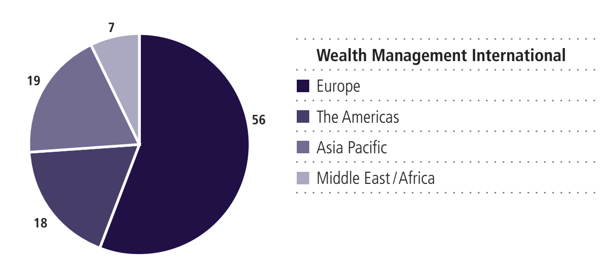
Distribution

The extensive wealth management branch network comprises 5,774 client advisors, 110 offices in Switzerland and 93 offices worldwide.

Invested assets by client domicile

in %, except where indicated

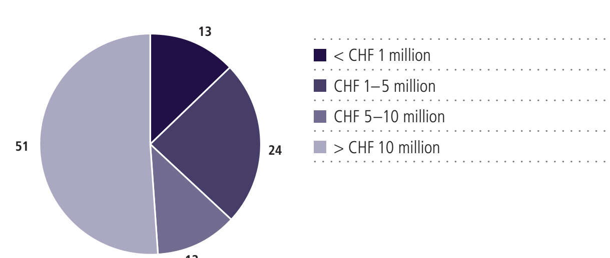
As of 31.12.07 **Total: CHF 1,013 billion**



Invested assets by client wealth

in %, except where indicated

As of 31.12.07 **Total: CHF 1,294 billion**



Business performance

Business unit reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Income	**12,893**	10,827	9,024	19
Adjusted expected credit loss [1]	**(27)**	(29)	(13)	(7)
Total operating income	**12,866**	10,798	9,011	19
Cash components	**3,704**	2,999	2,491	24
Share-based components [2]	**147**	138	88	7
Total personnel expenses	**3,851**	3,137	2,579	23
General and administrative expenses	**1,064**	885	804	20
Services (to)/from other business units	**1,531**	1,479	1,371	4
Depreciation of property and equipment	**95**	84	89	13
Amortization of intangible assets	**19**	10	7	90
Total operating expenses	**6,560**	5,595	4,850	17
Business unit performance before tax	**6,306**	5,203	4,161	21
Key performance indicators				
Invested assets (CHF billion)	**1,294**	1,138	982	14
Net new money (CHF billion) [3]	**125.1**	97.6	68.2	
Gross margin on invested assets (bps) [4]	**103**	103	102	0
Cost/income ratio (%) [5]	**50.9**	51.7	53.7	
Cost/income ratio excluding the European wealth management business (%) [5]	**46.7**	47.5	47.7	
Client advisors (full-time equivalents)	**5,774**	4,742	4,154	22
Client advisor productivity				
Revenues per advisor (CHF thousand) [6]	**2,424**	2,441	2,272	(1)
Net new money per advisor (CHF thousand) [7]	**23,516**	22,008	17,173	7
Invested assets per advisor (CHF thousand) [8]	**234,504**	236,879	222,474	(1)
International clients				
Income	**9,739**	7,907	6,476	23
Invested assets (CHF billion)	**1,013**	862	729	18
Net new money (CHF billion) [3]	**115.6**	90.8	64.2	
Gross margin on invested assets (bps) [4]	**101**	101	100	0
European wealth management (part of international clients)				
Income	**1,220**	1,010	722	21
Invested assets (CHF billion)	**167**	144	114	16
Net new money (CHF billion) [3]	**18.4**	18.2	21.8	
Client advisors (full-time equivalents)	**1,056**	870	803	21

1 In management accounts, adjusted expected credit loss rather than credit loss expense is reported for the business groups (see Note 2 in *Financial Statements 2007*). 2 Additionally includes related social security contributions and expenses related to alternative investment awards. 3 Excludes interest and dividend income. 4 Income/average invested assets. 5 Operating expenses/income. 6 Income/average number of client advisors. 7 Net new money/average number of client advisors. 8 Average invested assets/average number of client advisors.

Business unit reporting (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Swiss clients				
Income	**3,154**	2,920	2,548	8
Invested assets (CHF billion)	**281**	276	253	2
Net new money (CHF billion) [1]	**9.5**	6.8	4.0	
Gross margin on invested assets (bps) [2]	**111**	110	109	1
Capital return and BIS data				
Return on allocated regulatory capital (%) [3]	**80.7**	81.2	78.9	
BIS risk-weighted assets	**63,125**	51,485	43,369	23
Goodwill and excess intangible assets [4]	**1,761**	1,740	1,566	1
Allocated regulatory capital [5]	**8,074**	6,889	5,903	17
Additional information				
Recurring income [6]	**9,617**	8,143	6,635	18
Client assets (CHF billion)	**1,651**	1,436	1,235	15
Personnel (full-time equivalents)	**15,811**	13,564	11,555	17

1 Excludes interest and dividend income. **2** Income / average invested assets. **3** Business unit performance before tax / average allocated regulatory capital. **4** Goodwill and intangible assets in excess of 4% of BIS Tier 1 capital. **5** 10% of BIS risk-weighted assets plus goodwill and excess intangible assets. **6** Interest, asset-based revenues for portfolio management and account-based, distribution and advisory fees.

Components of operating income

Wealth Management International & Switzerland derives its operating income principally from:
– fees for financial planning and wealth management services;
– fees for investment management services;
– transaction-related fees; and
– interest income from client loans.

These revenues are based on the market value of invested assets, the level of transaction-related activity and the size of the loan book. As a result, operating income is affected by factors such as fluctuations in invested assets, changes in market conditions, investment performance, inflows and outflows of client funds and investor activity levels.

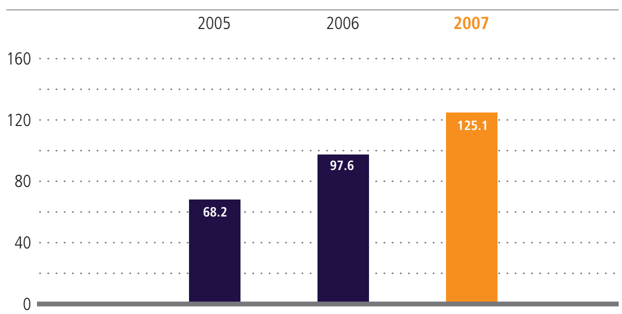
2007

Key performance indicators

In 2007, net new money was a record CHF 125.1 billion, compared with CHF 97.6 billion in 2006, representing an annual growth rate of 11% of the underlying invested asset base at end-2006. This outstanding result reflected increases in all geographical regions throughout the year, particularly in Asia Pacific and Americas, both a result of the growth strategy.

Net new money

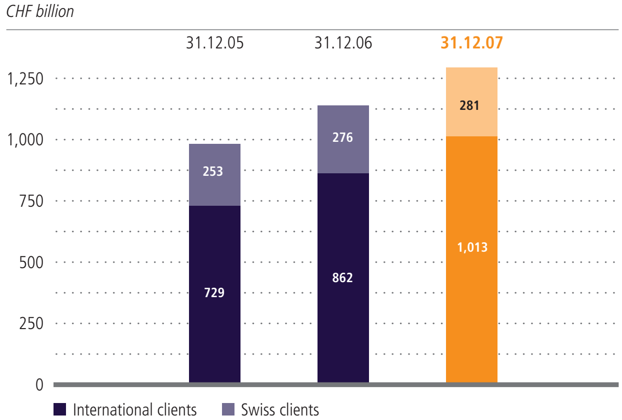
CHF billion



Invested assets, at CHF 1,294 billion on 31 December 2007, were up 14% from CHF 1,138 billion a year earlier, mainly reflecting the strong inflow of net new money and rising financial markets. This increase was partially offset by negative currency effects. The 7% fall of the US dollar against the Swiss franc contributed to this decrease – approximately 36% of invested assets were denominated in US dollars at the end of 2007.

Invested assets

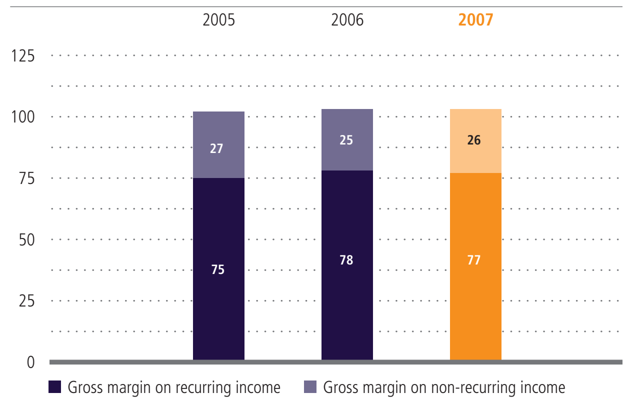
CHF billion



The gross margin on invested assets was 103 basis points in 2007, unchanged from a year earlier, as the increase in non-recurring margin following a sustained level of client activity was partly offset by a lower recurring margin. Overall, recurring income made up 77 basis points of the margin in 2007, down from 78 basis points in 2006. Non-recurring income comprised 26 basis points of the margin in 2007, up 1 basis point from 2006.

Gross margin on invested assets

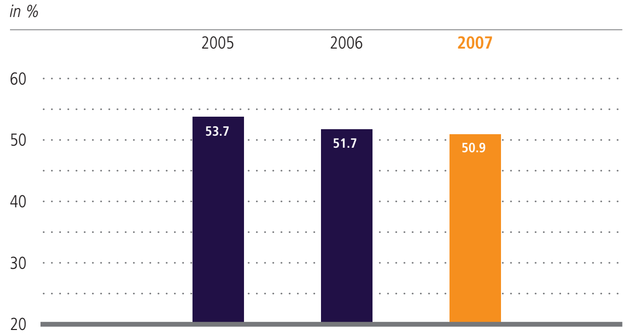
bps



The cost/income ratio improved to 50.9% in 2007 from 51.7% a year earlier. The cost/income ratio has improved for the fifth consecutive year despite the rise in costs in pursuit of the global expansion strategy. This improvement reflects the strong rise in income due to a higher asset base and higher volumes in lombard lending, which more than offset the increase in personnel expenses (mainly headcount increase and performance-related compensation) and general and administrative expenses.

Cost / income ratio

in %



Excluding the European wealth management business, the 2007 cost/income ratio fell to 46.7% from 47.5% a year earlier.

European wealth management

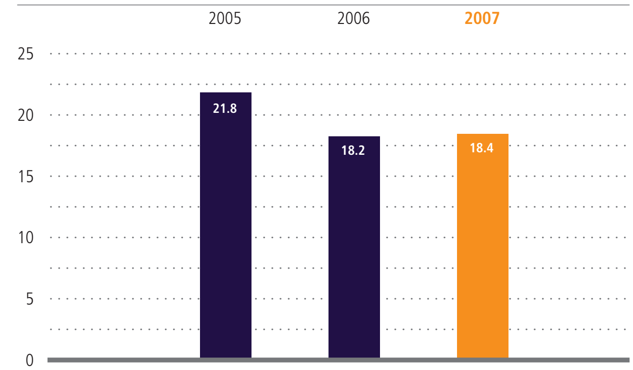
The European wealth management business continued to make good progress. In 2007, net new money intake into the domestic European network totaled CHF 18.4 billion, up

1% from the 2006 inflow of CHF 18.2 billion, reflecting an annual net new money growth rate of 13% of the underlying asset base at year-end 2006. The strongest inflows were in Germany, the UK and Italy.

UBS will no longer disclose the key performance indicators of its European wealth management business from first quarter 2008 onwards. This is due to the fact that the original European wealth management initiative, which was launched in 2001, has become a regular, integrated part of UBS's businesses.

Net new money: European wealth management

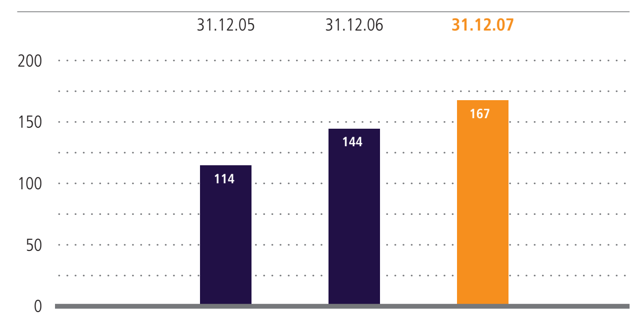
CHF billion



The level of invested assets was a record CHF 167 billion on 31 December 2007, a 16% increase compared with CHF 144 billion a year earlier. This reflected strong net new money inflows in all countries as well as positive market performance.

Invested assets: European wealth management

CHF billion

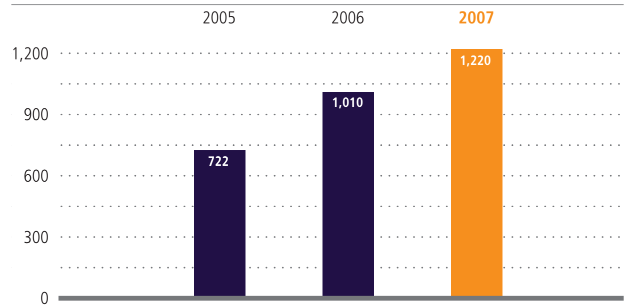


In 2007, income from the European wealth management business was CHF 1,220 million, up 21% from a year earlier, reflecting a growing asset and client base.

In 2007, the number of client advisors increased by 186 to 1,056. The increase in client advisors was mainly in Germany and the UK. The business unit remains committed to growing its presence in the European target markets and will continue to invest in qualified advisory staff.

Income: European wealth management

CHF million

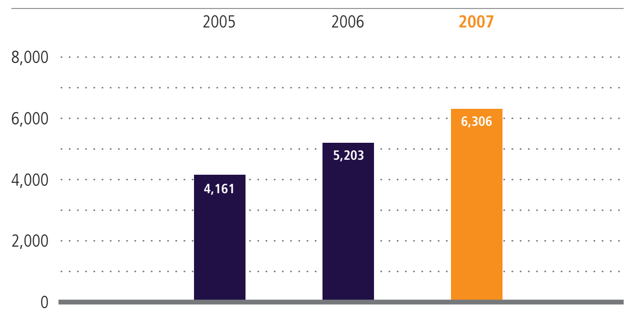


Results

In 2007 pre-tax profit, at a record CHF 6,306 million, rose 21% compared with 2006. Total operating income was up 19% in 2007, reflecting a higher asset base and increased collateralized lending volumes and more client activity. Operating expenses, up 17% in 2007 from 2006, also rose as the business expanded.

Performance before tax

CHF million



Operating income

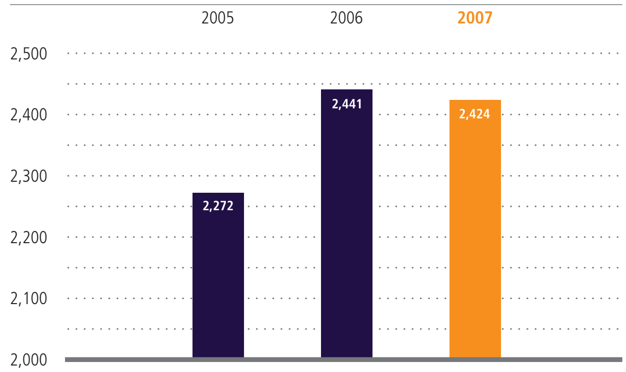
Total operating income in 2007 was CHF 12,866 million, up 19% from CHF 10,798 million a year earlier. This was the highest level ever, reflecting a rise in recurring as well as in non-recurring revenues. Recurring income increased 18% on rising asset-based fees, benefiting from strong net new money inflows. This was accentuated by higher interest income due to the expansion of lombard lending activities. Non-recurring income rose by 22% due to higher brokerage fees, reflecting high client activity levels.

Operating expenses

At CHF 6,560 million, operating expenses in 2007 were up 17% from CHF 5,595 million a year earlier, reflecting higher personnel expenses and general and administrative expenses as a result of ongoing business growth. Personnel expenses rose 23% to CHF 3,851 million in 2007 compared with CHF 3,137 million a year earlier, reflecting the increase in salaries due to business expansion and higher performance-related compensation. Share-based expenses in 2007 increased due to higher share and option awards and the increased fair value of options. General and administrative expenses, at CHF 1,064 million, were up 20% in 2007 from CHF 885 million a year earlier due to increased expenses for travel and entertainment, premises and professional fees – all a consequence of continuous business expansion. Expenses for services from other business units, at CHF 1,531 million in 2007, were up 4% from CHF 1,479 million the previous year, mainly reflecting increased consumption. Depreciation was CHF 95 million in 2007, up 13% from CHF 84 million a year earlier because of continued business growth. Amortization of intangible assets was CHF 19 million, up CHF 9 million from 2006.

Revenues per advisor

CHF thousand



2006

Key performance indicators

In 2006, net new money totaled CHF 97.6 billion, compared with CHF 68.2 billion in 2005. This result reflected increases in all geographical regions throughout the year, particularly in Asia Pacific and Europe, both a result of the growth strategy.

Invested assets, at CHF 1,138 billion on 31 December 2006, were up 16% from CHF 982 billion in 2005, mainly reflecting the strong inflow of net new money and rising financial markets, with CHF 4.8 billion coming from new assets gained from acquisitions integrated in 2006. This increase was partially offset by negative currency effects. The 7% fall of the US dollar against the Swiss franc contributed to this decrease – approximately 36% of invested assets were denominated in US dollars at the end of 2006.

The gross margin on invested assets was 103 basis points in 2006, up one basis point from 102 basis points in 2005, mainly due to higher fee income and increased lombard lending. Overall, recurring income made up 78 basis points of the margin in 2006, up from 75 basis points in 2005. Non-recurring income comprised 25 basis points of the margin in 2006, down two basis points from 2005.

The cost/income ratio improved to 51.7% in 2006 from 53.7% a year earlier. This improvement reflected the strong rise in income due to a higher asset base and higher volumes in lombard lending, which more than offset the increase in personnel and higher general and administrative costs.

Excluding the European wealth management business, the 2006 cost/income ratio fell to 47.5% from 47.7% in 2005.

European wealth management

In 2006, the European wealth management business made good progress. With a good performance in the UK and Germany, the inflow of net new money totaled CHF 18.2 billion, down 17% from the 2005 intake of CHF 21.8 billion. The result reflected an annual net new money growth rate of 16% of the underlying asset base at year-end 2005.

The level of invested assets was a record CHF 144 billion on 31 December 2006, a 26% increase compared with CHF 114 billion in 2005. This reflected rising equity markets and new inflows across Europe.

In 2006, income from the European wealth management business was CHF 1,010 million, up 40% from 2005. This reflected a growing asset and client base.

In 2006, the number of client advisors increased by 67. The increase in client advisors was mainly in Italy and France.

Results

Wealth Management International & Switzerland's 2006 pre-tax profit, at CHF 5,203 million, increased 25% compared with 2005. This increase reflected higher asset-based fees as well as rising interest income, a reflection of higher volumes in the lombard lending business. At the same time, the business unit's expenses, up 15% in 2006 from 2005, reflected its ongoing growth strategy.

Operating income

Total operating income in 2006 was CHF 10,798 million, up 20% from CHF 9,011 million in 2005. Recurring income increased 23% on rising asset-based fees, benefiting from a buoyant market and net new money inflows. This was accentuated by higher interest income due to the expansion of margin lending activities. Non-recurring income rose due to higher brokerage fees, a reflection of high client activity levels. These positive effects were offset by the depreciation of the US dollar against the Swiss franc.

Operating expenses

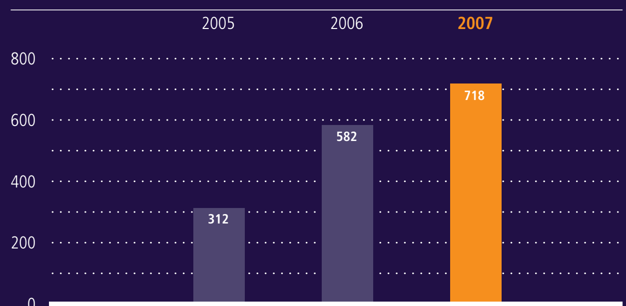
At CHF 5,595 million, operating expenses in 2006 were up 15% from CHF 4,850 million in 2005. This reflected higher personnel expenses and general and administrative expenses, as well as the ongoing investment in growth initiatives. Personnel expenses rose 22% to CHF 3,137 million in 2006 compared with CHF 2,579 million in 2005, a reflection of the increase in salaries due to business expansion and higher performance-related compensation. General and administrative expenses, at CHF 885 million, were up 10% in 2006 from CHF 804 million in 2005 due to investments in physical and information technology infrastructure, as well as travel and entertainment and marketing costs – all a consequence of continuous business expansion. Expenses for services from other business units, at CHF 1,479 million in 2006, were up 8% from CHF 1,371 million in 2005. Depreciation was CHF 84 million in 2006, down 6% from CHF 89 million in 2005, because of lower charges for information technology equipment. Amortization of intangible assets was CHF 10 million, practically unchanged from CHF 7 million in 2005.

