**BASE LISTING DOCUMENT DATED 18 APRIL 2008**

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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# Base Listing Document relating to Structured Products to be issued by

UBS

## UBS AG

*(incorporated with limited liability in Switzerland)*

**acting through its London Branch**

**Sponsor**

**UBS Securities Asia Limited**

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This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and is published for the purpose of giving information with regard to us and our warrants, callable bull/bear contracts ("**CBBCs**") and other structured products (together, "**Structured Products**") to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda.

**We accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.**

Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index.

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**What is this document about?**

This document is for information purposes only and does not constitute an offer, an advertisement or invitation to the public to subscribe for or to acquire any Structured Products.

**What documents should you read before investing in the Structured Products?**

A supplemental listing document will be issued on the issue date of each series of Structured Products, which will include detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time) together with such supplemental listing document (including any addendum to such supplemental listing document to be issued from time to time) (together, the "**Listing Documents**") before investing in any Structured Product. You should carefully study the risk factors set out in the Listing Documents.

**What are our credit ratings?**

Our long term debt ratings are:

| *Rating agency* | *Rating as of the date of this document* |
|---|---|
| Moody's Investors Service, Inc., New York | Aa1 |
| Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. | AA- |
| Fitch Ratings Ltd., London | AA- |

**Are we regulated by any bodies referred to in Rule 15A.13(2) or (3) of the Listing Rules?**

We are a licensed bank regulated by the Hong Kong Monetary Authority. We are also regulated by, among others, the Swiss Federal Banking Commission and the Financial Services Authority of United Kingdom.

**Are we subject to any litigation?**

Save as disclosed in the paragraph headed "Legal and Arbitration Proceedings" under the section headed "Information in relation to us" in this document, we and our subsidiaries are not aware of any litigation or claims of material importance pending or threatened against us or them.

**Authorisation for the issue of the Structured Products**

The issue of the Structured Products was authorised by our board of directors on 19 September 2001.

**Has our financial position changed since last financial year-end?**

Save as disclosed in the paragraph headed "Significant Changes in the Financial Situation of the Issuer" under the section headed "Information in relation to us" at page 20 of this document, there has been no material adverse change in our financial or trading position since 31 December 2007. You may access our latest publicly available financial information by visiting our website at *www.ubs.com*.

**Do you need to pay any transaction cost?**

The Stock Exchange charges a trading fee of 0.005 per cent. and the Securities and Futures Commission charges a transaction levy of 0.004 per cent. in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

**Do you need to pay any tax?**

*Taxation in Hong Kong*

No tax is payable in Hong Kong by way of withholding or otherwise in respect of dividends of any company which has issued the underlying shares, or in respect of any capital gains arising on the sale of the underlying assets or Structured Products, except that Hong Kong profits tax may be chargeable on any such gains, which is considered as trading gain, in the case of certain persons carrying on a trade, profession or business in Hong Kong.

You do not need to pay any stamp duty in respect of purely cash settled Structured Products.

Where Hong Kong stock is to be delivered, stamp duty will normally be payable since any person who effects a sale or purchase of "Hong Kong Stock", as defined in the Stamp Duty Ordinance (Cap 117, The Laws of Hong Kong), whether as principal or as agent and whether such transaction is effected in Hong Kong or elsewhere, is required to execute a contract note evidencing such sale or purchase and have such contract note stamped with Hong Kong stamp duty.

*Taxation in Switzerland*

Under present Swiss law, if you are a non-resident of Switzerland and have not engaged in trade or business through a permanent establishment within Switzerland during the taxable year, you will not be subject to any Swiss Federal, Cantonal or Municipal income or other tax on gains realised during the year on the sale or redemption of the Structured Products.

If you are an individual resident in a member state of the European Union, transfers and redemptions of certain Structured Products which wholly or partly qualify as debt claims and any other distribution of interest on debt claims through a paying agent resident in Switzerland may be subject to interest tax withholding in Switzerland.

There is no tax liability in Switzerland in connection with the issue of the Structured Products. However, Structured Products subscribed, transferred or redeemed through a bank or other dealer resident in Switzerland or Liechtenstein may be subject to securities transfer tax.

*The above information is of a general nature only and is not intended to be a comprehensive description of all potential relevant tax considerations. We do not provide any tax advice for the Structured Products. Tax treatment depends on the individual circumstances of each client and clients must therefore seek their own tax advice from a reputable service provider. Prior to entering into a transaction you should consult with your own legal, regulatory, tax, financial and accounting advisors to the extent you consider it necessary, and make your own investment, hedging and trading decisions (including decisions regarding the suitability of this transaction) based upon your own judgment and advice from those advisors you consider necessary.*

**Placing, sale and grey market dealings**

No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us. See the section "Placing and Sale" for further information.

Following the launch of a series of Structured Products, we may place all or part of that series with our related party.

The Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by us and/or any of our subsidiaries or associated companies in the grey market to the Stock Exchange on the listing date through the website of the Stock Exchange at *www.hkex.com.hk*.

**Where can you inspect the relevant documents?**

The following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of UBS Securities Asia Limited:

(a) our 2007 annual report;

(b) consent letter of our auditors, Ernst & Young Ltd. ("**Auditors**");

(c) this document and any addendum to this document;

(d) the supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange; and

(e) the instrument executed by us by way of deed poll on 10 April 2006 which constitutes the Structured Products.

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the cost of making such copies.

The Listing Documents are also available on the website of the Stock Exchange at *http://www.hkex.com.hk/dwrc/search/listsearch.asp*.

各上市文件亦可於聯交所網站 *(http://www.hkex.com.hk/dwrc/search/listsearch_c.asp)* 瀏覽.

**Have the Auditors consented to the inclusion of their report to the Listing Documents?**

Our Auditors have given and have not withdrawn their written consent to the inclusion of their report dated 6 March 2008 in this document and/or the references to their name in the Listing Documents, in the form and context in which they are included. Their report was not prepared exclusively for incorporation into this document. The Auditors do not hold our shares or shares in our subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

**Our restated 2007 annual report**

We released our restated 2007 annual report (our "**Restated 2007 Annual Report**") on 14 April 2008. As indicated under the section headed "Accounting Changes in 2008" in Part 2, Strategy, Performance and Responsibility of our 2007 annual report, we restated our audited financial statements in connection with our adoption of the amendment to IFRS 2, the discontinuation of the adjusted expected credit loss concept, presentation of subsidiaries of the Industrial Holdings segment disposed in 2008 as discontinued operations.

You may visit our website at http://www.ubs.com/1/e/investors/sec_filings.html to access our Restated 2007 Annual Report.

**Authorised representatives**

Evelyn Koh and Christopher Fai Man Lee, both of 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, are our authorised representatives and are authorised to accept services on our behalf in Hong Kong.

**How can you get further information about UBS AG or the Structured Products?**

You may visit *www.ubs.com/hkwarrants* to obtain further information about us and/or the Structured Products.

**Governing law of the Structured Products**

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

**The Listing Documents are not the sole basis for making an investment decision**

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

The Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

**Capitalised terms**

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the terms and conditions of the relevant series of Structured Products set out in Appendix 1 and Appendix 2 (together, the "**Conditions**").

# PLACING AND SALE

## General

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required.

## United States of America

Each series of Structured Products has not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Structured Products or interests therein, may not at any time be offered, sold, resold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Structured Products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. No person will offer, sell, re-sell, transfer or deliver any Structured Products within the United States or to U.S. persons, except as permitted by the base placing agreement between us and the Sponsor, acting as manager. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer, sale, re-sale, transfer or delivery of Structured Products within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

## European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), no offer of Structured Products which are the subject of the offering contemplated by this Base Listing Document as completed by the relevant Supplemental Listing Document in relation thereto to the public in that Relevant Member State has been, or will be, made except for, with effect from and including the Relevant Implementation Date, an offer of Structured Products to the public in that Relevant Member State:

(a) if the Supplemental Listing Document in relation to the Structured Products specifies that an offer of those Structured Products may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a Non-exempt Offer), following the date of publication of a prospectus in relation to such Structured Products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that such prospectus has subsequently been completed by the Supplemental Listing Documents contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Supplemental Listing Document, as applicable;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2)

a total balance sheet of more than euro 43,000,000 and (3) an annual net turnover of more than euro 50,000,000, as shown in its last annual or consolidated accounts;