Wealth Management US

- One of the leading wealth managers in the US with more than 8,200 financial advisors in over 480 branch and satellite office locations in the US and Puerto Rico
- In 2007, the newly acquired McDonald Investments was successfully integrated
- Financial indicators improved in 2007, e.g. profitability, net new money, cost/income ratio and invested assets

Performance before tax[1]

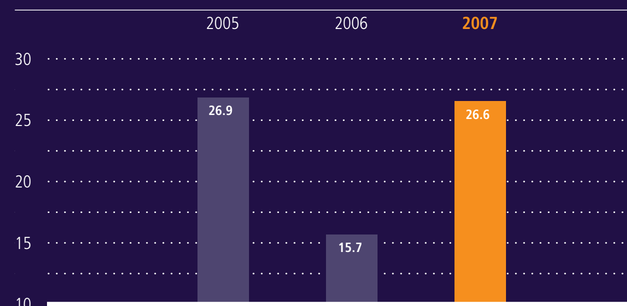
CHF million



1 Includes costs from the PaineWebber acquisition.

Net new money

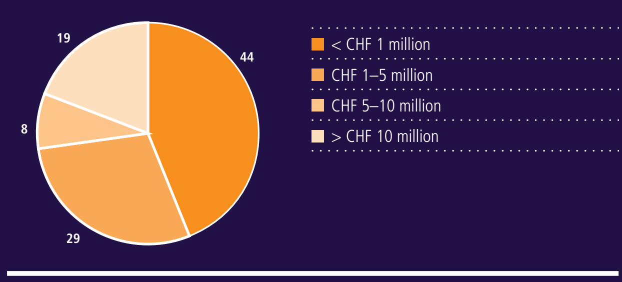
CHF billion



Invested assets by client wealth

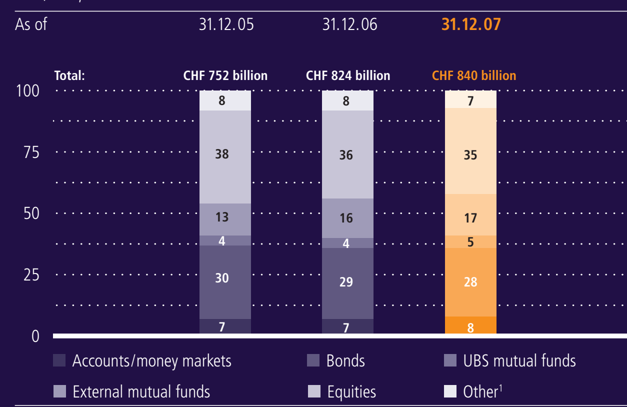
in %, except where indicated

As of 31.12.07 | **Total: CHF 840 billion**



Invested assets by asset class

in %, except where indicated



1 Includes structured products and alternative investments.

Wealth Management US
Business description

As one of the leading wealth managers in the US, the Wealth Management US unit provides a complete set of sophisticated wealth management services to private clients.

Business

Wealth Management US is one of the business units that make up Global Wealth Management & Business Banking. With CHF 840 billion in invested assets, its focus is on providing wealth management services to private clients. The business unit offers sophisticated products and services specifically designed to address the needs of the emerging affluent (less than USD 250,000 in investable assets), core affluent (USD 250,000 to USD 1 million in investable assets), high net worth (USD 1 million to USD 10 million in investable assets) and ultra-high net worth clients (more than USD 10 million in investable assets). More than 8,200 financial advisors in over 480 branch and satellite office locations in the US and Puerto Rico develop, build and maintain consultative relationships with clients.

Organizational structure

The business unit's organizational structure comprises a national branch network in the US, consisting of financial advisors, branch office managers, market area managers, regional managers and administrative support staff. Most corporate and operational functions of the business unit are located in the home office in Weehawken, New Jersey.

2005
In July, Wealth Management US became part of Global Wealth Management & Business Banking, while the municipal finance unit was transferred to the Investment Bank.

2006
In June, the US-based bank branches of the Wealth Management International unit became part of Wealth Management US, giving clients the option of receiving services from both financial advisors and private bankers. The integration enhanced the Wealth Management US product offering while strengthening and broadening client services, enabling the business unit to further expand its market share within the ultra-high net worth segment. In August, Wealth Management US acquired the private client branch office network of Piper Jaffray. In December, a Delaware trust office was opened to offer clients the strategic benefits of establishing trusts in Delaware that may not be available in other states, including confidentiality, broad investment flexibility and potential tax advantages and asset protection.

2007
In February, the McDonald Investments' private client branch network was acquired. Following that, in August, Wealth Management US announced it would reorganize and streamline its client-facing organization. The restructuring positioned resources closer to clients, enhancing their relationship with UBS and their financial advisors, ultimately driving business growth. The reorganization, which came into effect on 1 January 2008, reduced the number of US regions from 13 to eight. Regional managers oversee 45 market area managers, who form a new structural level locally, together with the managers of the business unit's private wealth management offices and several larger, free-standing offices. Each market area manager supervises six to eight branch managers in addition to managing a home branch. With fewer direct reports, regional managers will be more effective in recruiting and leading their regions. Under the new structure, branch managers also have improved access to UBS's infrastructure and tools.

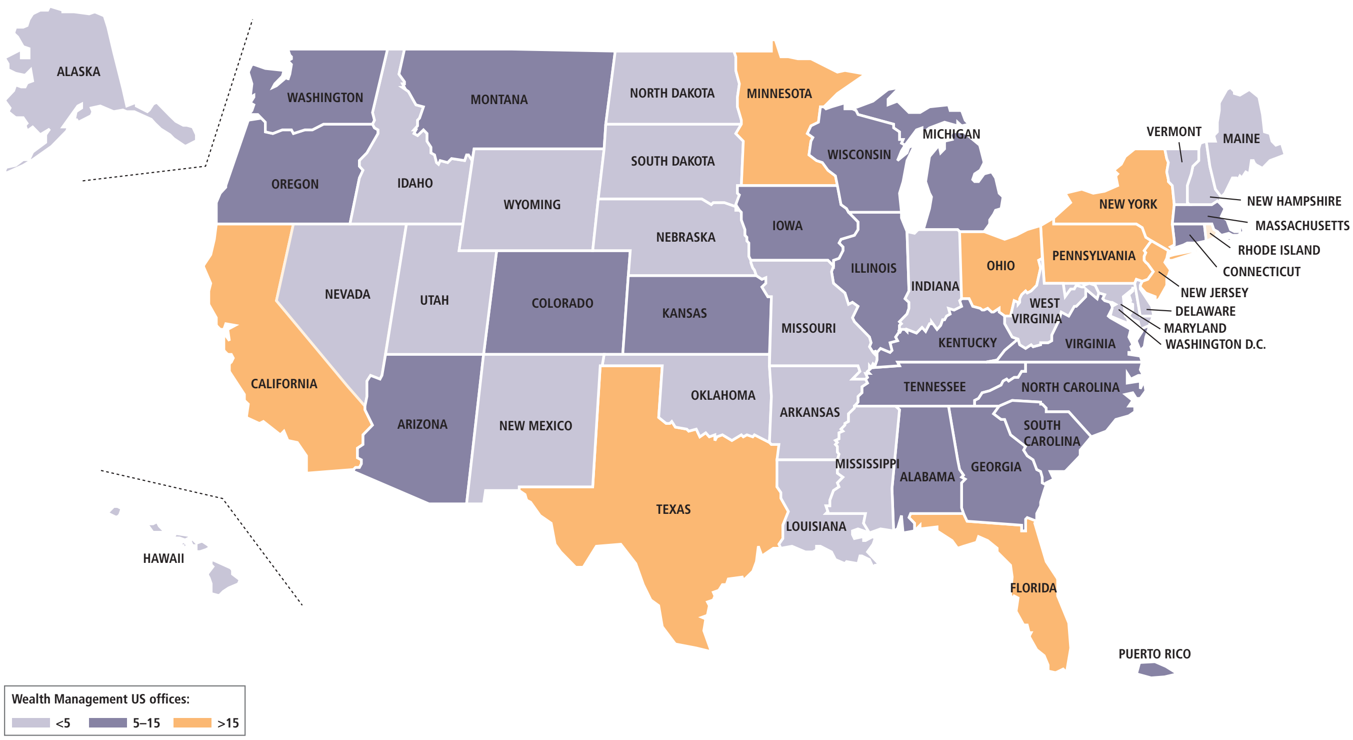
Legal structure

In the US, the business unit operates through direct and indirect subsidiaries of UBS. Securities activities are conducted primarily through three registered broker-dealers – UBS Financial Services Inc., UBS Financial Services Inc. of Puerto Rico and UBS Services USA LLC. Wealth Management US's banking services include Federal Deposit Insurance Corporation (FDIC) insured deposit accounts and enhanced collateralized lending services, which are conducted through UBS Bank USA, a federally regulated Utah Bank.

Competitors

Major competitors include Citigroup's Smith Barney business and the wealth management and private client group businesses of Morgan Stanley, Merrill Lynch and Wachovia. In addition, Wealth Management US competes with domestic and global private banks, regional broker-dealers, independent broker-dealers, registered investment advisors, commercial banks, trust companies and other financial services firms offering wealth management services to US private clients.

Geographical presence in key markets



Clients and strategy

UBS is one of the premier US wealth managers. The Wealth Management US unit aims to further increase its market share by improving the client experience and making use of the increased range of products and services available from its integration into Global Wealth Management & Business Banking. Growth will depend on a focused commitment to successfully recruiting, retaining and developing experienced and new financial advisors and providing them with the resources needed for increased asset growth.

Following the integration of Wealth Management US into the firm's global wealth management business, the business unit has embarked on a long-term strategy that focuses on the delivery of a high-quality and consistent client experience. The strategy comprises a number of organic growth initiatives and infrastructure enhancements aimed at fundamentally improving the way financial advisors approach and service individual clients. These targeted investments leverage the global wealth management platform, bringing scale efficiencies. Wealth Management US will also evaluate any suitable acquisition opportunity that potentially complements its organic growth drive, provided that it meets stringent financial, strategic and cultural criteria.

Internally, asset-gathering efforts benefit from the established strategy of treating client feedback systematically and seriously. Extensive proprietary survey data sampled annually are used to create an index for every financial advisor. The index is the base by which each financial advisor gets specific feedback in terms of the four consultative steps of the "UBS Client Experience" – understanding the client's needs, proposing solutions, agreeing and implementing them with the client and reviewing performance on a continuous basis. This helps to generate an accurate, overall picture of what clients think about the advice they receive.

Other strategic investments focus on further developing financial advisor expertise, enhancing internal infrastructure and upgrading technological capabilities. At the same time, there is a large-scale effort to collaborate more closely with UBS's other businesses. With the help of the global wealth and asset management businesses, and by pursuing an open architecture framework, Wealth Management US has increased the number of solutions provided to its clients.

Wealth Management US is also expanding their ability to address the specific needs of ultra-high net worth clients. Following a successful launch of its private wealth management office in New York in July 2006, the business unit expanded to five other locations in 2007 – Stamford (Connecticut), Chicago (Illinois), Atlanta (Georgia), Los Angeles and

San Francisco (California) – dedicated to the specialized needs of clients and prospects with assets greater than USD 10 million. At these locations, areas of expertise include private planning, trust and estate planning, philanthropic services, concentrated stock management and tax optimization strategies.

Following from this success, the business unit is now establishing targeted segmentation for high net worth, core affluent and mass affluent clients. This will help improve the focus of the business unit's approach and improve delivery of individually tailored services.

Products and services

Wealth Management US offers clients a full array of wealth management services that focus on the individual investment needs of each client. Comprehensive planning supports clients through the various stages of their lives, including retirement, education funding, charitable giving, tax management strategies, estate strategies, insurance, trusts and foundations. Advisors work closely with consultants who are subject matter experts in areas such as: wealth planning, asset allocation, retirement and annuities, alternative investments, structured products, banking and lending. The size of Wealth Management US enables its clients to gain access to investments that would otherwise be available only to institutions.

UBS clients have the option of transaction-based or asset-based pricing for their relationships. Clients who choose asset-based pricing have access to both discretionary and non-discretionary investment advisory programs. While non-discretionary advisory programs enable the client to maintain control over all transactions in the account, clients with discretionary advisory programs direct investment professionals to manage a portfolio on their behalf. Depending on the type of discretionary program, the client can give investment discretion to a qualified financial advisor, a team of UBS investment professionals or to a third-party investment manager. Separately, mutual fund advisory programs are also offered, where a financial advisor works with the client to create a diversified portfolio of mutual funds.

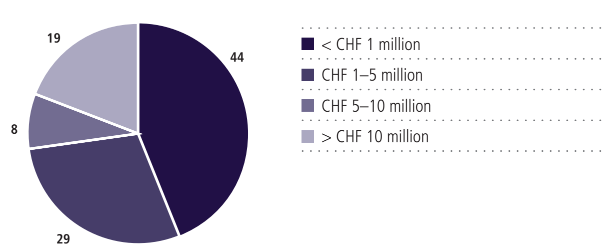
Transaction-based pricing offers access to a broad range of transaction products, including individual securities such as equities and fixed income instruments. To complement portfolio strategies, qualified clients may leverage the robust offerings in structured products and alternative investments. And, in response to high investor interest in hedge funds and funds-of-funds, Wealth Management US has further strengthened its ability to create, structure and manage a range of alternative investments for qualified high net worth individuals and institutions.

Products and services are designed to meet a wide variety of investment objectives including, but not limited to: capital appreciation, income generation, diversifying portfolio concentration and tax optimization. To address the full range of clients' investment needs, Wealth Management US offers competitive lending and cash management services, including the Resource Management Account (RMA) product, credit cards, FDIC-insured deposits, securities-backed lending and mortgages. And, through Corporate Employee Financial Services, the business unit provides stock option and other related services to many of the largest US corporations and their executives.

Invested assets by client wealth

in %, except where indicated

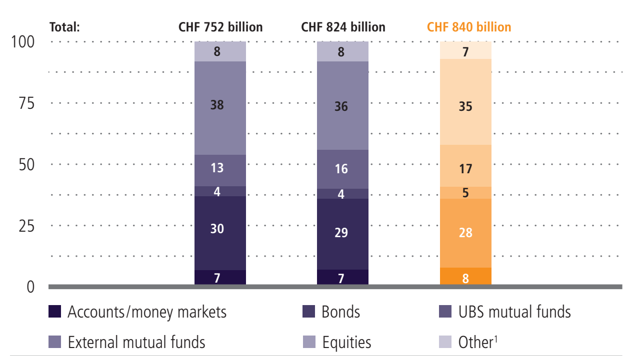
As of 31.12.07 **Total: CHF 840 billion**



Invested assets by asset class

in %, except where indicated

As of 31.12.05 31.12.06 31.12.07



1 Includes structured products and alternative investments.

Industry trends

Industry trends continue to support the development of Wealth Management US and its business. The demographic landscape is changing; the aging of the "baby boom" generation suggests an increased need for retirement and estate planning. The increasing concentration of wealth provides business opportunities with clients in the high-end segments. A shift towards the provision of comprehensive wealth management and financial planning services will increase the importance of fee-based accounts and continue to blur the line between banking and brokerage. Wealth Management US believes it is well positioned to exploit these market trends.

By 2015, there are expected to be more than 45 million US households with people between 51 and 70 years of age, compared with about 25 million households for the previous generation. These individuals will control nearly 60% of US net wealth (up from 51% today), according to the consultancy McKinsey & Co. To position UBS as the primary provider for their wealth management needs, it is imperative that Wealth Management US continues to perfect the "UBS Client Experience" and tailor it to meet their needs.

Historical patterns indicate that clients utilizing banking and brokerage services in their younger years tend to increasingly, as they age, select trusts as the preferred method for transferring assets. Perfecting the client experience will enhance the ability of Wealth Management US to deliver these services effectively, easily and comprehensively to wealthy clients in the US, helping to maintain its leading market position in the long-term.

Business performance

Business unit reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Income	**6,662**	5,863	5,158	14
Adjusted expected credit loss[1]	**(3)**	0	(2)	
Total operating income	**6,659**	5,863	5,156	14
Cash components	**4,351**	3,683	3,353	18
Share-based components[2]	**155**	117	107	32
Total personnel expenses	**4,506**	3,800	3,460	19
General and administrative expenses	**976**	1,073	1,047	(9)
Services (to) / from other business units	**314**	281	223	12
Depreciation of property and equipment	**79**	74	65	7
Amortization of intangible assets	**66**	53	49	25
Total operating expenses	**5,941**	5,281	4,844	12
Business unit performance before tax	**718**	582	312	23
Key performance indicators				
Invested assets (CHF billion)	**840**	824	752	2
Net new money (CHF billion)[3]	**26.6**	15.7	26.9	
Net new money including Interest and dividend income (CHF billion)[4]	**51.5**	37.9	45.2	36
Gross margin on invested assets (bps)[5]	**77**	76	75	1
Cost / income ratio (%)[6]	**89.2**	90.1	93.9	
Recurring income[7]	**4,173**	3,488	2,834	20
Financial advisor productivity				
Revenues per advisor (CHF thousand)[8]	**828**	776	690	7
Net new money per advisor (CHF thousand)[9]	**3,305**	2,077	3,597	59
Invested assets per advisor (CHF thousand)[10]	**107,719**	101,922	91,464	6
Capital return and BIS data				
Return on allocated regulatory capital (%)[11]	**11.8**	10.2	5.8	
BIS risk-weighted assets	**18,735**	18,308	18,928	2
Goodwill and excess intangible assets[12]	**4,067**	4,238	3,841	(4)
Allocated regulatory capital[13]	**5,941**	6,069	5,734	(2)
Additional information				
Client assets (CHF billion)	**917**	909	826	1
Personnel (full-time equivalents)	**19,347**	18,557	17,034	4
Financial advisors (full-time equivalents)	**8,248**	7,880	7,520	5

1 In management accounts, adjusted expected credit loss rather than credit loss expense is reported for the business groups (see Note 2 in *Financial Statements 2007)*. 2 Additionally includes related social security contributions and expenses related to alternative investment awards. 3 Excludes interest and dividend income. 4 For purposes of comparison with US peers. 5 Income / average invested assets. 6 Operating expenses / income. 7 Interest, asset-based revenues for portfolio management and account-based, distribution and advisory fees. 8 Income (including net goodwill funding) / average number of financial advisors. 9 Net new money / average number of financial advisors. 10 Average invested assets / average number of financial advisors. 11 Business unit performance before tax / average allocated regulatory capital. 12 Goodwill and intangible assets in excess of 4% of BIS Tier 1 capital. 13 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

Wealth Management US principally derives its operating income from:
– fees for financial planning and wealth management services;
– fees for investment management services;
– transaction-related fees; and
– interest income from client loans and deposits.

These revenues are based on the market value of invested assets, the level of transaction-related activity and the size of the loan book and deposits. As a result, operating income is affected by such factors as fluctuations in invested assets, changes in market conditions, investment performance, inflows and outflows of client funds and investor activity levels.

2007

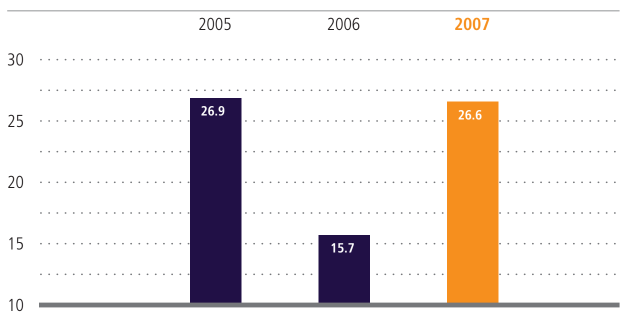
Key performance indicators

The inflow of net new money in 2007 was CHF 26.6 billion, up from CHF 15.7 billion a year earlier, reflecting reduced outflows from existing clients and the recruitment of experienced advisors. Including interest and dividends, net new money in 2007 was CHF 51.5 billion, up from CHF 37.9 billion in 2006.

In US dollar terms, net new money intake in 2007 totaled USD 21.8 billion, up from USD 12.6 billion the previous year. Including interest and dividends, net new money intake in 2007 totaled USD 42.2 billion, up from USD 30.3 billion the previous year.

Net new money

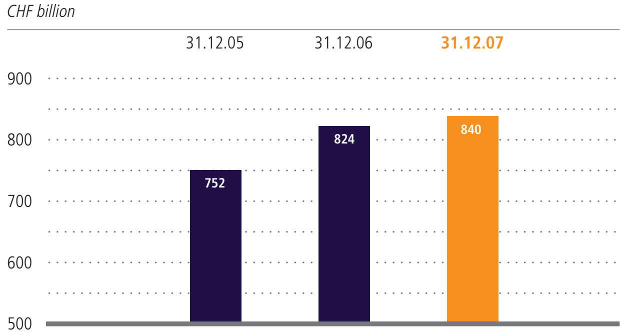
CHF billion



Wealth Management US had CHF 840 billion in invested assets on 31 December 2007, up 2% from CHF 824 billion on 31 December 2006. This was a result of rising markets over the year, net new money inflows and the first-time inclusion of former McDonald Investments assets. These increases were partly offset by the negative impact of currency translation. In US dollar terms, invested assets increased 10% compared with a year earlier.

Invested assets

CHF billion



The gross margin on invested assets was 77 basis points in 2007, up from 76 basis points in 2006. The increase is mainly a result of a higher recurring income margin, while the non-recurring margin decreased.

Gross margin on invested assets[1]

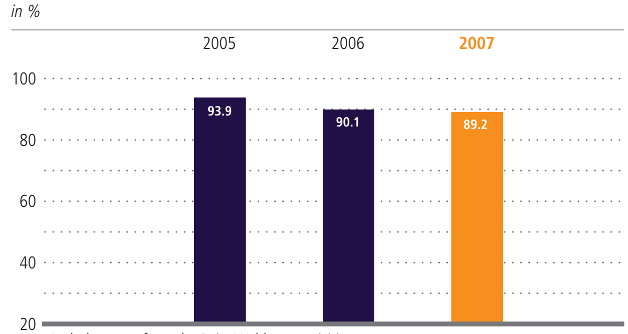
bps

1 Includes costs from the PaineWebber acquisition.

The cost/income ratio was 89.2% for 2007, compared with 90.1% in 2006. The improvement in the cost/income ratio reflects higher operating income due to strong growth in recurring income, partially offset by a rise in expenses mainly reflecting higher personnel expenses in support of growth initiatives and the integration of the McDonald Investments private client branch network.

Cost/income ratio[1]

in %

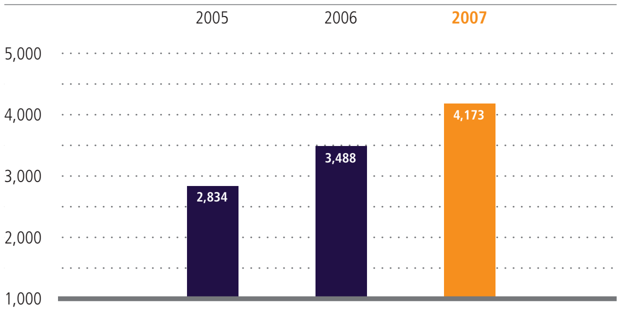


1 Includes costs from the PaineWebber acquisition.

In 2007, recurring income was a record CHF 4,173 million, up 20% from CHF 3,488 million a year earlier. Excluding the impact of currency fluctuations, recurring income was up 23% in 2007 from 2006. This increase mainly reflects higher levels of managed account fees on a year-end record level of invested assets, higher investment advisory fees and higher net interest income. Recurring income represented 63% of income in 2007, compared with 59% in 2006.