(d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or

(e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Structured Products referred to in (b) to (e) above shall require us or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Structured Products to the public**" in relation to any Structured Products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable you to decide to purchase or subscribe the Structured Products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

**United Kingdom**

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended) ("**FSMA**")) in connection with the issue or sale of the Structured Products has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA would not, if we were not an authorised person, apply to us. All applicable provisions of the FSMA have been complied, and will be complied, with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

**Switzerland**

This document does not constitute an offer and does not constitute a prospectus within the meaning of the laws of Switzerland. The Structured Products may not be offered or sold directly or indirectly in Switzerland, except in circumstances which will not result in a public offering within the meaning of the laws of Switzerland. Some or all of the Structured Products constitute structured products within the meaning of Article 5 of the Swiss Federal Act on Collective Investment Schemes (CISA). The Structured Products do not constitute collective investment schemes within the meaning of the CISA and are not subject to the supervision of the Swiss Federal Banking Commission. Therefore, investors in the Structured Products are not eligible for the specific investor protection under the CISA.

# OVERVIEW OF WARRANTS

**What is a derivative warrant?**

A derivative warrant linked to a share, a unit, an index or other asset (each an "**Underlying Asset**") is an instrument which gives the holder a right to "buy" or "sell" the Underlying Asset at, or derives its value by reference to, a pre-set price or level called the Exercise Price/Strike Level on the Exercise Date or the Expiry Date (as the case may be). It usually costs a fraction of the value of the Underlying Asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

**How and when can you get back your investment?**

American Style warrants can be exercised on or before the Expiry Date. European Style warrants can only be exercised on the Expiry Date. A warrant will, upon exercise on the Expiry Date or the Exercise Date (as the case may be), entitle the holder to a cash amount called the "**Cash Settlement Amount**" (if positive) according to the Conditions of that warrant.

You will receive the Cash Settlement Amount less any Exercise Expenses upon expiry or exercise. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you upon expiry or exercise.

**How do our warrants work?**

*Ordinary warrants*

The potential payoff of an ordinary warrant is calculated by us by reference to the difference between:

(a) for a warrant linked to a security, the Exercise Price and the Average Price/Closing Price;

(b) for a warrant linked to an index, the Strike Level and the Closing Level; and

(c) for a warrant linked to a basket of securities, the Exercise Price and the sum of the Average Price/Closing Price of each security in the basket multiplied by its corresponding weighting called the "Basket Component".

<u>Call warrant</u>

A call warrant is suitable for an investor holding a bullish view of the price or level of the Underlying Asset during the term of the warrant.

A call warrant will be exercised if the Average Price/Closing Price/Closing Level is greater than the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Price/Closing Level exceeds the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry or exercise. If the Average Price/Closing Price/Closing Level is at or below the Exercise Price/Strike Level (as the case may be), an investor in the call warrant will lose all of his investment.

<u>Put warrant</u>

A put warrant is suitable for an investor holding a bearish view of the price or level of the Underlying Asset during the term of the warrant.

A put warrant will be exercised if the Average Price/Closing Price/Closing level is below the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Price/Closing Level is below the Exercise Price/Strike level (as the case may be), the higher the payoff upon expiry or exercise. If the Exercise Price/Strike Level is at or below the Average Price/Closing Price/Closing Level (as the case may be), an investor in the put warrant will lose all of his investment.

*Average return warrant*

An "average return" warrant is an exotic structured product with different terms and risk profiles to an ordinary warrant. The supplemental listing document applicable to a series of "average return" warrants will specify that such warrants are average return warrants.

You should carefully review the relevant supplemental listing document together with the Conditions set out in Part B of Appendix 1 before deciding to invest in an "average return" warrant.

The description "average return" refers to the calculation of the return on the warrants only.

For an average return warrant, we will record the performance of the Underlying Asset on each of the Periodic Fixing Dates during the term of the warrant. A positive performance in the Underlying Asset on a Periodic Fixing Date may be offset by a negative performance of the Underlying Asset on another Periodic Fixing Date and vice versa. Your return under an average return warrant is therefore dependent on the average of the performances of the Underlying Asset on each Periodic Fixing Date.