Recurring income

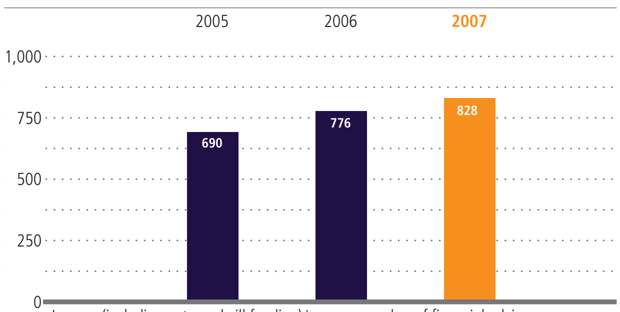
CHF million



Revenue per advisor increased in 2007 to CHF 828,000 from CHF 776,000 in 2006 as a higher average number of financial advisors was able to produce significantly higher recurring income than a year earlier. The number of financial advisors rose by 5% compared to 2006, increasing by 368 advisors to 8,248 at the end of 2007, while recurring income increased by 20%.

Revenues per advisor[1]

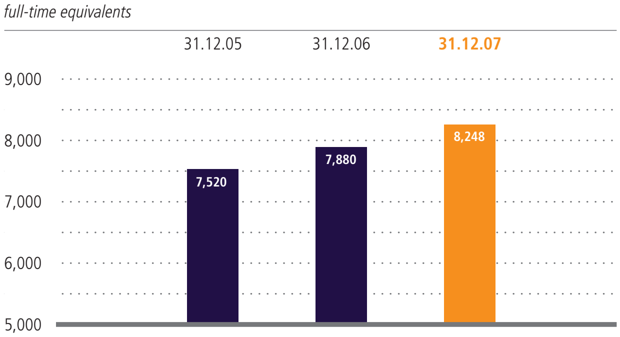
CHF thousand



1 Income (including net goodwill funding)/average number of financial advisors.

Financial advisors

full-time equivalents

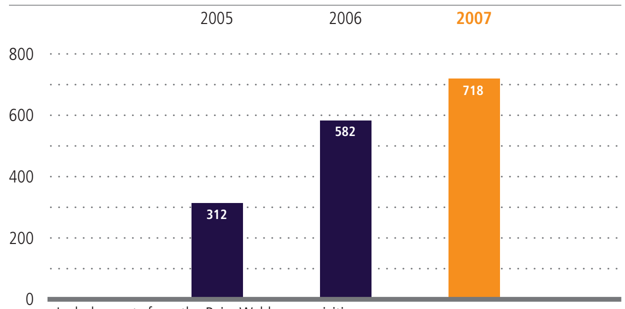


Results

In 2007, Wealth Management US reported a pre-tax profit of CHF 718 million, compared with CHF 582 million in 2006. Because this business unit is almost entirely conducted in US dollars, comparisons of results with prior periods are affected by the movements of the US dollar against the Swiss franc. In US dollar terms, performance in 2007 was up 26% from 2006. Performance in 2007 benefited from record levels of recurring income and lower general and administrative expenses. This was partly offset by higher personnel expenses.

Performance before tax[1]

CHF million



1 Includes costs from the PaineWebber acquisition.

Operating income

In 2007, total operating income was CHF 6,659 million, up 14% from CHF 5,863 million in 2006. Excluding currency effects, operating income increased by 16% from 2006. The increase in operating income reflects the record recurring income (driven by increased asset levels in managed account products) and increased transactional revenue.

Operating expenses

Total operating expenses rose 12% to CHF 5,941 million in 2007 from CHF 5,281 million in 2006. Excluding currency effects, operating expenses were 15% higher.

Personnel expenses increased by CHF 706 million or 19%, with higher salaries as well as share-based compensation. This reflects rising headcount due to organic growth and the McDonald Investments private client branch network inclusion. General and administrative expenses decreased 9% to CHF 976 million in 2007 from CHF 1,073 million in 2006. In US dollar terms, they fell 7%, primarily reflecting lower provisions compared with 2006. Services from other business units increased by 12% from CHF 281 million in 2006 to CHF 314 million in 2007. Depreciation was higher due to leasehold improvement. The amortization of intangibles was CHF 66 million in 2007, up 25% from CHF 53 million, mainly due to the acquisition of the McDonald Investments private client branch network and the full-year impact of the acquisition of the Piper Jaffray private client branch network.

2006

Key performance indicators

In 2006, inflows of net new money were CHF 15.7 billion, down 42% from CHF 26.9 billion in 2005, largely a result of 2006's competitive recruiting environment of financial advisors. Including interest and dividends, net new money in 2006 was CHF 37.9 billion, down from CHF 45.2 billion a year earlier.

Invested assets were CHF 824 billion on 31 December 2006, up 10% from CHF 752 billion on 31 December 2005. The increase was due to the strong market performance in 2006 as well the inclusion of the private client branch network of Piper Jaffray in the third quarter, which added CHF 54 billion of invested assets on a net basis. In US dollar terms, invested assets were 18% higher on 31 December 2006 than they were on the same date in 2005.

The gross margin on invested assets was 76 basis points in 2006, up from 75 basis points in 2005.

The cost/income ratio was 90.1% for 2006, compared with 93.9% in 2005. The decrease in the cost/income ratio reflects higher operating income, partially offset by a rise in expenses mainly reflecting higher personnel expenses in support of growth initiatives and the integration of the Piper Jaffray private client branch network.

In 2006, recurring income was CHF 3,488 million, up 23% from CHF 2,834 million a year earlier. Excluding the impact of currency fluctuations, recurring income was also up 23% in 2006 from 2005. This increase mainly reflected higher levels of managed account fees on a record level of invested assets, higher investment advisory fees and higher net interest income.

Revenue per advisor increased in 2006 to CHF 776,000 from CHF 690,000 in 2005 as a slightly higher average number of financial advisors were able to produce significantly higher recurring income than a year earlier. The number of financial advisors rose by 5% compared with 2005, increasing by 360 advisors to 7,880 at the end of 2006. This was due to the Piper Jaffray private client group branch network acquisition in third quarter 2006.

Results

In 2006, Wealth Management US reported a pre-tax profit of CHF 582 million, compared with CHF 312 million in 2005. This increase reflected record levels of recurring income, and lower litigation provisions.

Operating income

In 2006, total operating income was CHF 5,863 million, up 14% compared with CHF 5,156 million in 2005. Excluding currency effects, operating income also increased 14% from 2005. The increase in operating income was primarily due to strong growth in recurring income based on higher levels of assets.

Operating expenses

Total operating expenses rose 9% to CHF 5,281 million in 2006 from CHF 4,844 million in 2005. Excluding currency effects, operating expenses were also 9% higher due to higher personnel costs and general and administrative expenses, both related to strategic growth initiatives in support of the business, the inclusion of the Piper Jaffray private client branch network and the New Jersey office provision that was made after the decision to sublet unused office space instead having it be occupied by Wealth Management US itself. This was offset by a lower impact of litigation provisions compared with 2005.

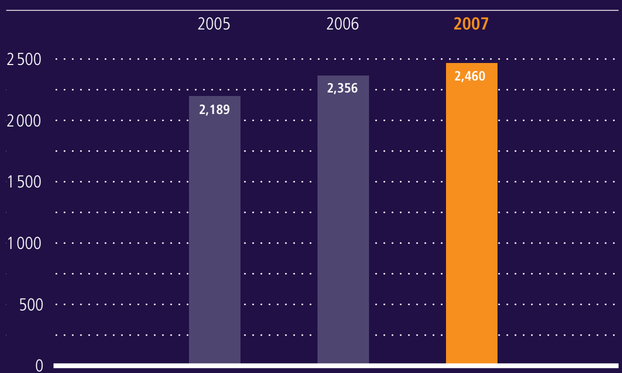
Personnel expenses rose by CHF 340 million or 10%, reflecting growing levels of personnel and increased financial advisor compensation related to higher compensable revenue. General and administrative expenses increased 2% to CHF 1,073 million in 2006 from CHF 1,047 million in 2005. In US dollar terms, they were also up 2%, reflecting higher occupancy and marketing expenses, partially offset by lower litigation provisions compared with 2005. Services from other business units increased by 26% to CHF 281 million in 2006. Depreciation was also higher due to leasehold improvements. The amortization of intangibles was CHF 53 million in 2006, up 8% from 2005, mainly due to the acquisition of the Piper Jaffray private client branch network.

Business Banking Switzerland

- UBS is the leading bank in Switzerland with market share ranging between 20% to 35%
- The business unit serves around 2.7 million individual clients in Switzerland through more than 3 million accounts, mortgages and other financial relationships
- It services around 137,000 corporate clients, including institutional investors, public entities and foundations based in Switzerland
- With a total loan book of CHF 145 billion by the end of 2007, UBS leads the Swiss lending and retail mortgage markets

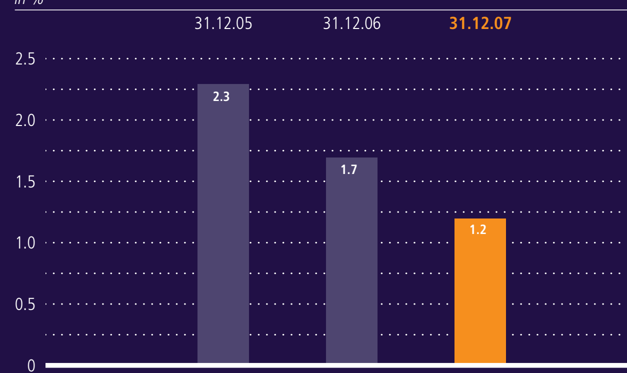
Performance before tax

CHF million



Impaired lending portfolio as a % of total lending portfolio, gross

in %



UBS market share in Switzerland

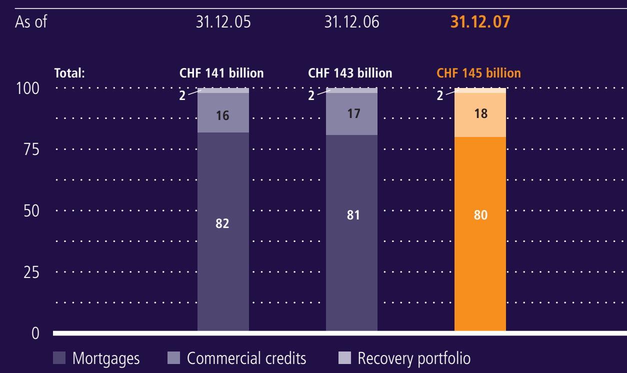
As of 31 December 2007

Mortgages for individual clients:	**23%**
Savings for individuals:	**22%**
Credit card business:	**32%**

Source: Swiss National Bank

Total lending portfolio by category, gross

in %, except where indicated



Business Banking Switzerland
Business description

Business Banking Switzerland, UBS's retail and commercial banking unit, is the market leader in Switzerland and provides a complete set of banking and securities services for individual and corporate clients.

Business

UBS is the leading bank in Switzerland. At the end of 2007, clients had CHF 164 billion in invested assets with us. With a total loan book of CHF 145 billion on 31 December 2007, UBS leads the Swiss lending and retail mortgage markets.

Business Banking Switzerland aims to provide clients with optimal levels of convenience and service. Together with its e-banking offering, customer service centers and 1,262 automated teller machines (ATMs) and 301 branches across Switzerland, the business unit provides a network that is larger than that of any of its domestic competitors.

One of the key objectives is to increase profitability by continuously improving efficiency and revenues through the consistent implementation of the business unit's risk-adjusted pricing model. Business Banking Switzerland aims to create additional value by providing integrated financial solutions for its clients' individual requirements.

Organizational structure

Business Banking Switzerland comprises the firm's domestic branch network, for corporate and individual clients, and is organized into eight geographical regions.

Competitors

Business Banking Switzerland's major competitors are banks active in the retail and corporate banking markets in Switzerland. This group includes Credit Suisse, the country's cantonal banks, Raiffeisen Bank, other regional or local Swiss banks and foreign bank branches in Switzerland.

Clients and products

Business Banking Switzerland offers high-quality, standardized products to the retail market for individual and small company clients, as well as more complex products and advisory services for larger corporate and institutional clients and financial institutions.

Individual clients

The business unit serves around 2.7 million individual clients in Switzerland through more than 3 million accounts, mortgages and other financial relationships. With its extensive Swiss branch network, the business unit offers a wide range of products and services supported by a complete set of distribution channels (ATMs, phone services, e-banking). The range of products and services for individual clients includes a comprehensive selection of cash accounts, savings products, wealth management services, residential mortgages, pensions and life insurance.

Corporate clients

Business Banking Switzerland services around 137,000 corporate clients, including institutional investors, public entities and foundations based in Switzerland.

The corporate client base consists of around 200 major companies with operations spanning a broad range of markets and geographical regions. These clients require advanced financing and risk management skills and comprehensive access to the capital markets for funding needs.

Around 8,500 of the business units' clients are large companies that utilize its expertise in handling complex financial transactions. Clients are provided with a wide range of financial advice from the selection and design of investment products, to assisting in complex mergers and acquisitions or providing structured financing. Client advisors often work in close cooperation with specialists from other parts of UBS to provide such solutions.

The remaining corporate clients (some 128,000) are small and medium-sized enterprises requiring local market expertise and access to the business units' full range of products and services.

The business unit also provides substantial business process support to its clients, ranging from transactional payments and securities services to the facilitation of cross-border transactions with trade finance products.

Business Banking Switzerland's global custody services offer institutional investors the opportunity to consolidate multiple-agent bank relationships into a single, cost-efficient global custodial relationship. This simplifies their processing and administration arrangements and allows them to take advantage of other services, such as flexible consolidated performance reporting and powerful portfolio management tools.

In 2007, assets under global custody for institutional clients grew to CHF 325 billion from CHF 300 billion a year earlier.

Financial institutions

Payments, securities and custodial services are also offered to more than 3,000 financial institutions worldwide. The business unit plays a leading role, together with the Investment Bank, in the firm's "Bank for Banks" strategy. This strategy focuses on offering state-of-the-art services to other banks, allowing UBS to put more business through its infrastructure. Other banks, that lack UBS's scale, can outsource their payment, security or custodial services in order to benefit from UBS's scale efficiencies.

Business Banking Switzerland

Swiss market share

in %	31.12.06	31.12.07
Mortgages for individual clients	23	23
Savings for individuals	23	22
Credit card business	32	32

Source: Swiss National Bank

Distribution

The needs of private clients have changed in recent years. Today, they want the flexibility of being able to access their accounts using the full range of modern communication technology when it is convenient for them, without restrictions imposed by regular business hours.

To meet these needs, Business Banking Switzerland pursues an integrated, multi-channel strategy. The business unit uses technology to complement, rather than replace, the traditional physical branch network. Standard transactions can be conveniently executed using one of the electronic channels, enabling client advisors to focus on providing advice and developing financial solutions. For basic products and services, technology is used to ensure around-the-clock availability. Customer service centers exist in five locations and provide basic information and support 24 hours a day via telephone. Additionally, in 62 of the UBS branches in Switzerland, a two-zone concept has been implemented: standard transactions are executed via ATMs, while client advisors, sitting in an open plan desk area next to the automated tellers, focus on giving clients value-added advice. Customers make extensive use of e-banking channels. On 31 December 2007, around 600,000 clients had active e-banking contracts and almost 80% of all payment orders were made by electronic channels.

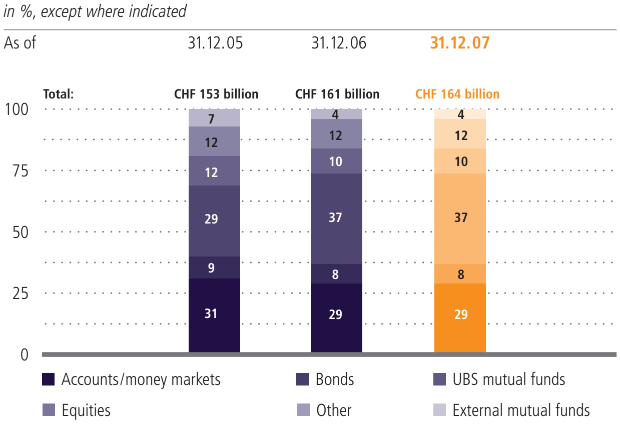
Total lending portfolio, gross

On 31 December 2007, Business Banking Switzerland's total lending portfolio was CHF 145.5 billion, gross. Of the total, mortgages represented CHF 117 billion, of which 85% were residential mortgages. Continued discipline in implementing the risk-adjusted pricing model has resulted in a strengthened focus of origination efforts on higher quality exposures with an attractive risk/return relationship. Thanks to the introduction of this model, the risk profile of the business unit's portfolio has clearly improved in recent years.

➔ **The "Credit risk" section of *Risk, Treasury and Capital Management 2007* details the UBS credit portfolio**

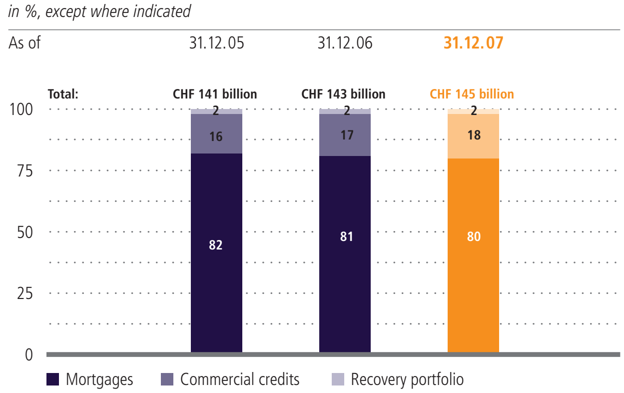
Invested assets by asset class

in %, except where indicated



Total lending portfolio by category, gross

in %, except where indicated



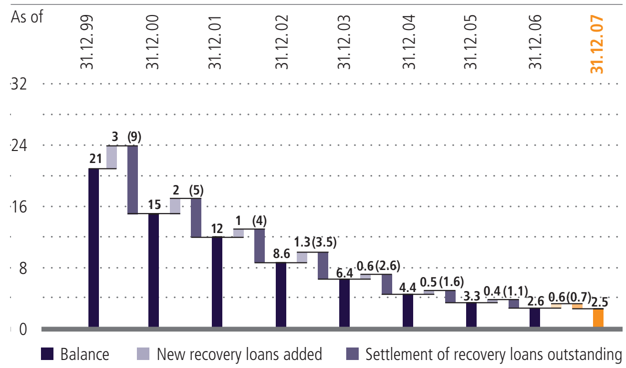
Recovery portfolio

Because there will always be a certain percentage of clients unable to meet their financial obligations, Business Banking Switzerland has a dedicated team of recovery specialists to help them pursue a possible economic recovery. This can be achieved through restructuring or, alternatively, by achieving the best possible value through liquidation of available collateral in order to limit the financial loss on the loan.

The recovery portfolio amounted to CHF 2.5 billion on 31 December 2007. Since the end of 1998, this portfolio has been cut by more than 90% thanks to successful recovery efforts. Over the same nine-year period, non-performing loans decreased from CHF 14.0 billion to CHF 1.4 billion, resulting in a ratio of non-performing loans to total lending portfolio of 1.0%.

Development of UBS's recovery portfolio, 1999–2007

CHF billion



Business performance

Business unit reporting

CHF million, except where indicated	As of or for the year ended			% change from
	31.12.07	31.12.06	31.12.05	31.12.06
Interest income	**3,470**	3,339	3,317	4
Non-interest income	**1,816**	1,746	1,632	4
Income	**5,286**	5,085	4,949	4
Adjusted expected credit loss[1]	**203**	185	122	10
Total operating income	**5,489**	5,270	5,071	4
Cash components	**2,480**	2,361	2,408	5
Share-based components[2]	**55**	51	42	8
Total personnel expenses	**2,535**	2,412	2,450	5
General and administrative expenses	**1,101**	1,070	994	3
Services (to)/from other business units	**(674)**	(642)	(634)	(5)
Depreciation of property and equipment	**67**	74	72	(9)
Amortization of intangible assets	**0**	0	0	
Total operating expenses	**3,029**	2,914	2,882	4
Business unit performance before tax	**2,460**	2,356	2,189	4
Key performance indicators				
Invested assets (CHF billion)	**164**	161	153	2
Net new money (CHF billion)[3]	**4.6**	1.2	3.4	
Cost/income ratio (%)[4]	**57.3**	57.3	58.2	
Impaired lending portfolio as a % of total lending portfolio, gross	**1.2**	1.7	2.3	
Capital return and BIS data				
Return on allocated regulatory capital (%)[5]	**28.2**	27.5	25.6	
BIS risk-weighted assets	**87,790**	85,365	85,051	3
Goodwill and excess intangible assets[6]	**0**	0	0	
Allocated regulatory capital[7]	**8,779**	8,537	8,505	3
Additional information				
Deferral (included in adjusted expected credit loss)[1]	**489**	512	485	(4)
Expected credit loss (included in adjusted expected credit loss)[1]	**(286)**	(327)	(363)	13
Client assets (CHF billion)	**986**	992	834	(1)
Personnel (full-time equivalents)	**15,932**	15,913	16,023	0

1 In management accounts, adjusted expected credit loss rather than credit loss expense or recovery is reported for the business groups (see Note 2 in *Financial Statements 2007).* The adjusted expected credit loss is the sum of expected credit loss and deferrals. The expected credit loss reflects expected average annual impairment costs. The deferral represents the difference between actual credit loss and expected credit loss, amortized over a three-year period. 2 Additionally includes related social security contributions and expenses related to alternative investment awards. 3 Excludes interest and dividend income. 4 Operating expenses/income. 5 Business unit performance before tax/average allocated regulatory capital. 6 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 7 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

Business Banking Switzerland derives its operating income principally from:
– net interest income from its lending portfolio and customer deposits;
– fees for investment management services; and
– transaction fees.