Your return of an average return warrant linked to single equities is calculated by reference to the difference between (i) the average of the Periodic Reference Prices (that is, the sum of the Periodic Reference Prices divided by the number of the Periodic Fixing Dates); and (ii) the Exercise Price.

Average return call warrant

An average return call warrant will be exercised if the average of the Periodic Reference Prices is greater than the Exercise Price.

If the average of the Periodic Reference Prices is at or below the Exercise Price, an investor in the average return call warrant will lose all his investment.

Average return put warrant

An average return put warrant will be exercised if the average of the Periodic Reference Prices is below the Exercise Price.

If the average of the Periodic Reference Prices is at or above the Exercise Price, an investor in the average return put warrant will lose all his investment.

*Other types of warrants*

The supplemental listing document applicable to other types of warrants will specify the type of such warrants and whether such warrants are exotic warrants.

The Conditions applicable to each type of our warrants are set out in Parts A to E of Appendix 1 (as may be supplemented by any addendum or the relevant supplemental listing document).

**What are the factors determining the price of a derivative warrant?**

The price of a warrant generally depends on the prevailing price or level of the Underlying Asset. However, throughout the term of a warrant, its price will be influenced by a number of factors, including:

(a) the Exercise Price or Strike Level;

(b) the volatility of the price or level of the Underlying Asset (being a measure of the fluctuation in the price or level of the Underlying Asset);

(c) the time remaining to expiry: a warrant is generally more valuable the longer the remaining life of the warrants;

(d) interest rates;

(e) expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index;

(f) the supply and demand for the warrant; and

(g) our creditworthiness.

**What is your maximum loss?**

Your maximum loss in warrants will be limited to your investment amount plus any transaction cost.

**How can you get information about the warrants after issue?**

You may visit the Stock Exchange website at *http://www.hkex.com.hk/prod/dwrc/dw.htm* to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to our warrants.

**What are CBBCs?**

CBBCs are a type of Structured Products that track the performance of an Underlying Asset. CBBCs can be issued on different types of Underlying Assets as prescribed by the Stock Exchange from time to time, including:

(a) shares listed on the Stock Exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China H-Financials Index; and/or

(c) overseas shares, currencies or commodities (such as oil, gold and platinum).

A list of eligible Underlying Assets for CBBCs is available on the website of the Stock Exchange at *http://www.hkex.com.hk/prod/cbbc/underlying.htm*.

CBBCs are issued either as callable bull contracts or callable bear contracts, allowing you to take either bullish or bearish positions on the Underlying Asset. Callable bull contracts are designed for investors who have an optimistic view on the Underlying Asset. Callable bear contracts are designed for investors who have a pessimistic view on the Underlying Asset.

Your maximum potential loss in a series of CBBCs is limited to the purchase price, which is generally a fraction of the value of the Underlying Asset, for the CBBCs plus the cost involved in your purchase.

CBBCs have a mandatory call feature (the "**Mandatory Call Event**") and, subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate our CBBCs upon the occurrence of a Mandatory Call Event. See "What are the mandatory call features of CBBCs?" below.

There are 2 categories of CBBCs, namely:

(a) Category R CBBCs; and

(b) Category N CBBCs.

Your entitlement following the occurrence of a Mandatory Call Event will depend on the category of the CBBCs.

If no Mandatory Call Event occurs, the CBBCs will be exercised automatically on the Expiry Date by payment of a Cash Settlement Amount (if any) on the Settlement Date. The Cash Settlement Amount (if any) payable at expiry represents the difference between the Closing Price/Closing Level of the Underlying Asset on the Valuation Date and the Strike Price/Strike Level.

The Conditions applicable to CBBCs are set out in Parts A and B of Appendix 2.

**What are the mandatory call features of CBBCs?**

*Mandatory Call Event*

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate the CBBCs if a Mandatory Call Event occurs. A Mandatory Call Event occurs if the Spot Price/Spot Level of the Underlying Asset is:

(a) at or below the Call Price/Call Level (in the case of a callable bull contract); or

(b) at or above the Call Price/Call Level (in the case of a callable bear contract),

at any time during the Observation Period.

The Observation Period starts from and including the Observation Commencement Date of the relevant CBBCs and ends on and including the Trading Day immediately preceding the Expiry Date.

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

(a) all trades in the CBBCs concluded or recorded in the Stock Exchange's system after the time of the occurrence of a Mandatory Call Event; and

(b) where the Mandatory Call Event occurs during a pre-opening session or closing auction session (if applicable), all auction trades in the CBBCs concluded in such session, will be invalid and will be cancelled, and will not be recognised by us or the Stock Exchange.

The time at which a Mandatory Call Event occurs will be determined by reference to:

(a) in respect of CBBCs over single equities ("**Single Equity CBBCs**"), the Stock Exchange's automatic order matching and execution system time at which the Spot Price is at or below the Call Price (for a series of callable bull contracts) or is at or above the Call Price (for a series of callable bear contracts); or

(b) in respect of CBBCs over index ("**Index CBBCs**"), the time the relevant Spot Level is published by the Index Compiler at which the Spot Level is at or below the Call Level (for a series of callable bull contracts) or is at or above the Call Level (for a series of callable bear contracts),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

*Category R CBBCs vs. Category N CBBCs*

The supplemental listing document for the relevant series of CBBCs will specify whether the CBBCs are Category R CBBCs or Category N CBBCs.

"**Category N CBBCs**" refer to CBBCs for which the Call Price/Call Level is equal to their Strike Price/Strike Level. In respect of a series of Category N CBBCs, you will not receive any cash payment following the occurrence of a Mandatory Call Event.

"**Category R CBBCs**" refer to CBBCs for which the Call Price/Call Level is different from their Strike Price/Strike Level. In respect of a series of Category R CBBCs, you may receive a cash payment called the Residual Value upon the occurrence of a Mandatory Call Event. The amount of the Residual Value payable (if any) is calculated by reference to:

(a) in respect of a callable bull contract, the difference between the Minimum Trade Price/Minimum Index Level of the Underlying Asset and the Strike Price/Strike Level; and

(b) in respect of a callable bear contract, the difference between the Strike Price/Strike Level and the Maximum Trade Price/Maximum Index Level of the Underlying Asset,

provided that we may, at our absolute discretion, pay a higher amount than the above amount.

You must read the relevant Conditions and the relevant supplement listing document to obtain further information on the calculation formula of the Residual Value applicable to Category R CBBCs.

You may lose all of your investment in a particular series of CBBCs if:

(a) in the case of a series of callable bull contracts, the Minimum Trade Price/Minimum Index Level of the Underlying Asset is equal to or less than the Strike Price/Strike Level; or

(b) in the case of a series of callable bear contracts, the Maximum Trade Price/Maximum Index Level of the Underlying Asset is equal to or greater than the Strike Price/Strike Level.

**How is the funding cost calculated?**

The issue price of a CBBC represents the difference between the initial reference spot price or level of the Underlying Asset as at the launch date of the CBBC and the Strike Price/Strike Level, plus the applicable funding cost.

The initial funding cost applicable to each series of CBBCs will be specified in the relevant supplemental listing document for the relevant series and will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the Strike Price/Strike Level, the prevailing interest rate, the expected life of the CBBCs, expected notional dividends in respect of the Underlying Asset and the margin financing provided by us.

Further details about the funding cost applicable to a series of CBBCs will be described in the relevant supplemental listing document.

**Do you own the Underlying Asset?**

CBBCs convey no interest in the Underlying Asset. We may choose not to hold the Underlying Asset or any derivatives contracts linked to the Underlying Asset. There is no restriction through the issue of the CBBCs on the ability of us and/or our affiliates to sell, pledge or otherwise convey all right, title and interest in any Underlying Asset or any derivatives products linked to the Underlying Asset.

**What are the factors determining the price of a CBBC?**

The price of a CBBC tend to mirror the movement in the value of the Underlying Asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one Underlying Asset).

However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

(a) the Strike Price/Strike Level and the Call Price/Call Level;

(b) the likelihood of the occurrence of a Mandatory Call Event;

(c) for Category R CBBCs only, the probable range of the Residual Value payable upon the occurrence of a Mandatory Call Event;

(d) the time remaining to expiry;

(e) any change(s) in interim interest rates;

(f) expected dividend payments or other distribution on the Underlying Asset or on any components comprising the underlying index;

(g) the supply and demand for the CBBCs;

(h) the probable range of the Cash Settlement Amounts;

(i) the depth of the market or liquidity of future contracts relating to the underlying index;

(j) any related transaction cost; and

(k) our creditworthiness.