As a result, operating income is affected by movements in interest rates, fluctuations in invested assets, client activity levels, investment performance, changes in market conditions and the credit environment.

2007

Key performance indicators

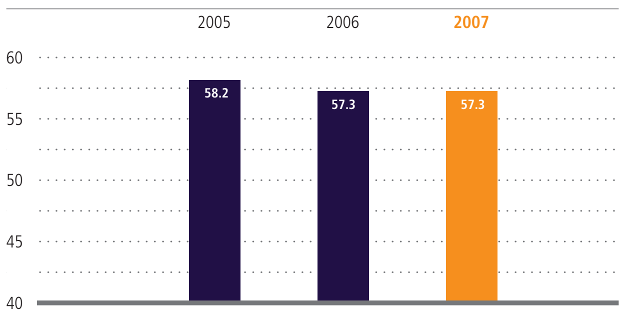
Net new money was CHF 4.6 billion in 2007, CHF 3.4 billion higher than the inflow of CHF 1.2 billion in 2006. This was due to an increase in inflows from existing clients.

Invested assets rose to CHF 164 billion in 2007 from CHF 161 billion a year earlier, driven by positive market developments and net new money inflows. This was slightly offset by the transfer of assets to Wealth Management International & Switzerland. Over the course of 2007, UBS transferred CHF 9.2 billion in client assets from the Business Banking Switzerland business unit to the Wealth Management International & Switzerland business unit, reflecting the development of client relationships. In 2006, UBS transferred CHF 8.2 billion in client assets for the same reason.

In 2007 the cost/income ratio stood at 57.3%, unchanged from a year earlier.

Cost / income ratio

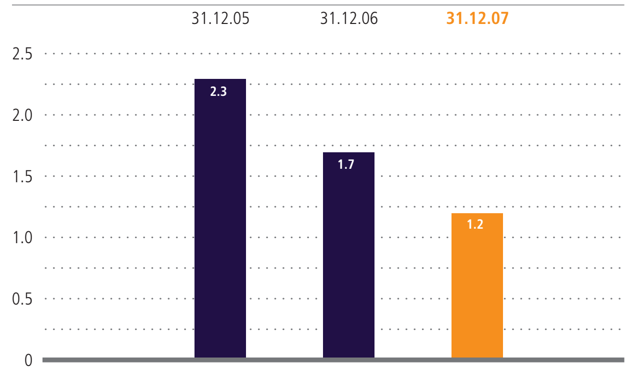
in %



Business Banking Switzerland's gross lending portfolio was CHF 145.5 billion on 31 December 2007, up 1% from the previous year. This positive development was also reflected in the key credit quality ratio of the impaired lending portfolio, gross, to the total lending portfolio, gross, which was 1.2% compared to 1.7% in 2006.

Impaired lending portfolio as a % of total lending portfolio, gross

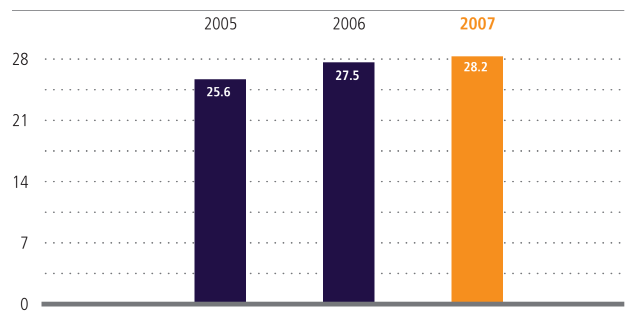
in %



The return on allocated regulatory capital was 28.2% for 2007, up 0.7 percentage points from 27.5% a year earlier. This reflects the increased profitability of the business unit, outpacing the increase in risk-weighted assets.

Return on allocated regulatory capital

in %

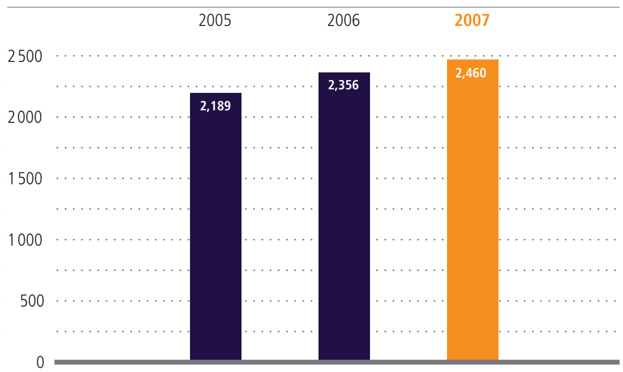


Results

Pre-tax profit in 2007 was a record CHF 2,460 million, CHF 104 million or 4% above the result achieved in 2006. This was mainly due to income growth. In 2007, interest income rose on higher volumes and margin for liabilities, while non-interest income rose due to higher asset-based and brokerage fees.

Performance before tax

CHF million



Operating income

Total operating income in 2007 was CHF 5,489 million, up from 2006's level of CHF 5,270 million. Interest income increased by 4% to CHF 3,470 million in 2007 from CHF 3,339 million in 2006. The slight increase reflects the expansion of the business unit's loan portfolio and the higher margins on liabilities. Non-interest income increased by CHF 70 million to CHF 1,816 million in 2007 from CHF 1,746 million in 2006, reflecting a higher asset base as well as higher trading income. Adjusted expected credit loss recoveries, at CHF 203 million in 2007, increased from recoveries of CHF 185 million in 2006. This positive result reflects the deferred benefit of the structural improvement in the loan portfolio in recent years.

Operating expenses

Operating expenses in 2007 were CHF 3,029 million, up 4% from CHF 2,914 million in 2006. Personnel expenses, at CHF 2,535 million, were up 5% from CHF 2,412 million in 2006 due to higher salary costs for the employee pension plan in Switzerland, related to its change from a defined benefit to a defined contribution plan under Swiss law. General and administrative expenses, at CHF 1,101 million in 2007, rose and were 3% higher than the CHF 1,070 million recorded in 2006. Net charges to other business units continued to rise to CHF 674 million in 2007 from CHF 642 million in 2006 because of higher consumption of services in other business units. Depreciation in 2007 decreased to CHF 67 million from CHF 74 million in 2006.

2006

Key performance indicators

Net new money was CHF 1.2 billion in 2006, CHF 2.2 billion lower than the inflow of CHF 3.4 billion in 2005.

Invested assets rose to CHF 161 billion in 2006 from CHF 153 billion in 2005, driven by positive market developments and net new money inflows. This was slightly offset by the transfer of assets to Wealth Management International & Switzerland. Over the course of 2006, UBS transferred CHF 8.2 billion in client assets from the Business Banking Switzerland business unit to the Wealth Management International & Switzerland business unit, a reflection of the development of client relationships.

The cost/income ratio stood at 57.3%, 0.9 percentage points lower than the 2005 ratio of 58.2%, as the rise in income outpaced the increase in expenses.

Business Banking Switzerland's gross lending portfolio was CHF 143.4 billion on 31 December 2006, up 1% from the previous year. An increase in volumes of private client mortgages was partly offset by the ongoing reduction of the recovery portfolio, which fell to CHF 2.6 billion from CHF 3.3 billion in 2005. The impaired loan ratio was 1.7% compared to 2.3% in 2005.

The return on allocated regulatory capital was 27.5% for 2006, up 1.9 percentage points from 25.6% in 2005. This reflected the increased profitability of the business unit, which outpaced the increase in risk-weighted assets.

Results

Pre-tax profit in 2006 was CHF 2,356 million, CHF 167 million or 8% above the result achieved in 2005. This was mainly due to income growth. In 2006, non-interest income rose due to higher asset-based and brokerage fees. The result also showed the tight management of the cost base and an adjusted expected credit loss recovery of CHF 185 million. While personnel costs were at their lowest levels ever, general and administrative expenses increased, a reflection of the outsourcing of Edelweiss facility management.

Operating income

Total operating income in 2006 was CHF 5,270 million, up slightly from 2005's level of CHF 5,071 million. Interest income increased by 1% to CHF 3,339 million in 2006 from CHF 3,317 million in 2005. The slight increase reflected the expansion of the loan portfolio of Business Banking Switzerland, as well as higher investment interest rates on its variable rate accounts, offset by lower revenues from its reduced recovery portfolio. Non-interest income increased by CHF 114 million to CHF 1,746 million in 2006, up from CHF 1,632 million in 2005. This reflected a higher asset base as well as valuation gains from equity participations and divestment proceeds. Adjusted expected credit loss recoveries, at CHF 185 million in 2006, increased from recoveries of CHF 122 million in 2005. This positive result reflected the deferred benefit of the structural improvement in the loan portfolio in recent years.

Operating expenses

Operating expenses in 2006 were CHF 2,914 million, up 1% from CHF 2,882 million in 2005. Personnel expenses, at CHF 2,412 million, were down 2% from CHF 2,450 million in 2006 due to lower salary costs, a reflection of the outsourcing of Edelweiss, partly offset by higher share-based expenses. General and administrative expenses, at CHF 1,070 million in 2006, rose and were 8% higher than the CHF 994 million recorded in 2005, mainly due to the outsourcing of Edelweiss facility management at the end of 2005. Net charges to other business units continued to rise to CHF 642 million in 2006 from CHF 634 million in 2005 because of lower charges-in for IT services. Depreciation in 2006 slightly increased to CHF 74 million from CHF 72 million in 2005 due to higher expenses for information technology equipment.

Global Asset Management

- One of the world's leading investment managers
- Among the largest global institutional asset managers, the world's largest hedge fund of funds manager, one of the largest mutual fund managers in Europe and the largest in Switzerland
- 2007 fell short of a record only because of closure costs for Dillon Read Capital Management

Business description

Two principal client segments:

Institutional includes: corporate and public pension plans; endowments, municipalities, charities and private foundations; insurance companies; governments and their central banks; and supranationals

Wholesale intermediary: financial intermediaries including Global Wealth Management & Business Banking and third-parties

Broad range of investment capabilities and services:

- Traditional, alternative, real estate and infrastructure investment solutions
- Over 500 investment funds, exchange-traded funds and others, plus service platform for hedge funds and other investment funds

Performance in 2007

- Pre-tax profit of CHF 1,315 million, down 6% from a year earlier. The decrease reflects closure costs of CHF 384 million from Dillon Read Capital Management. This charge offset the positive impact of increased performance and management fees in all business areas coupled with the inclusion of acquisitions in Brazil and Korea
- Total net new money outflow of almost CHF 16 billion due to outflows in primarily equity mandates in the institutional business, while the wholesale business had small net new money inflows
- Past weak investment performance in some capabilities, notably core/value equities and fixed income, are at the root of this development, alongside the generally unsettled market environment. Over the last year, UBS has taken steps to address these issues by reorganizing its equities business. In addition, UBS has made changes to the management in these areas, focused on recruiting high performing candidates and added new investment capabilities

Business group reporting

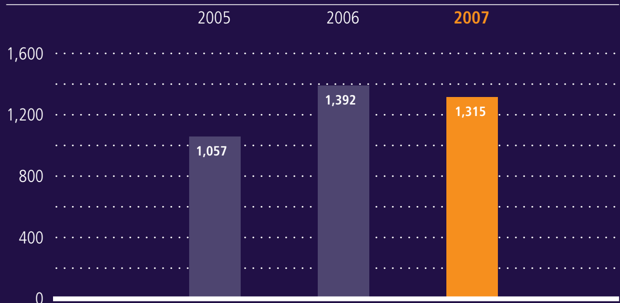
CHF million, except where indicated	As of or for the year ended 31.12.07	31.12.06
Institutional fees	2,370	1,803
Wholesale intermediary fees	1,724	1,417
Total operating income	4,094	3,220
Total operating expenses	2,779	1,828
Business group performance before tax	**1,315**	**1,392**

Additional information

Invested assets (CHF billion)	891	866
Net new money (CHF billion)	(15.7)	37.2
Personnel (full-time equivalents)	3,625	3,436

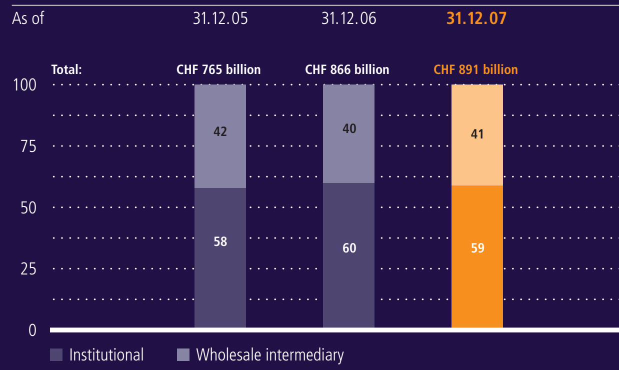
Performance before tax

CHF million



Invested assets by client type

in %, except where indicated



Key focus areas

Distribution is integrated but regionally organized

- Americas
- Asia Pacific
- Europe, Middle East & Africa

delivered by globally coordinated business areas

- Equities
- Fixed income
- Alternative and quantitative investments
- Global real estate
- Global investment solutions
- Infrastructure
- Fund services

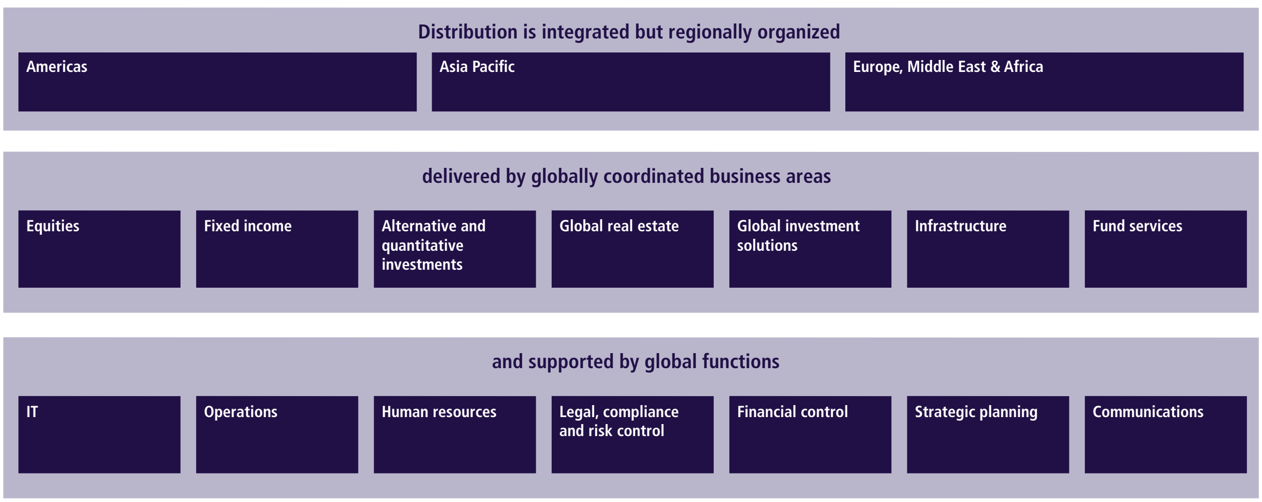
and supported by global functions

- IT
- Operations
- Human resources
- Legal, compliance and risk control
- Financial control
- Strategic planning
- Communications

Global Asset Management
Business description

Global Asset Management is one of the world's leading investment managers, providing traditional, alternative, real estate and infrastructure investment solutions to private, institutional and corporate clients. The business group also provides services through financial intermediaries.

Key focus areas



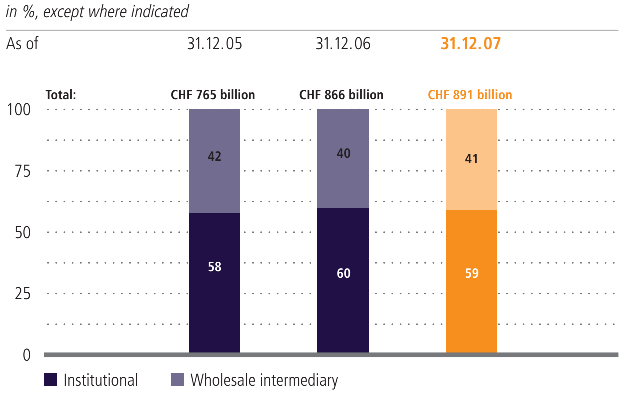
Business

Global Asset Management offers a wide range of investment capabilities across all major asset classes. This approach combines the expertise of investment professionals with sophisticated risk-management processes and systems, helping the business group provide clients with products and services that meet their needs.

Invested assets totaled CHF 891 billion on 31 December 2007, making Global Asset Management one of the largest global institutional asset managers and the largest hedge fund of funds manager in the world. The business group is also one of the largest mutual fund managers in Europe and the largest in Switzerland.

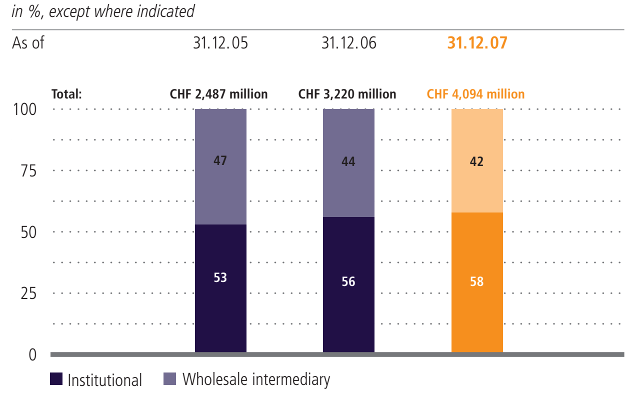
Invested assets by client type

in %, except where indicated



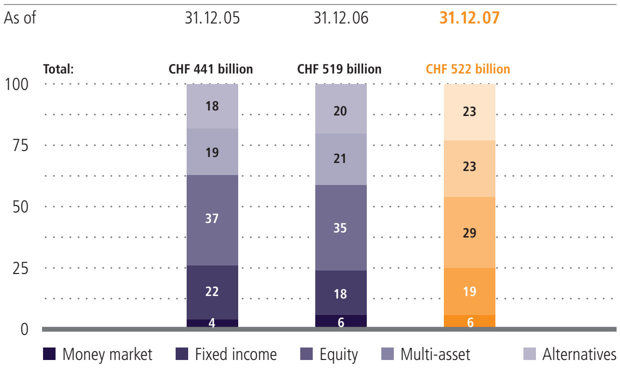
Institutional / wholesale intermediary fees

in %, except where indicated



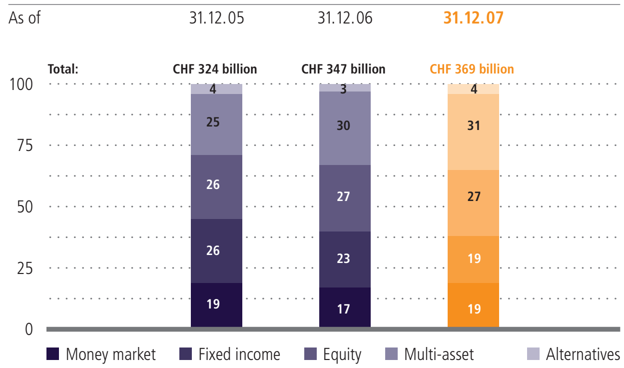
Institutional invested assets by asset class

in %, except where indicated



Wholesale intermediary invested assets by asset class

in %, except where indicated



Clients and distribution

Global Asset Management's integrated distribution model allows it to deliver an extensive range of investment capabilities to clients through offices in the Americas, Asia Pacific and Europe, Middle East & Africa.

Revenues and key performance indicators are reported according to two principal asset management client segments: institutional and wholesale intermediary clients.

Institutional

The institutional business has a diverse set of clients globally, including:

- corporate and public pension plans;
- endowments, municipalities, charities and private foundations;
- insurance companies;
- governments and their central banks; and
- supranationals.

In markets where institutions usually employ investment consultants, such as the US and UK, Global Asset Management relies on developing and maintaining strong relationships with the major consultants that advise corporations and public pension plans. New business is also generated directly with clients.

Wholesale intermediary

The wholesale intermediary business offers over 500 investment funds, exchange-traded funds and other investment vehicles across all asset classes in a wide range of country, regional and industry sectors.

Investment funds are mainly distributed using financial intermediaries, including Global Wealth Management & Business Banking, and selected third parties.

Organizational structure

Global Asset Management employs over 3,600 personnel in 25 countries. The main offices are located in Basel, Chicago, Frankfurt, Grand Cayman, Hartford, Hong Kong, London, Luxembourg, New York, Rio de Janeiro, Sydney, Tokyo, Toronto and Zurich.

Significant recent acquisitions and business transfers

In January 2005, Global Asset Management signed an agreement with Siemens in which UBS acquired a majority stake (51%) in the real estate funds business of Siemens Kapitalanlagegesellschaft mbH (SKAG). The transaction closed in April 2005 and the business is now part of Global Asset Management's European real estate business.

In April 2005, the China Securities Regulatory Commission granted approval to UBS and the State Development Investment Corporation (SDIC) to form a joint venture fund management company. The new company was established in June 2005 and is known as UBS SDIC Fund Management Co. Ltd (UBS SDIC). It was formed as a result of UBS's purchase of a 49% stake in Shenzhen-based China Dragon Fund Management Co. Ltd (China Dragon). The joint venture was the first to allow the new maximum 49% foreign partner holding in a Chinese fund management company. The first fund was successfully launched in April 2006.

In June 2005, UBS announced the formation of Dillon Read Capital Management (DRCM). The business was launched in June 2006, with principal trading locations in London, New York, Singapore and Tokyo. DRCM had been solely managing UBS money until November 2006, when the first outside investor fund was launched. However, the development of the business did not meet original expectations. After a review of its prospects, the operational complexity of its business model and other factors, UBS's management decided to close DRCM. The outside investor interests were redeemed and the portfolios of the outside investor funds and the proprietary funds were returned to the Investment Bank.