**What is your maximum loss?**

Your maximum loss in CBBCs will be limited to your investment amount plus any transaction cost.

**How can you get information about the CBBCs after issue?**

You may visit the Stock Exchange website at *http://www.hkex.com.hk/prod/cbbc/intro.htm* to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

# INFORMATION IN RELATION TO US

## 1. Overview

UBS AG and its subsidiaries ("UBS AG" or "UBS") is, according to its own opinion, one of the world's leading financial firms, serving a discerning international client base. As an integrated firm, UBS creates added value for clients by drawing on the combined resources and expertise of all its businesses. UBS is, according to its own opinion, the leading global wealth manager, a leading investment banking and securities firm with a strong institutional and corporate client franchise, ,one of the largest global asset managers and the market leader in Swiss commercial and retail banking. On 31 December 2007, UBS employed more than 80,000 people. With headquarters in Zurich and Basel, Switzerland, UBS operates in over 50 countries and from all major international centers.

With the proposed rights issue of approximately CHF 15 billion UBS will remain, according to its own opinion, one of the best-capitalised financial institutions in the world. On 31 December 2007 the BIS Tier1[1] ratio was 8.8 per cent, invested assets stood at CHF 3,189 billion, equity attributable to UBS shareholders at CHF 35,585 million and the market capitalisation was CHF 108,654 million.

UBS is among the few globally active major banks that have a first-class rating. The rating agencies Standard & Poor's Inc. ("Standard & Poor's"), Fitch Ratings ("Fitch") and Moody's Investors Service Inc. ("Moody's") have assessed the creditworthiness of UBS, i.e. the ability of UBS to fulfil payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing, in a timely manner. The ratings from Fitch and Standard & Poor's may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. Standard & Poor's currently rates UBS's creditworthiness with AA-[2], Fitch with AA-[3] and Moody's with Aa1[4].

## 2. Corporate Information

The legal and commercial name of the company is UBS AG. The company was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CH-270.3.004.646-4.

UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Code of Obligations 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 UBS two registered offices and principal places of business are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, telephone +41-44-234 11 11; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, telephone +41-61-288 20 20.

UBS shares are listed on the SWX Swiss Exchange and traded through SWX Europe which is majority owned by the SWX Swiss Exchange. They are also listed on the New York Stock Exchange and on the Tokyo Stock Exchange.

1 Tier 1 capital comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interests less accrued dividends, net long positions in own shares and goodwill.

2 Following UBS's announcement of 1 April 2008, Standard & Poor's downgraded UBS's long-term counterparty credit rating to "AA-" from "AA" with a negative outlook.

3 Following UBS's announcement of 1 April 2008, Fitch downgraded UBS's credit rating to "AA-" from "AA" with a negative outlook.

4 Following UBS's announcement of 1 April 2008, Moody's downgraded UBS's credit rating to "Aa1" from "Aaa", while keeping the ratings on review for possible further cuts.

According to Article 2 of the Articles of Association of UBS AG ("Articles of Association") the purpose of UBS is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, service and trading activities in Switzerland and abroad.

## 3. Business Overview

### 3.1 *Business Groups and Corporate Center*

UBS is managed through three Business Groups and its Corporate Center, each of which is described below. In addition there is an area of business combined in Industrial Holdings. A full description of their strategies, structure, organisation, products, services and markets can be found in the Annual Report 2007 of UBS AG, 1 Strategy, Performance and Responsibility, in the English version on pages 85-152 (inclusive).

#### 3.1.1 Global Wealth Management & Business Banking

With more than 140 years of experience, the global wealth management business provides a comprehensive range of products and services individually tailored for wealthy clients around the world. UBS's client advisors provide a full range of wealth management services to clients - from asset management to estate planning and from corporate finance advice to art banking. In the US, the business is, according to its own opinion, one of the leading wealth managers. Business Banking Switzerland is, according to its own opinion, the market leader in Switzerland, providing a complete set of banking and securities services for individual and corporate clients.

#### 3.1.2 Global Asset Management

The Global Asset Management business is, according to its own opinion, one of the world's leading investment managers, providing traditional and alternative and real estate investment solutions to private, institutional and corporate clients, and through financial intermediaries. It is, according to its own opinion, one of the largest global institutional asset managers and the largest hedge fund of funds manager in the world. It is also, according to its own opinion, one of the largest mutual fund managers in Europe and the largest in Switzerland.

#### 3.1.3 Investment Bank

UBS's Investment Bank is, according to its own opinion, one of the world's leading investment banking and securities firms, providing a full range of products and services to corporate and institutional clients, governments, financial intermediaries and alternative asset managers. Its investment bankers, salespeople and research analysts, supported by its risk and logistics teams, deliver advice and execution to clients all over the world. The Investment Bank also works with financial sponsors and hedge funds and indirectly meets the needs of private investors through both UBS's own wealth management business and through other private banks.

#### 3.1.4 Corporate Center

Corporate Center creates value for shareholders and stakeholders by partnering with the Business Groups to ensure that the firm operates as an effective and integrated whole with a common vision and set of values. It helps UBS's businesses grow sustainably through its risk, financial control, treasury, communication, legal and compliance, human resources, strategy, off shoring and technology functions.

### 3.2 *Industrial Holdings*

The Industrial Holdings segment consists of UBS's private equity investments (which were held by the Investment Bank until early 2005). UBS's strategy is to de-emphasize and reduce exposure to this asset class while capitalizing on orderly exit opportunities as they arise.

### 3.3 *Organisational Structure of the Issuer*

The objective of UBS's group structure is to support the business activities of the Company within an efficient legal, tax, supervisory and financial framework. Neither the individual Business Groups of UBS, Global Wealth Management & Business Banking, Global Asset Management, Investment Bank, nor the Corporate Center (the "Business Groups") are legally independent entities; instead, they perform their activities through the domestic and foreign offices of the parent bank, UBS AG.

Settlement of transactions through the parent bank allows UBS to fully exploit the advantages generated for all Business Groups through the use of a single legal entity. In cases where it is impossible or inefficient to process transactions via the parent, due to local statutory, tax or supervisory provisions or newly acquired companies, these tasks are performed on location by legally independent group companies. The major subsidiaries are listed in the Annual Report 2007 of UBS AG, 4 Financial Statements, in English, on pages 96-99 (inclusive).

3.4 *Competition*

UBS faces stiff competition in all business areas. Both in Switzerland and abroad, the Bank competes with asset management companies, commercial, investment and private banks, brokerages and other financial services providers. Competitors include not only local banks, but also global financial institutions, which are similar to UBS in terms of both size and services offered.

In addition, the consolidation trend in the global financial services sector is introducing new competition, which may have a greater impact on prices, as a result of an expanded range of products and services and increased access to capital and growing efficiency.

3.5 *Trend Information (Outlook)*

On 1 April 2008 UBS announced that it expects to report for the first quarter 2008 a net loss attributable to UBS shareholders of approximately CHF 12 billion after losses and writedowns of approximately USD 19 billion on US real estate and related structured credit positions. UBS will publish full first quarter results including details on risk positions as planned on 6 May 2008. The environment for the financial industry remains difficult. UBS management considers operational efficiencies and cost management throughout the firm to be the key performance targets in the coming quarters.

## 4. Administrative, Management and Supervisory Bodies of the Issuer

4.1 *Details of the Executive Bodies of the Company*

UBS operates under a strict dual Board structure, as mandated by Swiss banking law. The functions of Chairman of the Board of Directors ("Chairman") and Group Chief Executive Officer ("Group CEO") are assigned to two different people, thus providing separation of powers. This structure establishes checks and balances and creates an institutional independence of the Board of Directors ("BoD") from the day-to-day management of the firm, for which responsibility is delegated to the Group Executive Board ("GEB"). No member of one Board may be a member of the other.

The supervision and control of the executive management remains with the BoD. The Articles of Association and the Organisation Regulations of UBS AG, with their Appendices govern all details as to authorities and responsibilities of the two bodies. Please refer to www.ubs.com/corporate-governance.