In December 2006, UBS completed its acquisition of Banco Pactual. The acquisition is a key element in UBS's growth strategy to expand in emerging markets. The renamed UBS Pactual Asset Management is currently the

Investment capabilities and services

Equities	Fixed income	Alternative and quantitative investments	Global real estate	Global investment solutions	Infrastructure	Fund services
Core/Value	Global	Single manager hedge funds	Global	Global	Direct investment	Hedge funds
Global	Country and regional		Country and regional	Country and regional	Listed securities	Investment funds
Country and regional	Sector specific	Multi-manager hedge funds	Private strategies	Asset allocation	Global and regional	
Emerging markets	Emerging markets		Real estate securities	Currency management		
Specialist	High yield	Quantitative	Agriculture	Return and risk targeted		
Growth Investors	Structured credit	Infrastructure fund of funds		Structured portfolios		
Global	Liquidity/short duration			Risk management and advisory services		
Country and regional	Indexed	Private equity fund of funds				
Structured equities						
DSI						
Systematic alpha						
Portfolio construction solutions (including passive)						

fourth largest asset manager in Brazil, with invested assets of approximately CHF 40 billion on 31 December 2007.

In May 2007, Global Asset Management entered into an agreement with Hana Daetoo Securities (formerly Daehan Investment & Securities Company Ltd), a wholly owned subsidiary of Hana Financial Group, to acquire 51% of Daehan Investment Trust Management Company Ltd (DIMCO). The acquired company is known as UBS Hana Asset Management Company Ltd (UBS Hana Asset Management) internationally, and as Hana UBS Asset Management in Korea. The transaction closed in late July 2007 and led to Global Asset Management acquiring one of the market leaders in the Korean asset management industry, with invested assets of CHF 29 billion on 31 December 2007.

In October 2007, UBS entered into an agreement with Commerzbank to acquire 100% of the Caisse Centrale de Réescompte (CCR) Group in France. The acquisition closed on 1 February 2008. CCR Group is an asset and wealth manager with EUR 17 billion of invested assets as of June 2007. It has approximately 190 employees and numbers four principal entities: CCR (a provider of banking services to its subsidiaries), CCR Actions (an asset manager specializing in equity funds), CCR Gestion (an asset manager specializing in fixed income and alternative products) and CCR Chevrillon Philippe (a provider of asset management services to private clients). The business of the CCR Group will be combined with the asset management and wealth management businesses of UBS in France.

Products and services

Investment management products and services are offered in the form of segregated, pooled and advisory mandates and a range of registered investment funds across all major asset classes.

The equities investment area offers a broad range of strategies across the full spectrum of investment styles and with varying risk and return objectives. Equity capabilities are grouped into three investment pillars: core/value (portfolios managed according to a price to intrinsic value philosophy); growth investors (a high-quality global growth manager); and structured equities (strategies that employ proprietary analytics and quantitative methods). Each pillar offers distinctive strategies and has a dedicated team of investment professionals.

Fixed income offers a diverse range of global and local market-based investment strategies. Capabilities go beyond the "core" government and corporate bond sectors and extend to other sectors, such as high-yield and emerging market debt. Global Asset Management combines these capabilities to create country, regional and global strategies that cover a wide range of benchmarks.

Alternative and quantitative investments has two primary business lines – multi-manager (or fund of funds) and a single manager business. The multi-manager businesses construct portfolios of hedge funds and other alternative investments operated by third-party managers, allowing clients diversified exposure to a range of hedge funds, private equity and infrastructure strategies. The single manager business is run by O'Connor, a key hedge fund specialist with global reach.

The global real estate business actively manages investments in Asia, Europe and the US and across all major sectors. Its capabilities include core, value-added and opportunistic strategies on a global, regional and country basis. These are offered through open and closed-end private funds, fund of funds, individually managed accounts and publicly traded real estate securities globally.

The global investment solutions team offers asset allocation, currency, risk management and advisory services. It manages a wide array of domestic, regional and global balanced portfolios, currency mandates, structured portfolios and absolute return strategies. It aims to deliver portfolios that manage risk exposures in three dynamic dimensions: market, currency and security selection using internal and external sources of return. In addition, the team supplies risk management and portfolio construction tools to portfolio managers within the business group and a range of advisory services to clients.

Infrastructure forms part of Global Asset Management's broader offering of alternative investments. The infrastructure asset management business originates and manages infrastructure funds, including listed funds and funds that make direct investments in core infrastructure assets globally. Infrastructure includes the permanent assets which society requires to operate smoothly, such as transportation and communication networks, electricity, gas and water distribution and education, recreation and healthcare facilities.

The global fund administration business, referred to as fund services, provides professional services, including legal set up, reporting and accounting, for retail and institutional investment funds and hedge funds.

Investment performance

There was a distinct change in the direction of investment markets during 2007. The strong equities bull market that started in February 2003 faltered in mid-2007 and, after a strong beginning to the year, returns ended up a modest 4.7% for the developed world markets in local currency terms.

The global equity strategy lagged its benchmark, due to stock selection across a number of sectors, most notably financials and technology, and weak sector positioning, including underweights in cyclical areas such as materials and energy. This was partly offset by strong stock selection in healthcare and consumer discretionary and the overweight to telecoms.

The performance of Global Asset Management's regional equities strategies varied. Key core/value strategies, such as those in Europe and the US, underperformed in full-year 2007. Specialist strategies, including emerging markets, US value and regional small cap, produced better relative returns.

The growth equities platform, including the recently added global (ex-US) growth team, generated solid absolute and relative performance with eight of nine equity capabilities outperforming their benchmarks. For US large cap growth, outperformance was driven primarily by stock selection in both consumer discretionary and information technology sectors. The small and mid cap growth portfolios benefited from stock selection in healthcare and financials, which was offset in part by selection in consumer discretionary. For the global (ex-US) growth capabilities, stock selection in the industrials and materials sectors was the primary contributor to the strong outperformance.

2007 was also a dramatic year for global bond markets, with the relatively benign conditions of the first six months being followed by a sharp increase in volatility due to the US credit crisis. The initial trigger for the rapid change in sentiment was the weakness in the US housing market, which highlighted flaws in the residential mortgage backed securities (RMBS) sector, particularly those issues backed by sub-prime mortgages. Swiftly, the magnitude of price falls in these securities impacted a number of banks, as well as other leveraged investors, and caused a sharp contraction in money market liquidity. The rapid rise in risk aversion, together with growing fears over the resilience of US and global economic growth, undermined confidence in other sectors, most notably collateralized debt obligations (CDO) and corporate bonds from financial issuers. At the same time, the strong demand for US Treasuries and other domestic government bonds drove their yields down by 100 basis points or more. Several of Global Asset Management's leading fixed income strategies had their performance significantly impaired by exposure to RMBS and CDOs as the severity of price declines in these sectors greatly outweighed the impact of other active decisions.

Balanced funds underperformed their benchmarks over 2007, with most of the under-performance due to weak stock selection in the underlying portfolio. Asset allocation was generally positive due to the management of equity exposures through the year. The business group started overweight in equities and cut its exposure as the year progressed. The underweight position in real estate also contributed positively towards the end of the year. Negative contributions came from an overweight position in US equities and emerging market debt.

The Dynamic Alpha Strategies (DAS) posted negative returns through 2007. Returns to market exposure were negative. Positive contributors to market returns came from the positioning in equity markets, notably emerging market equities, as well as US and UK equities. Other positive contributors included exposures to convertible bonds and high yield debt. Negative contributions came from short positions in European, Canadian and Australian equities.

Currency strategy detracted from the performance of balanced and DAS portfolios over the year. The main positive contributors included positive exposures to the Japanese yen, Swiss franc and Swedish kronor, as well as negative exposure to sterling. Negative contributions came from a negative stance on the euro and a positive exposure to the Taiwan dollar.

In alternative and quantitative investments, absolute and risk adjusted performance in 2007 was strongly positive despite market turmoil in the latter half of the year. Most of the

O'Connor hedge fund strategies produced strong positive performance, with attractive volatility, correlation and liquidity attributes. On the multi-manager side, Global Asset Management's core, broad-based multi-manager funds also generated positive returns for the year despite mixed performance in the third quarter.

Real estate was also impacted by the turmoil in the financial markets in 2007, albeit some markets have been more affected than others. Notwithstanding this challenging climate, overall invested assets in the global real estate business increased. Investment performance of real estate securities products provided a mixed picture in 2007, given market conditions, although longer-term performance remained positive.

Strategic opportunities

The investment environment and markets in which Global Asset Management operates are becoming ever more complex. Clients' investment requirements are evolving and competition is likely to increase from both new and traditional sources. Key industry trends vary for each location, capability and client segment. There is a constant need to adapt and review products and services to meet future client needs.

The pension industry is seeing a continued shift from defined benefit to defined contribution pension plans. The speed of this shift, though, varies by country. Access to third-party and wholesale distribution channels will also become more important as the pension industry moves closer to a model of open architecture, allowing investors to monitor and select the best performing capabilities from an array of different managers. In addition, as so-called "baby boomers" move towards retirement, focus has shifted from wealth accumulation to income generation and capital protection, providing a number of attractive new opportunities for asset managers. Investors are increasingly looking to standardize core or central portfolios, adding actively managed products or satellite portfolios with a focus on uncorrelated assets such as hedge funds, real estate, private equity and infrastructure. Global Asset Management also remains optimistic about the growth potential provided by emerging markets.

Global Asset Management has embraced these changes by diversifying existing investment capabilities and expanding its alternative investment offerings into multi-manager hedge funds, real estate, private equity and infrastructure. In parallel, the business group has also developed its global investment solutions business to provide a blend of products and advisory services across all major asset classes to meet the specific needs of its clients.

The Global Asset Management distribution model has expanded markedly in recent years, partly as a result of acquisitions and joint ventures. Distribution has also increased through the introduction of new and innovative products and services to existing capabilities – both through proprietary channels and third party providers. The acquisition of Banco Pactual in Brazil and joint ventures in Korea and China (to create UBS Hana Asset Management and UBS SDIC respectively) are key elements in the business group's emerging markets growth strategy. The acquisition of Commerzbank's asset management business in France, and initiatives to build Global Asset Management's retirement business in North America, further demonstrate a commitment to strategic growth. To address the market shift in the US from wealth accumulation to income generation, Global Asset Management has formed a strategic alliance with Affiliated Computer Services (ACS) to offer pension plan sponsors an end-to-end retirement solution.

The fund services business area has also been expanding its capacity to meet increased industry demand for fund administration and servicing. To meet this growing demand, new offices have been opened in Hong Kong and Poland. Global Asset Management is the first tenant of the UBS Poland Service Centre in Krakow, part of UBS's multi-hub offshoring strategy designed to help grow the business and increase process efficiency.

Competitors

Global Asset Management has a range of global competitors in active investments, extending from firms organized on a global basis (such as Fidelity Investments, AllianceBernstein Investments, BlackRock, JP Morgan Asset Management, Deutsche Asset Management and Goldman Sachs Asset Management) to firms managed on a regional or local basis or specializing in a particular asset class. In the real estate, hedge funds and infrastructure investment sectors, competitors of the business group tend to be local or regional niche players.

Business performance

Business group reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Institutional fees	**2,370**	1,803	1,330	31
Wholesale Intermediary fees	**1,724**	1,417	1,157	22
Total operating income	**4,094**	3,220	2,487	27
Cash components	**1,632**	1,305	899	25
Share-based components[1]	**363**	198	89	83
Total personnel expenses	**1,995**	1,503	988	33
General and administrative expenses	**559**	399	304	40
Services (to) / from other business units	**153**	(105)	116	
Depreciation of property and equipment	**53**	27	21	96
Amortization of intangible assets	**19**	4	1	375
Total operating expenses	**2,779**[2]	1,828	1,430	52
Business group performance before tax	**1,315**	1,392	1,057	(6)

Key performance indicators

Cost / income ratio (%)[3]	**67.9**	56.8	57.5	

Institutional

Invested assets (CHF billion)	**522**	519	441	1
of which: money market funds	***32***	*28*	*16*	*14*
Net new money (CHF billion)[4]	**(16.3)**	29.8	21.3	
of which: money market funds	***6.7***	*11.0*	*(3.0)*	
Gross margin on invested assets (bps)[5]	**44**	38	34	*16*

1 Additionally includes related social security contributions and expenses related to alternative investment awards. 2 Includes CHF 384 million related to the closure of Dillon Read Capital Management. 3 Operating expenses / operating income. 4 Excludes interest and dividend income. 5 Operating income / average invested assets.

Business group reporting (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Wholesale Intermediary				
Invested assets (CHF billion)	**369**	347	324	6
of which: money market funds	***70***	*59*	*62*	*19*
Net new money (CHF billion)[1]	**0.6**	7.4	28.2	
of which: money market funds	***4.8***	*(2.5)*	*(9.7)*	
Gross margin on invested assets (bps)[2]	**47**	43	40	9
Capital return and BIS data				
Return on allocated regulatory capital (%)[3]	**60.7**	84.8	69.9	
BIS risk-weighted assets	**3,784**	2,723	1,570	39
Goodwill and excess intangible assets[4]	**2,058**	1,677	1,438	23
Allocated regulatory capital[5]	**2,436**	1,949	1,595	25
Additional information				
Invested assets (CHF billion)	**891**	866	765	3
Net new money (CHF billion)[1]	**(15.7)**	37.2	49.5	
Personnel (full-time equivalents)	**3,625**	3,436	2,861	6

1 Excludes interest and dividend income. 2 Operating income / average invested assets. 3 Business group performance before tax / average allocated regulatory capital. 4 Goodwill and intangible assets in excess of 4% of BIS Tier 1 Capital. 5 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

Global Asset Management generates its revenue from the asset management and fund administration services it provides to financial intermediaries and institutional investors. Fees charged to institutional clients and wholesale intermediary clients are based on the market value of invested assets and on successful investment performance. As a result, revenues are affected by changes in market and currency valuation levels, as well as flows of client funds, and relative investment performance.

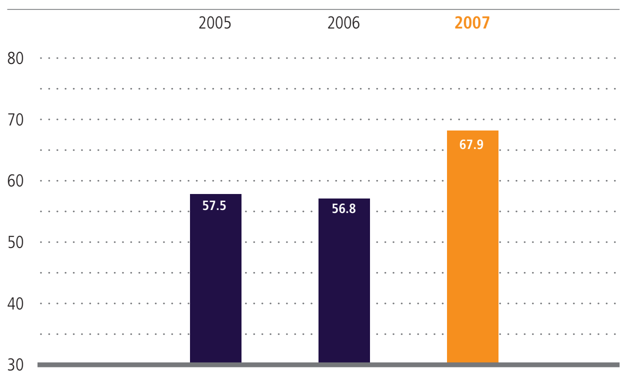
2007

Key performance indicators

For 2007, the cost/income ratio was 67.9%, an increase of 11.1 percentage points from 2006, primarily due to the CHF 384 million charge related to the closure of Dillon Read Capital Management (DRCM) in second quarter 2007.

Cost/income ratio

in %

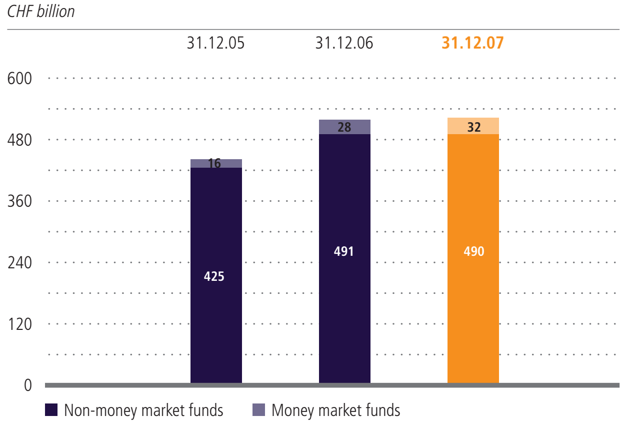


Institutional

Institutional invested assets were CHF 522 billion on 31 December 2007, up CHF 3 billion from CHF 519 billion on 31 December 2006. The net increase was a result of positive impacts of financial market valuations as well as the inclusion of assets related to the acquisition of Hana Asset Management in third quarter. This was offset by net new money outflows and negative currency translation impacts.

Invested assets, institutional

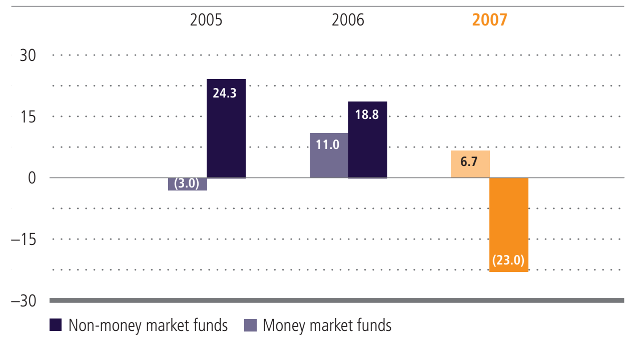
CHF billion



In 2007, net new money outflows were CHF 16.3 billion, compared with net inflows of CHF 29.8 billion in 2006. Outflows in core/value equity mandates and, to a lesser extent in fixed income mandates, were partly offset by inflows into all other asset classes, particularly alternative and quantitative investments and money markets, in 2007.

Net new money, institutional

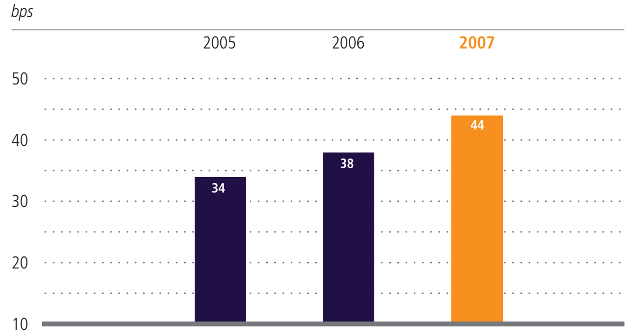
CHF billion



The gross margin on invested assets for 2007 was 44 basis points, up six basis points from 2006. The increase is due to higher performance fees, mainly in alternative and quantitative investments as well as inflows into higher margin products.

Gross margin on invested assets, institutional

bps

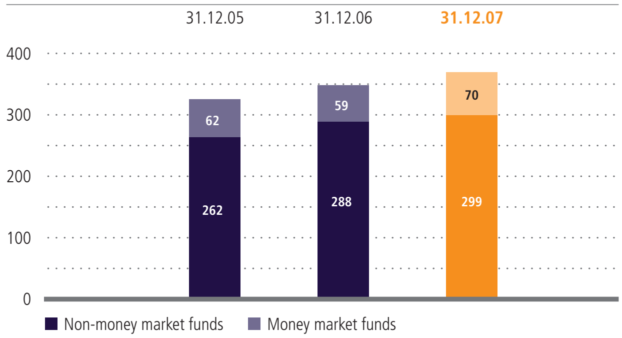


Wholesale intermediary

Invested assets were CHF 369 billion on 31 December 2007, up by CHF 22 billion from 31 December 2006. This increase is primarily due to positive financial markets valuation impacts and the inclusion of assets related to the acquisition of UBS Hana Asset Management in third quarter, partly offset by negative currency translation impacts.

Invested assets, wholesale intermediary

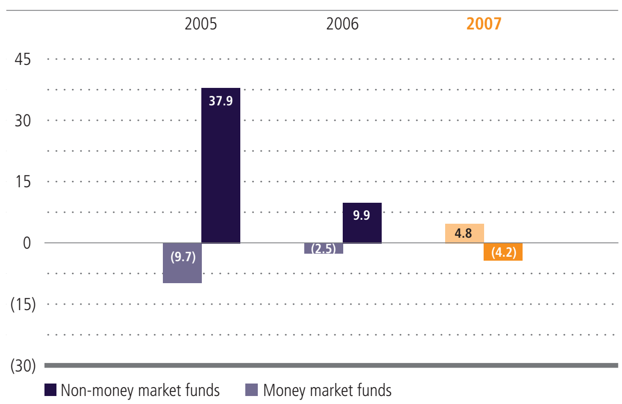
CHF billion



In 2007, net new money inflows were CHF 0.6 billion, compared with inflows of CHF 7.4 billion for 2006. Inflows, mainly into multi-asset and money market funds, were partly offset by outflows from fixed income funds.

Net new money, wholesale intermediary

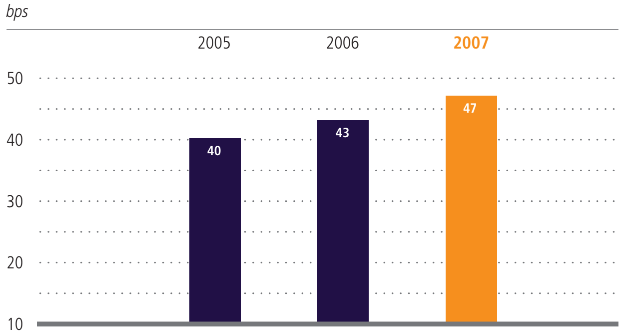
CHF billion



The 2007 gross margin on invested assets was 47 basis points, up by four basis points from a year earlier, largely driven by higher performance fees (mainly in the Brazilian asset management business) as well as inflows into higher margin products.

Gross margin on invested assets, wholesale intermediary

bps

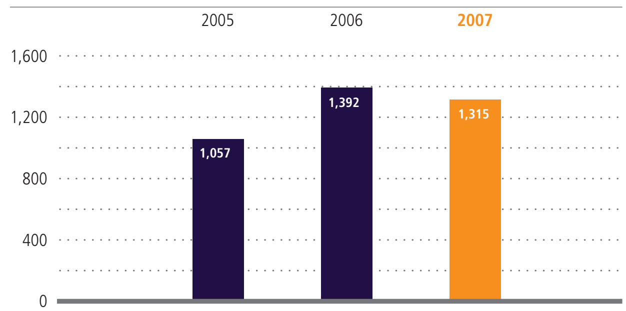


Results

Pre-tax profit in 2007 was CHF 1,315 million, down from CHF 1,392 million a year earlier. The decrease reflects closure costs of CHF 384 million from DRCM in second quarter. This charge offset the positive impact of increased performance and management fees in all business areas coupled with the inclusion of acquisitions in Brazil and Korea.

Performance before tax

CHF million



Operating income

In 2007, operating income was CHF 4,094 million, up 27% from CHF 3,220 million a year earlier. Institutional revenues increased by 31% to CHF 2,370 million in 2007 from CHF 1,803 million in 2006. This was mainly due to higher management fees in all investment areas, as well as the full-year impact of the Brazilian asset management business and the post-July impact of the Korean asset management business. These were partly offset by higher provisions. Wholesale intermediary revenues rose by 22% to CHF 1,724 million in 2007 from CHF 1,417 million in 2006, reflecting higher management fees across all businesses and higher performance fees, mainly from the Brazilian asset management business.

Operating expenses

In 2007, operating expenses increased by 52% to CHF 2,779 million from CHF 1,828 million in 2006, primarily reflecting DRCM related closure expenses and increased staff levels. Personnel expenses were CHF 1,995 million in 2007, 33% above 2006. Personnel expenses were up compared with 2006, reflecting the closure of DRCM, higher staff levels as well as the inclusion of the Brazilian and Korean asset management business. General and administrative expenses increased by 40% to CHF 559 million in 2007 from CHF 399 million in 2006. In addition to the DRCM closure expenses, general and administrative expenses increased due to higher technology related expenditure and the full-year impact of the inclusion of the Brazilian asset management business. Net charge-ins from other business units were CHF 153 million compared with the net charge-outs to other business units of CHF 105 million a year earlier, primarily due to DRCM. Over the same period, depreciation increased by 96% to CHF 53 million, as a result of the DRCM closure.

2006

Key performance indicators

For 2006, the cost/income ratio was 56.8%, a decrease of 0.7 percentage points from 2005. A result of improved operating income, this change represented higher management fees across all businesses, combined with significantly higher performance fees in alternative and quantitative investments. This was partly offset by increased operating expenses from increased staff levels and higher variable personnel expenses.

Institutional

Institutional invested assets were CHF 519 billion on 31 December 2006 – up 18% from CHF 441 billion on 31 December 2005. This increase reflected positive market performance, strong net new money inflow and the inclusion of Banco Pactual.

In 2006, net new money inflows were CHF 29.8 billion, up from the CHF 21.3 billion recorded in 2005. Strong inflows were reported in most asset classes, partly offset by outflows from equity mandates.

The gross margin on invested assets for 2006 was 38 basis points, up four basis points from 2005.

Wholesale intermediary

Invested assets were CHF 347 billion on 31 December 2006, up by CHF 23 billion from 31 December 2005. This reflected positive market performance, net new money inflows and the inclusion of Banco Pactual.

In 2006, net new money was CHF 7.4 billion, down from CHF 28.2 billion a year earlier. In 2005, net new money inflows resulted from the large number of product launches across all major asset classes. In 2006, there were outflows in fixed income and equities while inflows in multi-asset funds continued.

The 2006 gross margin on invested assets was 43 basis points, up by three basis points from 2005.

Results

Pre-tax profit in 2006 was CHF 1,392 million, up from CHF 1,057 million a year earlier. This increase reflected higher management fees in all businesses and alternative and quantitative investment performance fees. The result was partly offset by higher operating expenses, which reflected increased staffing, performance-related compensation and investments in strategic initiatives and information technology infrastructure projects.

Operating income

In 2006, operating income was CHF 3,220 million, up 29% from CHF 2,487 million a year earlier. The 36% increase of institutional revenues, from CHF 1,330 million in 2005 to CHF 1,803 million in 2006, reflected higher management fees in most investment areas. Wholesale intermediary revenues rose by 22% to CHF 1,417 million in 2006 from CHF 1,157 million in 2005 and this reflected higher management fees in most areas.

Operating expenses

In 2006, operating expenses increased to CHF 1,828 million from CHF 1,430 million in 2005, due to higher staff levels and performance-related compensation. Personnel expenses were CHF 1,503 million in 2006, 52% above 2005, mainly due to the inclusion of DRCM. General and administrative expenses increased by 31% to CHF 399 million in 2006 from CHF 304 million in 2005 mainly due to investments in strategic initiatives. Other business units were charged CHF 105 million compared with the net charges from other business units of CHF 116 million a year earlier. Over the same period, depreciation increased by CHF 6 million to CHF 27 million. Amortization of intangible assets slightly increased to CHF 4 million in 2006.

Investment Bank

- Leading investment banking and securities firm for corporate and institutional clients, governments, financial intermediaries and alternative asset managers
- 2007 results were impacted by substantial losses on exposures to the US residential mortgage market
- Repositioning of the Investment Bank based on client-driven businesses and core franchises

Business description

The Investment Bank comprises the following business units:

The **equities** business unit distributes, trades, finances and clears cash equity and equity-linked products. It also structures, originates and distributes new equity and equity-linked issues and provides research on companies, industry sectors, geographical markets and macro-economic trends

The **fixed income, currencies and commodities (FICC)** business unit services corporate, institutional and public sector clients in all major markets globally. Major business areas include: credit, rates, foreign exchange and money markets, structured products, commodities, debt capital markets and emerging markets

The **investment banking** department provides services to corporate clients, financial sponsors and hedge funds. Its advisory group assists on transactions and advises on strategic reviews and corporate restructuring solutions. Its capital markets and leveraged finance teams arrange the execution of primary and secondary equity, as well as debt issues worldwide

Performance in 2007

- Pre-tax loss of CHF 15,525 million (profit of CHF 5,943 million in 2006), due to losses in FICC on sizeable positions related to the US mortgage market
- Performance in other areas was strong:
  Record equities revenues, up 13% from 2006, and retained market leadership in secondary equities trading
  Record investment banking revenues, up 39% from 2006, with market share gains exceeding growth of global fee pool

Recent developments

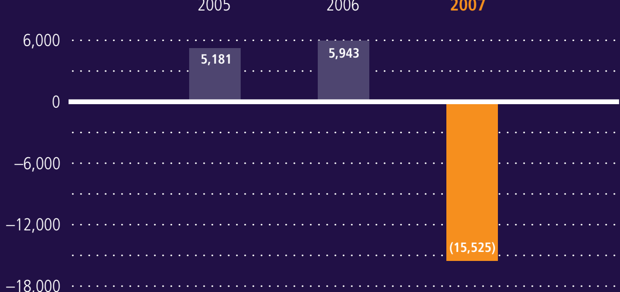
Repositioning of FICC to:
- strengthen client-facing businesses
- improve cooperation with other parts of UBS
- strengthen risk discipline
- create a workout group for mortgage-backed securities and collateralized debt obligation portfolios, including the positions that caused the 2007 losses

Business group reporting

	As of or for the year ended	
CHF million, except where indicated	**31.12.07**	31.12.06
Equities	**10,603**	9,397
Fixed income, currencies and commodities (FICC)	**(15,681)**	9,056
Investment banking	**4,540**	3,273
Adjusted expected credit loss	**(19)**	61
Total operating income	**(557)**	21,787
Total operating expenses	**14,968**	15,844
Business group performance before tax	**(15,525)**	5,943
Personnel (full-time equivalents)	**21,932**	21,899

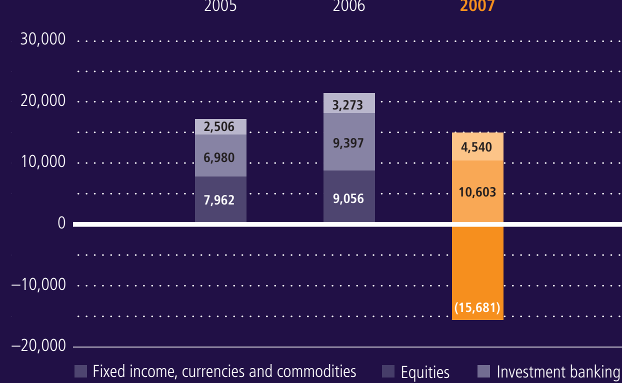
Performance before tax

CHF million



Income by business area

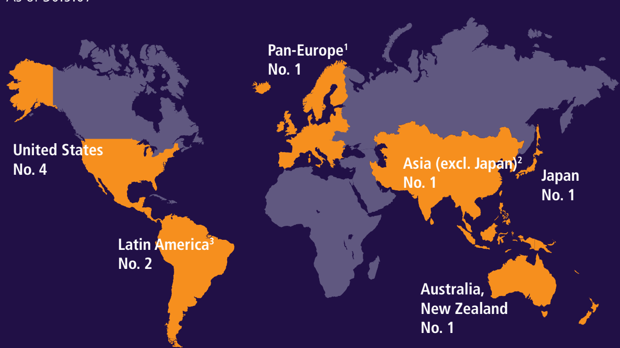
CHF million



Equities: share of secondary trading

Global market share: 14.3% (No. 1)

As of 30.9.07



Source: Leading industry survey

1 Pan-Europe is Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Greece, Austria, Belgium, Cyprus, Luxembourg, and Iceland
2 Asia ex-Japan is China, Hong Kong, India, Indonesia, South Korea, Philippines, Singapore, Malaysia, Taiwan, Thailand, Bangladesh, Cambodia, Fiji, Guam, Laos, Myanmar, Pakistan, Sri Lanka, Togo, Vietnam and Papua New Guinea 3 Latin America is Brazil, Peru, Venezuala, Colombia, Panama, Chile, Argentina and Mexico

Global fee pool market share

	Year ended		
	31.12.07	31.12.06	31.12.05
In %	**5.9**	4.9	5.0
Rank	**5**	8	7

Source: Dealogic

Investment Bank
Business description

UBS is a leading investment banking and securities firm, providing a broad range of products and services to corporate and institutional clients, governments, financial intermediaries and alternative asset managers.

Business

The Investment Bank is a global investment banking and securities firm. Its investment bankers, salespeople and research analysts, supported by internal risk and logistics teams, deliver advice and execution to clients all over the world. In addition to serving the world's key corporate and institutional clients, governments and financial intermediaries, the Investment Bank works with financial sponsors and hedge funds and indirectly meets the needs of private investors through both the UBS wealth management business and other private banks.

For both its corporate and institutional clients, and the clients of other parts of UBS, the Investment Bank provides products, research and advisory services and comprehensive access to the world's capital markets.

Through its market-leading investment banking department, the Investment Bank provides advice on cross-border mergers and acquisitions, in addition to raising capital for companies and governments. Traditionally one of the leaders in European corporate finance, the Investment Bank has also experienced very strong growth in the US and Asia Pacific in recent years.

An important partner for institutional clients, the Investment Bank is anchored by its market-leading equities business and complemented by both its top-tier foreign exchange business and broad product capabilities across fixed income markets.

Organizational structure

The Investment Bank is headquartered in London and New York and employs approximately 22,000 people across 38 countries. The businesses of the Investment Bank are organized into three distinct business units, which are run functionally on a global basis. The business units are:
- equities;
- fixed income, currencies and commodities (FICC); and
- investment banking (the investment banking department)

Although a strategy of organic development is pursued in the Investment Bank, its presence is enhanced through acquisitions when appropriate opportunities arise. Major acquisitions or internal transfers made over the last four years:
- the 2004 acquisition of Charles Schwab SoundView Capital Markets (the capital markets division of Charles Schwab), which made UBS one of the top traders on NASDAQ;
- an internal 2005 transfer of the US-based municipal securities unit into the fixed income area of FICC (from Wealth Management US) better positioned the Investment Bank to serve both investors and issuers;
- the 2005 acquisition of the remaining assets in Prediction Company, which specializes in the development of advanced financial and trading software, resulted in better trading technology for the Investment Bank;
- the September 2006 acquisition of ABN AMRO's global futures and options business, which increased the Investment Bank's ability to exploit product commoditization and globalization in exchange-traded derivatives;
- the December 2006 acquisition of the Brazilian financial services firm Banco Pactual, which made the Investment Bank a leader in its field in the significant and growing Brazilian market;
- the May 2007 reintegration of Dillon Read Capital Management's principal finance and credit arbitrage and commercial real estate businesses into the Investment Bank, which had previously been moved into Global Asset Management in June 2006; and
- the October 2007 combination of the fixed income and the money markets, currencies and commodities businesses to create the FICC area.

Legal structure

The Investment Bank operates through branches and subsidiaries of UBS AG. Securities activities in the US are conducted through UBS Securities LLC, a registered broker-dealer.

Vision

"Our goal is to be the Investment Bank with the fastest client-driven growth by building on our unique set of core strengths. We will create sustainable profits and value by prioritizing client service and providing seamless access to the capabilities of the whole firm to generate superior returns on allocated capital for our shareholders."

Competitors

As UBS is a global investment banking and securities firm, its Investment Bank competes against other major international players such as Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase, Lehman Brothers, Merrill Lynch and Morgan Stanley.

Products and services

Equities
The Investment Bank's equities business unit is a leading participant in the global primary and secondary markets for equity, equity-linked and equity derivative products. The business unit distributes, trades, finances and clears cash equity and equity-linked products. It also structures, originates and distributes new equity and equity-linked issues and provides research on companies, industry sectors, geographical markets and macro-economic trends.

UBS's equity research analysts provide independent assessments of the prospects for over 3,400 companies across most industry sectors and all geographical regions; this corresponds to some 87% of world market capitalization. This is complemented by economic, strategic, quantitative and derivative research.

UBS has the world's leading cash equities business, offering clients a full range of execution services: direct market access, algorithmic trading solutions, single stock, portfolio, capital commitment and block trading. A presence in every major world market gives institutional, hedge fund and intermediary client bases access to one of the deepest global liquidity pools, allowing the delivery of best execution to clients.

Derivatives are among the business unit's fastest growing products and it will continue to focus on providing innovative and customized investment solutions to institutional and corporate clients, in addition to private clients in the wealth management business and other intermediaries. In addition to products with returns linked to equities or equity indices, the business unit also offers derivative products linked to hedge funds, mutual funds, real estate and commodity indices, in a variety of formats such as over-the-counter, securitized and wrapped-in-a-fund products.

The equity capital markets team manages large and complex transactions, with the business unit having built a position for itself as a leading global distributor of block trades, rights offerings, initial public offerings and hybrid and convertible issues to both institutional and private clients in every market.

The prime services business provides integrated global services, including securities borrowing and lending, equity swaps execution, multi-asset class prime brokerage and exchange-traded derivatives. These services are provided to a rapidly expanding list of hedge fund, asset management and commodity trading clients. In 2006, the purchase of ABN AMRO's global futures and options business was a key step in the expansion of offerings in the exchange-traded derivative markets.

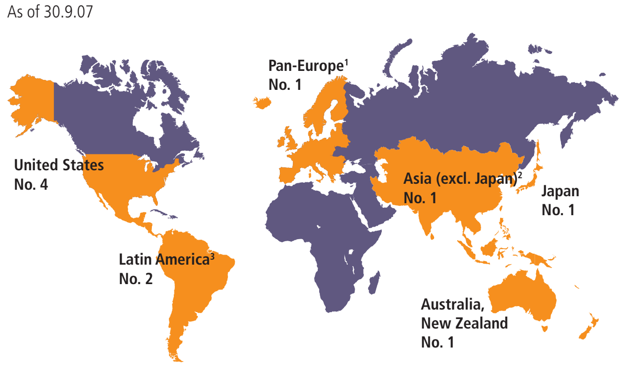
The equities business unit, through a focus on technology, has adapted and continuously improved its business processes and client services. Significant investments have been made in the technology platform, including direct market access, prime brokerage, derivatives, research and customer relationship platforms. This has led to recognition as a market leader in the provision of a number of electronic services, including equity research and trading, to clients.

Emerging markets are an increasingly important part of the business in all geographical regions and business lines, with particular strengths in Latin America and Asia, where there is a growing presence in China.

Equities: share of secondary trading

Global market share: 14.3% (No. 1)

As of 30.9.07



Source: Leading industry survey

1 Pan-Europe is Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Greece, Austria, Belgium, Cyprus, Luxembourg, and Iceland 2 Asia ex-Japan is China, Hong Kong, India, Indonesia, South Korea, Philippines, Singapore, Malaysia, Taiwan, Thailand, Bangladesh, Cambodia, Fiji, Guam, Laos, Myanmar, Pakistan, Sri Lanka, Togo, Vietnam and Papua New Guinea 3 Latin America is Brazil, Peru, Venezuala, Colombia, Panama, Chile, Argentina and Mexico

Fixed income, currencies and commodities

The integrated fixed income, currencies and commodities (FICC) business unit delivers a broad range of products and solutions to corporate, institutional and public sector clients in all major markets. At the end of 2007, the business unit was reorganized to simplify its operating model, improve client service, strengthen risk management and focus on its competitive strengths.

The business unit's global origination and distribution platforms provide clients with services across the spectrum of FICC products. A market-leading research group provides investors with superior analysis across a broad range of issuers, products, markets and industries.

The credit business delivers credit-related products and services to clients. It is active in the origination, underwriting, structuring and distribution of primary cash and synthetic credit transactions, as well as being active in secondary trading and market-making in high yield and investment grade bonds and loans in both cash and derivative products.

The rates business covers flow rate-driven products and services, including interest rate derivatives trading, underwriting and trading of government and agency securities. The services provided to their broad client base include trading strategy, pricing, trade execution and distribution, market-making and risk management of rates products in major currencies, as well as underwriting and origination of government securities.

The foreign exchange and money markets business provides a range of treasury and liquidity management solutions to institutional clients. Through white label services, other financial institutions are able to sell UBS products using their own brand names. Working with UBS's wealth management business, the business provides private individuals and family offices direct access to foreign exchange capabilities. Structured products and add-on services, such as research and prime brokerage to hedge funds, are also offered.

The structured products business combines the structured credit and rates teams and delivers product origination, pricing, execution and trading, as well as integrated risk management. The product suite covers yield-enhancing instruments and innovative derivatives solutions indexed to a broad range of FICC asset classes, as well as alternative assets such as weather derivatives and emissions products.

The commodities business is engaged in the power and gas, crude oil, metals and agricultural commodities markets. It trades derivatives and manages energy contracts for future physical delivery, and also arranges transactions and design structured risk management and investment solutions on behalf of asset and liability clients.

The real estate and securitization group is focused on the origination, structuring, trading and securitization of a broad range of asset-based and real estate-related securities. In light of recent market conditions, UBS began restructuring this part of FICC in order to strengthen its client-facing businesses, improve cooperation with other parts of UBS and introduce stronger risk discipline. As part of this, a workout group has been created for certain mortgage-backed securities and CDO portfolios.

The debt capital markets and structured solutions group offers debt financing and related risk management in investment grade and emerging markets to corporate, financial institution and public sector clients. In addition, the municipal banking business in the US assists state, local and other governmental authorities with their financing needs.

The emerging markets business has a local market presence in Latin America, through UBS Pactual, as well as in Asia and Central and Eastern Europe, enabling it to offer local investors access to international markets and international investors local exposure.

➔ **Repositioning of the fixed income, currencies and commodities unit is discussed in the "Strategy and development" section of this report**

UBS gross capital market and corporate finance fees

CHF million	**2007**	2006	2005
M&A and corporate finance fees	**2,768**	1,852	1,460
Equity underwriting fees	**2,564**	1,834	1,341
Debt underwriting fees and fees on Global Syndicated Finance positions	**1,712**	1,704	1,516
debt underwriting fees	**1,178**	1,279	1,264
fees on Global Syndicated Finance positions[1]	**534**	425	252
Other capital market revenues[2]	**702**	594	436
Gross capital market and corporate finance fees	**7,746**	5,984	4,753
Capital market fees booked outside investment banking[3]	**1,006**	856	943
Amount shared with equities and fixed income, currencies and commodities	**2,049**	1,689	1,182
Financing, hedging and risk adjustment costs	**151**	166	122
Net investment banking area revenues	**4,540**	3,273	2,506

1 Fees on Global Syndicated Finance positions comprises fees received from clients related to the syndication of lending business which is reported in net trading income. **2** Other capital market revenues comprise equity and debt revenues with investment banking involvement that are not underwriting fees (for example, derivative or trading revenues). **3** Capital market fees booked outside investment banking comprises equity and debt underwriting fees that had no investment banking involvement (for example, municipal or mortgage-backed securities).

Investment banking

The investment banking department provides first-class advice and a range of execution services to corporate clients, financial sponsors and hedge funds. Its advisory group assists both public and private companies in multiple aspects of a transaction, including negotiation, structuring, coordination of due diligence process, company valuation and drafting of both internal and external communication material. The investment banking department also advises on strategic reviews and corporate restructuring solutions. Its capital markets and leveraged finance teams arrange the execution of primary and secondary equity, as well as investment grade and non-investment grade debt issues worldwide.

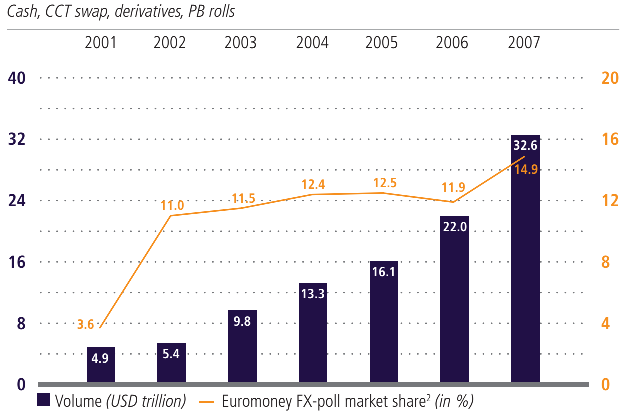
With over 2,000 client-facing professionals, the investment banking department has a presence in all major financial and economic markets. In order to meet the needs of clients, coverage is based on a comprehensive matrix of country, sector and product banking professionals.

Competitors generally include all of the major globally active investment banking firms and there has been little change in that landscape over the last few years. In certain developed markets, and in the increasingly important emerging market segment, there is also competition from locally-based investment banking firms. The investment banking department believes that its global presence, experienced professionals and breadth of product offering provide it with competitive advantages.

A number of steps have been taken to expand in areas where identified market opportunities exist. One area of focus that has seen a significant return on investment is the BRIC countries (Brazil, Russia, India and China). The investment banking department is a major player in these markets, ranking first on a fee basis for the overall BRIC market and in the top-ten for each country, according to *Dealogic*. The integration of Banco Pactual successfully broadened the business's reach into Latin America and the investment in Beijing

Foreign exchange: Euromoney-eligible volumes[1]

Cash, CCT swap, derivatives, PB rolls



1 Eligible volumes not equal to reported UBS volumes.
2 FX-poll results are based on the previous year's volume.

Selected deals

Mergers and acquisitions (M&A)

Sole financial advisor to the Board of Directors of aluminum company *Alcan* on the USD 44 billion recommended offer from Rio Tinto which followed Alcoa's earlier USD 33 billion unsolicited takeover bid

Joint lead financial advisor to *ABN AMRO* on its EUR 71 billion acquisition through a public offer by a consortium of Fortis, Royal Bank of Scotland and Santander, lead financial advisor to ABN AMRO on the USD 21 billion sale of LaSalle to Bank of America and the EUR 9 billion sale of Banca Antonveneta to Banca Monte dei Paschi di Siena

Equity capital markets

Joint bookrunner on the USD 2.9 billion initial public offering of *MF Global*, a leading broker of exchange-listed futures and options

Joint lead manager, joint sponsor and joint bookrunner on the USD 8.9 billion IPO of *PetroChina* on the Shanghai Stock Exchange, the largest IPO ever in China

Debt capital markets

Joint book-runner on a EUR 5 billion equivalent dual currency multi-tranche issue for *Enel*, Italy's largest utility company. UBS was the only international bank involved in the M&A and in the equity, bond and syndicated loan elements of the financing for Enel's acquisition of Endesa

Joint bookrunner on a EUR 3 billion dual tranche offering for *GECC*, an American financial services company

Global Syndicated Finance

Joint lead arranger and underwriter of AUD 3.6 billion senior debt facilities and AUD 600 million subordinated bridge facility in connection with the buyout of *PBL Media*, the newly established Australian media and entertainment company, in the largest ever leveraged buyout in Australia

Sole lead arranger on the USD 875 million senior secured credit facilities for *Algoma Steel*

Selected awards

Investment Bank

Best Global Emerging Markets Investment Bank – *Euromoney 2007*

IBD

M&A Bank of the Year – *Acquisition Monthly 2008*

IPO House of the Year – *The Banker 2007*

Equities

Equity House of the Year – *IFR 2007*

No. 1 Global Equity Derivatives for Corporates – *Risk 2005–2007*

Fixed income currencies and commodities

Best Bank Overall for the last 20 years – *EuroWeek 2007*

Modern Great Currency House for the last 20 years – *Risk 2007*

Securities (subsequently UBS Securities) resulted in UBS being one of the first foreign banks with a platform to issue China A shares, further strengthening its position in China. Investment continues in India and Russia, where recent structural changes will allow the investment banking department to enhance its presence in the market.

Strategic opportunities

In light of the market dislocation in 2007 and the continuing volatility in early 2008, the outlook for investment banking services is mixed. The equities business unit should benefit from the continued growth of prime brokerage and derivatives, while preserving its stable cash businesses. While a considerable level of uncertainty surrounds many fixed income asset classes, investors are expected to continue to seek diversity of exposure with greater yield potential. The repositioned FICC business unit is now well placed to meet its clients' intermediation, structuring and trading needs in these challenging markets. In the investment banking department, mergers and acquisitions, equity capital markets and financial sponsor-driven activity are expected to decline. However, financial institutions are anticipated to be active in both capital raising and consolidation as a result of the recent credit market dislocation. In all of its business areas, the Investment Bank will build upon its strong positions in Europe, Asia Pacific and the emerging markets.

To better service clients, a number of initiatives are being initiated to enable the Investment Bank to leverage its product strengths and improve alignment across the whole of UBS. These include the combination of the equity and debt capital markets businesses, the creation of an integrated structured products team for the wealth management business, the integration of UBS's industry leading research capabilities, the alignment of the investment banking department and FICC coverage for financial institutions, and the creation of an integrated electronic execution platform for the securities businesses. These key initiatives will enable provision of comprehensive advice and innovative solutions across asset classes for clients.

The Investment Bank is also focused on more efficiently utilizing the resources available to it. It intends to continue to reduce the size of the balance sheet and more risk-efficient revenues will be promoted through a new market-based funding model and a robust risk framework. This will be supported by an increased emphasis on cost containment and workforce productivity in order to generate real operational leverage.

Success of the Investment Bank's strategy is founded on the talent and expertise within the firm. The business group will therefore continue to attract, develop and retain the best people and foster a collaborative and meritocratic culture.

By working to deliver the full complement of UBS's services and products to clients, the Investment Bank is well positioned to take advantage of market opportunities and generate profitable and sustainable growth.

Business performance

Business group reporting

	For the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Equities	**10,603**	9,397	6,980	13
Fixed income, currencies and commodities	**(15,681)**	9,056	7,962	
Investment banking	**4,540**	3,273	2,506	39
Income	**(538)**	21,726	17,448	
Adjusted expected credit loss [1]	**(19)**	61	36	
Total operating income	**(557)**	21,787	17,484	
Cash components	**8,918**	9,801	8,065	(9)
Share-based components [2]	**1,499**	1,552	1,194	(3)
Total personnel expenses	**10,417**	11,353	9,259	(8)
General and administrative expenses	**3,423**	3,260	2,215	5
Services (to)/from other business units	**746**	956	640	(22)
Depreciation of property and equipment	**210**	203	136	3
Amortization of intangible assets	**172**	72	53	139
Total operating expenses	**14,968**	15,844	12,303	(6)
Business group performance before tax	**(15,525)**	5,943	5,181	

Key performance indicators

Compensation ratio (%) [3]	**N/A[4]**	52.3	53.1	
Cost/income ratio (%) [5]	**N/A[4]**	72.9	70.5	
Impaired lending portfolio as a % of total lending portfolio, gross	**0.4**	0.1	0.2	
Average VaR (10-day, 99% confidence, 5 years of historical data)	**537**	420	346	28

Capital return and BIS data

Return on allocated regulatory capital (%) [6]	**(63.0)**	29.4	28.6	
BIS risk-weighted assets	**190,763**	174,599	151,313	9
Goodwill and excess intangible assets [7]	**5,300**	5,465	4,309	(3)
Allocated regulatory capital [8]	**24,376**	22,925	19,440	6

Additional information

Deferral (included in adjusted expected credit loss) [1]	**217**	232	155	(6)
Expected credit loss (included in adjusted expected credit loss) [1]	**(236)**	(171)	(119)	(38)
Personnel (full-time equivalents)	**21,932**	21,899	18,174	0

1 In management accounts, adjusted expected credit loss rather than credit loss expense or recovery is reported for the business groups (see Note 2 in *Financial Statements 2007).* The adjusted expected credit loss is the sum of expected credit loss and deferrals. The expected credit loss reflects expected average annual impairments costs. The deferral represents the difference between actual credit loss and expected credit loss, amortized over a three-year period. **2** Additionally includes related social security contributions and expenses related to alternative investment awards. **3** Personnel expenses/income. **4** Both the cost/income and the compensation ratios are not meaningful due to losses recorded in the Investment Bank. **5** Operating expenses/income. **6** Business group performance before tax/average allocated regulatory capital. **7** Goodwill and intangible assets in excess of 4% of BIS Tier 1 capital. **8** 10% of BIS risk-weighted assets plus goodwill and excess intangible assets.

Components of operating income

The Investment Bank generates operating income from:
– commissions on agency transactions and spreads or markups on principal transactions;
– fees from debt and equity capital markets transactions, leveraged finance, and the structuring of derivatives and complex transactions;
– mergers and acquisitions and other advisory fees;
– interest income on principal transactions and from the loan portfolio; and
– realized and mark-to-market gains and losses on market making, proprietary, and arbitrage positions.

As a result, operating income is affected by movements in market conditions, interest rate swings, the level of trading activity in primary and secondary markets and the extent of merger and acquisition activity. These and other factors have had, and may have in the future, a significant impact on results of operations from year-to-year.

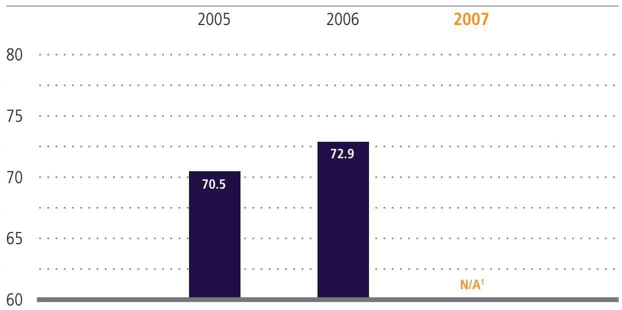
2007

Key performance indicators

Neither the cost/income ratio nor the compensation ratio are meaningful in 2007 due to the negative total operating income relating to the US sub-prime crisis. In 2006, the cost/income ratio was 72.9% and the full-year compensation ratio 52.3%.

Cost/income ratio

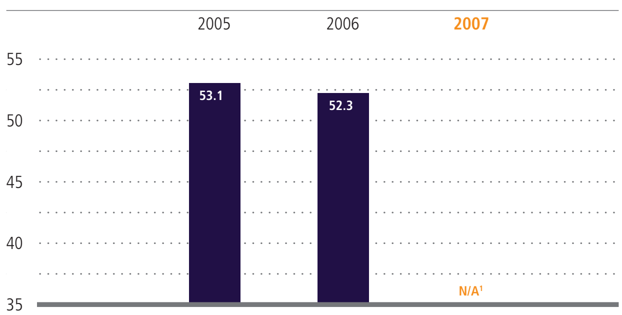
in %



1 The cost/income ratio is not meaningful due to losses recorded in the Investment Bank.

Compensation ratio

in %



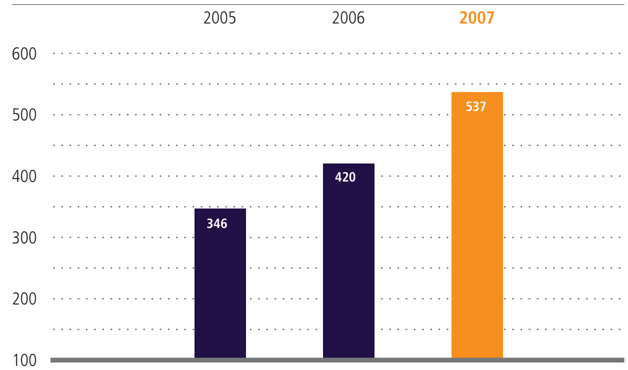
1 The compensation ratio is not meaningful due to losses recorded in the Investment Bank.

Average Value at Risk (VaR – 10-day, 99% confidence, 5 years of historical data) increased to CHF 537 million, up from CHF 420 million in 2006. Year-end VaR was also higher at CHF 614 million, up from CHF 473 million the previous year, reflecting the exposure to the US residential mortgage market.

➔ **Market risk developments in 2007 are explained in detail in the respective sections in *Risk, Treasury and Capital Management 2007***

Average VaR (10-day, 99% confidence, 5 years of historical data)

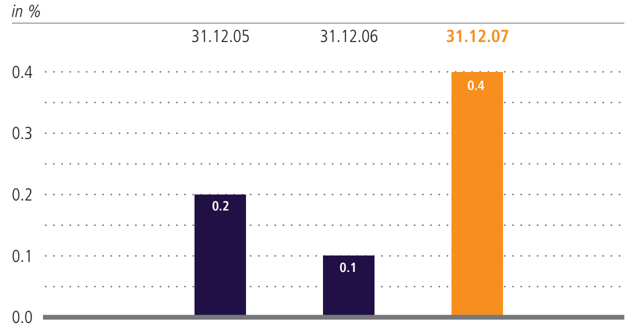
CHF million



The gross lending portfolio in the Investment Bank was CHF 148 billion, up from CHF 120 billion on 31 December 2006, reflecting the expanding prime brokerage and exchange traded derivatives businesses. The gross impaired lending portfolio to total gross lending portfolio ratio rose to 0.4% in 2007 from 0.1% in 2006.

Impaired lending portfolio as a % of total lending portfolio, gross

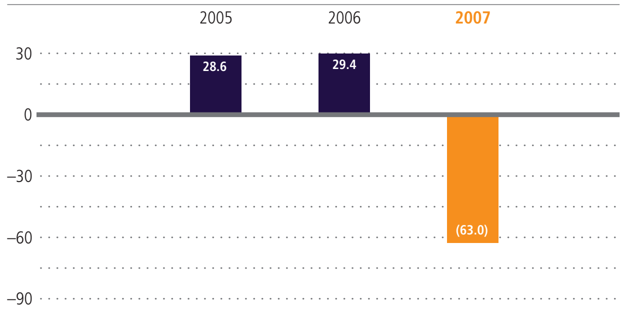
in %



The return on allocated regulatory capital was negative 63%, a reflection of the losses mentioned previously. The extreme market volatility since the start of third quarter 2007, which pushed up 10-day 99% VaR, has increased market risk regulatory capital requirements. Continuous high volatility, especially in credit markets, resulted in an increase in risk-weighted assets on derivative products.

Return on allocated regulatory capital

in %



Results

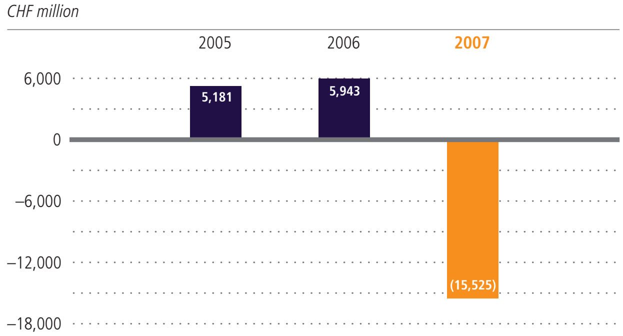
In 2007 the Investment Bank recorded a pre-tax loss of CHF 15,525 million compared with a profit of CHF 5,943 million in 2006, primarily due to the losses totaling approximately USD 18.7 billion (CHF 21.3 billion) recorded on positions related to the US residential sub-prime and Alt-A real estate market which more than offset the solid performance in other areas.

➔ **For more details on these losses, please see Note 3 in *Financial Statements 2007***

For full-year 2007, equities posted record results with very strong cash commissions, derivatives and prime services revenues. The investment banking department also had a record year in 2007, with all geographical regions showing double-digit growth. Operating expenses for the Investment Bank decreased from 2006, mainly reflecting lower performance-related bonus accruals and a change in the composition of bonus between cash and shares. This was partially offset by higher salary and general and administrative costs, driven by increased average staff levels over the year.

Performance before tax

CHF million



Operating income

Total operating income in 2007 was negative CHF 557 million, down from CHF 21,787 million a year earlier.

Equities revenues, at CHF 10,603 million in 2007, were up 13% from CHF 9,397 million in 2006. Overall, cash equity revenues were higher, with strong volumes leading to record commissions, partially offset by greater client facilitation costs. Despite a slowdown in the second half of 2007, the derivatives business posted its highest ever results following strong growth in Asia Pacific and Europe, Middle East & Africa. The exchange traded derivatives business rose as it benefited from a full year of ABN AMRO's futures and options (acquired on 1 October 2006) revenues. Prime brokerage services continued to grow as client numbers and balances increased. Equity capital markets revenues rose in the Americas and Europe, Middle East & Africa due to a very strong pipeline throughout 2007. Equities proprietary trading revenues sharply declined compared to the prior year, related to the credit market dislocation in the US. The equity linked businesses also contributed lower returns compared to 2006.

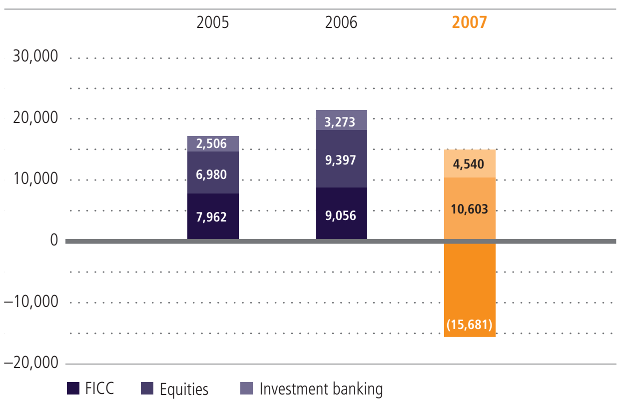
Fixed income, currencies and commodities (FICC) revenues were negative CHF 15,681 million, down from positive CHF 9,056 million a year earlier. The credit market dislocation affected most of the FICC businesses in the second half of 2007, leading to losses on mortgage related positions. Credit recorded losses in both client and proprietary trading in the context of extreme market disruption and low liquidity at the end of 2007. Structured products revenues were down compared to last year, largely driven by the negative impact of the credit dislocation. Commodities revenues declined due to lower volumes and volatility, especially affecting power and gas and to a lesser extent precious metals.

These negative effects were only partially offset by positive results in certain areas. The emerging markets business result was up as full-year revenues from Banco Pactual were included. Positive results were also driven by the demutualization and mark-to-market gains on the stake in the Brazil Mercantile & Futures Exchange. The underlying foreign exchange spot business saw strong increase due to higher volumes. The foreign exchange distribution business also posted very good results, stemming from all geographical regions. The Rates business was up, driven by higher results in European derivatives. FICC income was further helped by gains of CHF 397 million on credit default swaps hedging loan exposures, compared with a loss of CHF 245 million the previous year.

Revenues of the investment banking department, at CHF 4,540 million in 2007, increased 39% from CHF 3,273 million the previous year. This reflected growth in each geographical region, especially in the Americas. While the advisory and the equity capital markets business reported significant gains over the prior year, the debt capital market and the leveraged finance franchise were down, the latter impacted by challenging markets in the second half of 2007.

Income by business area

CHF million



Operating expenses

Operating expenses declined by CHF 876 million to CHF 14,968 million in 2007, a 6% decrease from CHF 15,844 million the previous year.

Personnel expenses, at CHF 10,417 million in 2007, decreased 8% from a year earlier, reflecting lower accruals of performance-related compensation and a change in the composition of bonuses between cash and shares. This was partially offset by higher salary costs due to organic growth and the acquisition of Banco Pactual and ABN AMRO's futures and options business. In addition, severance payments were made for redundancies towards the end of the year. Share-based compensation declined 3% from the prior year as a result of a decrease in social security expenses following a lower UBS share price. This was partially offset by accelerated amortization of deferred compensation for certain terminated employees.

General and administrative expenses were CHF 3,423 million in 2007, up 5% from 2006's CHF 3,260 million. Professional fees were up due to higher legal-related expenditures in all businesses. Occupancy costs in the Americas and Asia Pacific, rent and maintenance of machines and equipment and IT and other outsourcing costs rose due to higher staff levels. Administration expenditures rose as well. This was partially offset by lower provisions compared to 2006.

Charges from other business units decreased to CHF 746 million in 2007 from CHF 956 million in 2006. The decline reflects lower charges by Global Asset Management for management of the Investment Bank's funds invested in Dillon Read Capital Management (DRCM), which was reintegrated into the Investment Bank in May 2007, and as a result of the 2007 performance-related credit from Industrial Holdings. This was only partially offset by higher charges from the information technology infrastructure unit as a result of the increased levels of staff.

Depreciation rose slightly, by 3%, to CHF 210 million in 2007 from CHF 203 million in 2006. This was due to additional office space in the Americas and Europe.

The amortization of intangible assets, at CHF 172 million in 2007, was up 139% from CHF 72 million a year earlier due to the two acquisitions – Banco Pactual and ABN AMRO's futures and options business.

2006

Key performance indicators

The cost/income ratio rose to 72.9% in 2006 from 70.5% in 2005. The increase in performance-related personnel expenses and higher general and administrative expenses was only partly offset by revenue growth in all three Investment Bank business units.

The full-year compensation ratio, at 52.3%, fell 0.8 percentage points between 2005 and 2006. Higher revenues more than offset higher performance-related compensation and increased staff levels.

Average Value at Risk (VaR – 10-day, 99% confidence, 5 years of historical data) increased to CHF 420 million, up from CHF 346 million in 2005. Year-end VaR was also higher at CHF 473 million, up from CHF 355 million in 2005, following the integration of Banco Pactual from 1 December 2006.

The total gross lending portfolio at the Investment Bank was CHF 134 billion on 31 December 2006 compared with CHF 97 billion on 31 December 2005, reflecting expansion of the prime brokerage and exchange traded derivatives businesses. The gross impaired lending portfolio to total gross lending portfolio ratio fell to 0.1% from 0.2% in the same period.

The return on allocated regulatory capital was 29.4% in 2006, up from 28.6% a year earlier, reflecting the increase in profit. Risk-weighted assets grew, mainly driven by higher credit exposures from over-the-counter (OTC) derivatives, collateral trading and the leveraged finance portfolio. Goodwill and excess intangible assets rose compared with 2006 due to the acquisitions of Banco Pactual and ABN AMRO's futures and options business.

Results

Pre-tax profit in 2006 was CHF 5,943 million, up 15% from 2005. This result was driven by strong revenues in equities (up 35%) and in the investment banking department (up 31%), which saw strong performances across all regions. The increase in FICC (up 14%) reflected progress in the plan to expand global syndicated finance, asset-backed securities, structured credit and the commodities businesses, as well as strong revenues in foreign exchange and cash and collateral trading. DRCM's business activities managed on behalf of the Investment Bank achieved revenues at a level consistent with 2005. Investments were also made in information technology infrastructure and more professional fees were incurred.

Operating income

Total operating income in 2006 was CHF 21,787 million, up 25% from CHF 17,484 million a year earlier.

Equities business unit revenues, at CHF 9,397 million in 2006, were up 35% from CHF 6,980 million in 2005. Overall, cash equity revenues were higher, with results benefiting from positive market conditions. Increased cash commissions were partially offset by greater facilitation costs from clients. Revenues in the derivatives business increased globally while equity capital markets revenues rose with increased capital raising activities. Prime brokerage services continued to grow as client numbers and balances increased. Exchange-traded derivatives revenues rose, boosted by the impact of the acquisition of ABN AMRO's global futures and options business. Proprietary, as well as the equity-linked businesses, also contributed to higher returns.

FICC revenues were CHF 9,056 million, up 14% from CHF 7,962 million in 2005. Revenues in the rates business were up against 2005 in energy trading, mortgage-backed securities, structured credit and secondary loan activity. This was partially offset by lower income from derivatives. Syndicated finance also recorded higher income as the business benefited from increased market activity. Credit default swaps hedging loan exposures recorded a loss of CHF 245 million compared with gains of CHF 103 million in 2005. While municipal securities revenues were lower in 2006, the foreign exchange and cash collateral trading business, especially the metals business, saw a significant increase in revenues.

Investment banking department revenues, at CHF 3,273 million in 2006, increased 31% from CHF 2,506 million a year earlier. This reflected growth in each region, especially in Asia. The debt and equity capital markets groups reported significant gains over 2005. The leveraged finance franchise continued to grow. Revenues from the advisory business also increased compared with 2005, as clients took advantage of strategic opportunities.

Operating expenses

Operating expenses rose by CHF 3,541 million to CHF 15,844 million in 2006, a 29% increase from CHF 12,303 million in 2005.

Personnel expenses, at CHF 11,353 million in 2006, increased 23% from 2005, reflecting an increase in the bonus accrual and additional salaries due to higher staff levels. Share-based compensation rose 30% from prior year as a result of higher share awards in 2006, and the increased fair value of options granted in 2006 – driven by the rise in UBS's share price.

General and administrative expenses were CHF 3,260 million in 2006, up 47% from 2005's CHF 2,215 million. IT and other outsourcing costs, as well as professional fees, rose as a result of higher project spending in support of future business growth in fixed income, prime brokerage and emerging markets. Administration, travel and entertainment and, to a lesser extent, occupancy expenses increased as well. Provision levels in 2006 rose from 2005.

Charges from other business units increased to CHF 956 million in 2006 from CHF 640 million in 2005. The rise reflects the charges by Global Asset Management for managing the Investment Bank's funds invested in DRCM, as well as higher charges from the infrastructure technology unit as a result of the increased levels of staff.

Depreciation rose by 49% to CHF 203 million in 2006 from CHF 136 million in 2005 due to higher IT write-offs, office expansion and renewal costs.

The amortization of intangible assets, at CHF 72 million in 2006, was up 36% from CHF 53 million a year earlier due to the two acquisitions – Banco Pactual and ABN AMRO's futures and options business.

Corporate Center
Business description

Corporate Center partners the business groups to ensure that UBS operates as an effective and integrated firm, according to a common vision and set of values. The functions of Corporate Center encompass risk, financial control, treasury, communication, legal and compliance, human resources, strategy, offshoring and technology.

Aims and objectives

Corporate Center helps UBS to manage its complementary businesses, underpinning the bank's commitment to the "one-firm" approach. It strives to maintain an appropriate balance between risk and return while establishing and controlling UBS's corporate governance processes, including compliance with relevant regulations. Each functional head in the Corporate Center has authority across UBS's businesses for his or her area of responsibility, including the authority to issue Group-wide policies for that area, and is directly reported to by their business group counterpart.

Corporate Center is responsible for the following activities in UBS:
- financial, tax and capital management;
- risk control, legal and compliance activities;
- communicating with all UBS stakeholders;
- branding; and
- positioning the firm as the employer of choice.

In addition, Corporate Center also assumes operational responsibility for certain business units that provide shared services to the business groups – among them the information technology infrastructure and offshoring units (including the service centers in India and Poland).

Organizational structure

The Corporate Center consists of its operational functions plus the information technology infrastructure and offshoring units. It is led by the Chief Operating Officer (COO) of the Corporate Center and its operational functions are managed by the Corporate Center Executive Committee.

Although not formally a part of Corporate Center, the costs for the Chairman's Office (which comprises the Company Secretary, Board of Directors (BoD) and Group Internal Audit) are reported in its financial statements.

Chief Operating Officer of the Corporate Center

The Chief Operating Officer (COO) of the Corporate Center is head of the Corporate Center and responsible for its business planning and forecasting, as well as its human resources core processes. Additionally, the holder of this position is also the Group Executive Board (GEB) member responsible for information technology infrastructure, Group Offshoring and the corporate real estate portfolio for UBS's own use.

Group Chief Financial Officer

The Group Chief Financial Officer (Group CFO) is responsible for ensuring that presentation of the financial performance of both the Group and its businesses is transparent. The role also entails responsibility for the Group's financial reporting, planning, forecasting and controlling processes, as well as the provision of advice on financial aspects of strategic plans and mergers and acquisitions transactions. Further responsibilities include overseeing UBS's tax and capital management. In coordination with the Group General Counsel and Chief Communication Officer, the Group CFO defines the standards for accounting, reporting and disclosure and, together with the Chief Executive Officer, provides external certifications under sections 302 and 404 of the US Sarbanes-Oxley Act of 2002. These duties are in addition to managing relations with investors and coordination of working relationships with internal and external auditors.

Group Chief Risk Officer

The Group Chief Risk Officer (Group CRO) is responsible for developing UBS's risk management and control principles. The position is also responsible for the independent risk control processes for credit, market and operational risks. The Chief Credit Officer, the Head of Market Risk and the Head of Operational Risk all report to the Group CRO. These four roles work together to manage the following: formulating and implementing risk policies and control processes; developing risk quantification methods and sets; monitoring associated limits and controls; ensuring that risks are completely and consistently recorded and aggregated; and ensuring that exposures are continuously monitored, pro-actively controlled and remain within approved risk profiles. Further, the four positions also work together to ensure that UBS's approach is consistent with best market practice and that the firm is operating within its agreed risk bearing capacity. Each Risk Officer exercises specific risk control authorities.

Group General Counsel

The Group General Counsel has Group-wide responsibility for legal and compliance matters and for legal and compliance policies and processes, supported by the Head of Group Compliance. The position is responsible for defining the strategy, goals and organizational structure of the legal function, in addition to setting and monitoring the Group-wide quality standards for handling the legal affairs of the Group. Supported by the Head of Group Compliance, the Group General Counsel is responsible for ensuring that UBS meets relevant regulatory and professional standards in the conduct of its business. Other responsibilities include supervision of the General Counsels of the business groups and working closely with the Group CRO with regard to the operational risk aspects of legal and liability risk. Furthermore, the Group General Counsel represents UBS's interests to the policy-makers and, in close cooperation with the Group CRO and Group CFO as appropriate, establish Group-wide management and control processes for the Group's relationship with regulators.

Group Treasurer

The Group Treasurer is responsible for the management of UBS's financial resources and financial infrastructure. The position is responsible for Group-level governance of treasury processes and transactions relating to UBS's corporate legal structure, regulatory capital, balance sheet, funding and liquidity, and non-trading currency and interest rate risk. Additional responsibilities include the issuance of policies in order to ensure proper management and efficient co-ordination of treasury processes on a Group-wide basis. The Group Treasurer manages the Group's equity, taking into account financial ratios and regulatory capital requirements, with a view to maintaining strategic flexibility, and adequate capitalization and ratings levels. The position manages UBS's holdings of its own shares and recommends corporate actions to the GEB and the BoD.

Head of Group Controlling & Accounting

The Head of Group Controlling & Accounting has UBS-wide responsibility for financial control. The position is responsible for the production and analysis of accurate and objective regulatory, financial and management accounts and reports. The Head of Group Controlling & Accounting communicates relevant financial and regulatory information to the BoD, GEB, Group Managing Board (GMB), the Audit Committee, internal and external auditors and the CFOs of the business groups. The position is also responsible for operating the UBS-wide quarterly and annual SOX 302-certification process and supports the Group CFO in the Group's planning and forecasting process.

Head of Group Accounting Policy

The Head of Group Accounting Policy establishes Group-wide financial accounting policies and supports the business groups and the Corporate Center in their responsibility to implement and enforce the Group accounting policy framework. The position manages relations with external auditors and accounting standards bodies.

Chief Communication Officer

The Chief Communication Officer is responsible for managing UBS's communication to its various stakeholders, ensuring that a positive and powerful image of UBS is established and broadcast to all stakeholders globally. Another key responsibility is the development of the strategy, content and positioning of communications of corporate importance, emphasizing transparency, consistency, speed and integrity. The Chief Communication Officer presents UBS and its businesses to the media, enhancing and protecting the firm's reputation. To employees, the position promotes understanding of the firm's strategies, performance and culture. The Chief Communication Officer also presents UBS to investors, analysts and rating agencies, is responsible for preparing and publishing quarterly and annual reporting products, manages and promotes the UBS corporate brand via advertising, sponsorship, art and visual design and coordinates UBS's approach to corporate responsibility.

Group Head Human Resources

The Group Head Human Resources has UBS-wide responsibility for human resources. The position is responsible for shaping a meritocratic culture of ambition and performance and promoting UBS's values for action. The Group Head Human Resources builds UBS's capacity to attract and retain the best talent, in addition to creating an innovative and flexible work environment to ensure that all employees from different cultures and backgrounds with different perspectives can develop and succeed. Other responsibilities include succession planning for senior executives, designing and administering global compensation and benefits programs and the design, development and delivery of leadership development programs targeted at current and future senior leaders.

Chief Technology Officer (CTO)

The Chief Technology Officer (CTO) is the head of the information technology infrastructure unit (ITI). This unit encompasses all information technology infrastructure teams across UBS, covering management of data networks, telephone and other communications systems, IT security, distributed computing and servers, mainframes and data centers, market data services, user services and desktop computing. The unit focuses on serving all UBS's businesses in a client-driven and cost-efficient way, as well as building towards a consistent technical architecture across UBS through the execution of the technology infrastructure strategy.

Group Offshoring

The Head Group Offshoring is responsible for delivering offshoring services to the business groups at appropriate and competitive prices. The service centers, which are operated by UBS staff in India and Poland, ensure that physical and technical features meet UBS risk and quality standards and comply with the operational risk framework.

Financial results

Business group reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Income	**2,873[1]**	294	455	877
Credit loss (expense)/recovery [2]	**(392)**	(61)	232	(543)
Total operating income	**2,481**	233	687	965
Cash components	**1,215**	1,133	1,059	7
Share-based components [3]	**168**	131	108	28
Total personnel expenses	**1,383**	1,264	1,167	9
General and administrative expenses	**1,298**	1,242	1,084	5
Services (to)/from other business units	**(2,194)**	(1,978)	(1,730)	(11)
Depreciation of property and equipment	**739**	783	857	(6)
Amortization of intangible assets	**0**	9	17	(100)
Total operating expenses [4]	**1,226**	1,320	1,395	(7)
Business group performance from continuing operations before tax	**1,255**	(1,087)	(708)	
Business group performance from discontinued operations before tax	**7**	4	4,564	75
Business group performance before tax	**1,262**	(1,083)	3,856	

Additional information

BIS risk-weighted assets	**7,984**	8,969	8,143	(11)
Personnel (full-time equivalents)	**6,913**	4,771	3,922	45
Personnel excluding information technology infrastructure (ITI) (full-time equivalents)	**2,570**	1,716	1,370	50
Personnel for ITI (full-time equivalents)	**4,343**	3,055	2,552	42

1 Includes pre-tax gain of CHF 1,950 million related to the sale of 20.7% stake in Julius Baer. **2** In order to show the relevant business group performance over time, adjusted expected credit loss rather than credit loss expense is reported for all business groups. The difference between the adjusted expected credit loss and credit loss expense recorded at Group level is reported in the Corporate Center (see Note 2 in *Financial Statements 2007).* **3** Additionally includes related social security contributions and expenses related to alternative investment awards. **4** Includes expenses for the Chairman's office (comprising the Company Secretary, Board of Directors and Group Internal Audit).

2007

Results

Corporate Center recorded a pre-tax profit from continuing operations of CHF 1,255 million in full-year 2007. This improvement, up from a loss of CHF 1,087 million in 2006, was mainly related to the CHF 1,950 million gained from the sale of a 20.7% stake in Julius Baer. In addition, positive cash flow hedges and higher income from the investment of equity also assisted the 2007 result. While all these developments helped operating income to rise, higher levels of credit loss expenses in 2007 moderated the increase.

Operating income

Total operating income increased to CHF 2,481 million in 2007 from CHF 233 million in 2006. This mainly reflects higher income, up from CHF 294 million in 2006 to CHF 2,873 million in 2007, which was boosted by the gains from the sale of UBS's 20.7% stake in Julius Baer, positive impacts from cash flow hedges and higher proceeds from the investment of equity. This was partially offset by substantially increased credit loss expense recorded this year compared with a year earlier.

The credit loss result booked in Corporate Center represents the difference between the adjusted expected credit loss result booked in the business groups and the actual credit loss expense recognized in UBS's financial statements. In 2007, UBS recorded a credit loss expense of CHF 238 million. The adjusted expected credit loss booked in the business groups was a recovery of CHF 154 million, resulting in a difference of CHF 392 that was booked in Corporate Center as a credit loss expense. In 2006, Corporate Center booked a credit loss expense of CHF 61 million.

Operating expenses

Total operating expenses were CHF 1,226 million in 2007, down CHF 94 million from CHF 1,320 million in 2006. At CHF 1,383 million in 2007, personnel expenses were up 9% from CHF 1,264 million in 2006, mainly reflecting the higher personnel numbers in information technology infrastructure (ITI), driven by higher business demand. Accelerated amortization of share-based compensation to certain terminated employees during their employment also drove personnel costs up. In the same period, general and administrative expenses increased 5% to CHF 1,298 million from CHF 1,242 million. This is mainly related to higher ITI expenses in support of higher staff levels in the business groups. Operating Corporate Center also booked higher expenses in all areas. This was partially offset by lower provisions (2006 included a small portion of the provision for sub-leasing office space in the US) and advertising expenditures. Other businesses were charged CHF 2,194 million compared to CHF 1,978 million, reflecting the business driven cost increases of ITI and the India Service Centre. Depreciation of property and equipment decreased to CHF 739 million by CHF 44 million, or 6%, as several software components came to the end of their depreciation cycle. Amortization of intangible assets was CHF 0 million in 2007, CHF 9 million below the level a year earlier.

Information technology infrastructure

In 2007, the ITI cost per average number of financial business employees was CHF 27,131, a CHF 941 decrease from CHF 28,072 the previous year. This reflects a 12% increase in the average staff levels in financial businesses from 72,885 on 31 December 2006 to 81,715 at the end of 2007. ITI costs only increased by 8% during this period, supporting business growth plans.

2006

Results

Corporate Center recorded a pre-tax loss from continuing operations of CHF 1,087 million in full-year 2006, compared with a loss of CHF 708 million in 2005. The increased loss was mainly driven by a CHF 454 million decline in operating income.

Operating income

Total operating income decreased to CHF 233 million in 2006 from CHF 687 million in 2005. This reflected the credit loss expense recorded in 2006, which contrasted with the credit recovery reported in 2005. It was also a result of lower income from treasury activities.

The credit loss result booked in Corporate Center represents the difference between the adjusted expected credit loss result recorded in the business units and the credit loss expense/recovery recognized in the UBS financial statements. In 2006, UBS recorded a credit loss recovery of CHF 156 million compared to a recovery of CHF 375 million in 2005. In 2006, the adjusted expected credit loss recoveries of CHF 217 million credited to the business units exceeded UBS's credit loss recovery. The difference of CHF 61 million was recorded in Corporate Center as a credit loss expense compared with the recovery of CHF 232 million recorded in 2005.

Income decreased by CHF 161 million to CHF 294 million in 2006 compared to CHF 455 million in 2005, mainly due to lower real estate gains and losses related to cash flow hedging (that were gains in 2005). This was slightly offset by gains from foreign exchange options in 2006.

Operating expenses

Total operating expenses were CHF 1,320 million in 2006, down CHF 75 million from CHF 1,395 million in 2005. At CHF 1,264 million in 2006, personnel expenses were up 8% from CHF 1,167 million in 2005, mainly a reflection of higher personnel numbers in ITI driven by higher business demand and the hiring of people to address the growing complexity of regulatory requirements. Personnel costs increased due to higher performance-related compensation and higher expenses for share-based components as the UBS share price increased compared with 2005. In the same period, general and administrative expenses increased 15% to CHF 1,242 million from CHF 1,084 million. In ITI, expenses for rent and maintenance of IT equipment, occupancy and communications increased with higher staff levels. Costs also increased as a small portion of the provision for sub-leasing office space in the US was booked in Corporate Center. Other businesses were charged CHF 1,978 million compared to CHF 1,730 million, reflecting the business driven cost increases of ITI. Depreciation of property and equipment decreased to CHF 783 million by CHF 74 million, or 9%, as several software components came to the end of their depreciation cycle. Amortization of intangible assets was CHF 9 million in 2006, CHF 8 million below the 2005 level.

Information technology infrastructure

In 2006, the ITI cost per average number of financial business employees was CHF 28,072, up CHF 1,341 from CHF 26,731 in 2005, reflecting the impact of supporting businesses in their growth plans. This was partially offset by cost savings from centrally managing the ITI.

Industrial Holdings

Income statement

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.07**	31.12.06	31.12.05	31.12.06
Continuing operations				
Revenues from Industrial Holdings	**268**	262	229	2
Other income	**680**	303	566	124
Total operating income	**948**	565	795	68
Personnel expenses	**111**	122	164	(9)
General and administrative expenses	**44**	51	56	(14)
Services (to)/from other business units	**124**	9	14	
Depreciation of property and equipment	**8**	7	7	14
Amortization of intangible assets	**6**	5	6	20
Goods and materials purchased	**119**	116	97	3
Total operating expenses	**412**	310	344	33
Operating profit from continuing operations before tax	**536**	255	451	110
Tax expense	**36**	34	169	6
Net profit from continuing operations	**500**	221	282	126
Discontinued operations				
Profit from discontinued operations before tax	**128**	875	530	(85)
Tax expense	**(8)**	(12)	93	33
Net profit from discontinued operations	**136**	887	437	(85)
Net profit	**636**	1,108	719	(43)
Net profit/(loss) attributable to minority interests	**50**	104	207	(52)
from continuing operations	**50**	1	(24)	
from discontinued operations	**0**	103	231	(100)
Net profit attributable to UBS shareholders	**586**	1,004	512	(42)
from continuing operations	**450**	220	306	105
from discontinued operations	**136**	784	206	(83)
Additional information				
Private equity [1]				
Investments, at cost [2]	**92**	344	744	(73)
Gains recognized directly in equity	**76**	517	264	(85)
Portfolio fair value	**168**	861	1,008	(80)
Cost/income ratio (%) [3]	**43.5**	54.9	43.3	
BIS risk-weighted assets	**117**	443	2,035	(74)
Personnel (full-time equivalents)	**3,843**	4,241	21,636	(9)

1 Only comprises financial investments available-for-sale. **2** Historical cost of investments made, less divestments and impairments. **3** Operating expenses/operating income.

Major participations

The private equity investments of UBS were moved to the Industrial Holdings segment in first quarter 2005, matching the strategy of de-emphasizing and reducing exposure to this asset class while capitalizing on orderly exit opportunities as they arise.

The sale of UBS's 55.6% stake of Motor-Columbus to a consortium of Atel's Swiss minority shareholders, EOS Holding and Atel, as well as to French utility Electricité de France (EDF), which was included in this segment, was successfully completed on 23 March 2006. The sale price was set at approximately CHF 1,295 million. The disposal gain of CHF 387 million and the operating result of CHF 71 million realized during the quarter before the deal closed are reported as discontinued operations after tax. All prior periods have been restated accordingly.

2007

In 2007, the Industrial Holdings segment reported a net profit of CHF 636 million, of which CHF 586 million was attributable to UBS shareholders.

In 2007, UBS completed the sale of two fully consolidated investments. The realized divestment gains are presented as discontinued operations for Industrial Holdings. Previous income statements have also been restated to reflect these divestments.

In 2007, unconsolidated private equity investments, including those accounted for under the equity method, recorded total divestment gains of CHF 718 million. The level of financial investments available-for-sale fell to CHF 92 million on 31 December 2007 from CHF 344 million a year earlier due to a number of exits which were partially offset by the funding of existing commitments. The fair value of this part of the portfolio decreased to CHF 168 million in 2007 from CHF 861 million in 2006 reflecting revaluations and successful divestments. Unfunded commitments on 31 December 2007 were CHF 67 million, down from CHF 227 million at the end of December 2006.

The net profit result in 2007 is shown after transfers of CHF 118 million to the Investment Bank. This was to compensate the Investment Bank for its efforts in helping dispose of certain private equity instruments, which had been transferred from the Investment Bank in 2005.

2006

In 2006, the Industrial Holdings segment reported a net profit attributable to UBS shareholders of CHF 1,004 million. In 2006, it completed the sale of four fully consolidated investments. The realized divestment gains are presented as discontinued operations for Industrial Holdings.

In 2006, unconsolidated private equity investments, including those accounted for under the equity method, recorded total divestment gains of CHF 391 million. The level of financial investments available-for-sale fell to CHF 344 million on 31 December 2006 from CHF 744 million a year earlier due to a number of exits which were partially offset by the funding of existing commitments. The fair value of this part of the portfolio decreased to CHF 861 million in 2006 from CHF 1,008 million in 2005 reflecting revaluations and successful divestments. Unfunded commitments on 31 December 2006 were CHF 227 million, down from CHF 367 million at the end of December 2005.

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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Investor Relations

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

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Shareholder Services

UBS Shareholder Services, a unit of the Company Secretary, is responsible for the registration of the global registered shares.

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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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UBS

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