The BoD consists of at least six and a maximum of 12 members. The term of office for members of the board is three years.

4.1.1 Board of Directors

The BoD is the most senior body of UBS. All the members of the BoD are elected individually by the Annual General Meeting for a term of office of three years. The BoD itself then appoints its Chairman, the Vice Chairmen and the various BoD Committees (Audit Committee, Compensation Committee, Nominating Committee and Corporate Responsibility Committee).

The BoD has ultimate responsibility for the mid- and long-term strategic direction of UBS, for appointments and dismissals at top management levels and the definition of the firm's risk principles and risk capacity. While the majority of the BoD members are always non-executive and independent, the Chairman and at least one Vice Chairman have executive roles in line with Swiss banking laws, and assume supervisory and leadership responsibilities. The BoD meets as often as business requires, and at least six times a year.

The business address of the members of the BoD is UBS AG, Bahnhofstrasse 45, CH-8001 Zurich, Switzerland.

## Board of Directors of UBS AG

The BoD consists of eleven members:

| | Title | Term of office | Position outside UBS AG |
|---|---|---|---|
| Marcel Ospel | Chairman | 2008[5] | |
| Stephan Haeringer | Executive Vice Chairman | 2010 | |
| Ernesto Bertarelli | Member | 2009 | Holds several board memberships |
| Gabrielle Kaufmann-Kohler | Member | 2009 | Partner at the Lévy, Kaufmann-Kohler law firm and Professor of international private law at the University of Geneva |
| Sergio Marchionne | Member[6] | 2010 | CEO of Fiat S.p.A, Turin |
| Rolf A. Meyer | Member | 2009 | Member of the Board of DKSH AG (Diethelm Keller Siber Hegner), Zurich, and Chairman of its Audit and Finance Committee. Member of the Board of Directors of Ascom (Switzerland) Ltd., Berne |
| Helmut Panke | Member | 2010 | Member of the Board of Directors of Microsoft Corporation, Redmond, WA (USA) |
| Peter Spuhler | Member | 2010 | Owner of Stadler Rail AG, Switzerland |
| Peter R. Voser | Member | 2008[7] | Chief Financial Officer of The Royal Dutch Shell plc, London |
| Lawrence A. Weinbach | Member | 2008[7] | Partner of the Yankee Hill Capital Management LLC, Southport, CT, USA (since 2006) |
| Joerg Wolle | Member | 2009 | President and CEO of DKSH Holding Ltd. |

5 Marcel Ospel will not stand for re-election to the BoD at the Annual General Meeting on 23 April 2008. The BoD proposes to the Annual General Meeting on 23 April 2008 that it elect Peter Kurer, Group General Counsel of UBS, to the Board. It plans to appoint Peter Kurer to succeed Marcel Ospel as Chairman.

6 The BoD appointed Sergio Marchionne as non-executive Vice Chairman effective 24 April 2008.

7 The BoD proposes to the Annual General Meeting on 23 April 2008 the re-election of Peter R. Voser and Lawrence A. Weinbach.

4.1.2 Group Executive Board

The GEB has business management responsibility for UBS. The Group CEO and the members of the GEB are appointed by the Board of Directors and are accountable to the Chairman and the Board for the firm's results. The GEB, and in particular the Group CEO, are responsible for the implementation and results of the firm's business strategies, for the alignment of the Business Groups to UBS's integrated business model, and for the exploitation of synergies across the firm.

The business address of the members of the GEB is UBS AG, Bahnhofstrasse 45, CH-8001 Zurich, Switzerland.

## Group Executive Board of UBS AG

The GEB consists of twelve members:

| | |
|---|---|
| Marcel Rohner | Group Chief Executive Officer |
| John A. Fraser | Chairman and CEO Global Asset Management |
| Marten Hoekstra | Deputy CEO, Global Wealth Management & Business Banking and Head of Wealth Management Americas, Global Wealth Management & Business Banking |
| Jerker Johansson | Chairman & CEO Investment Bank |
| Peter Kurer[8] | Group General Counsel |
| Joseph Scoby | Group Chief Risk Officer |
| Walter Stuerzinger | Chief Operating Officer, Corporate Center |
| Marco Suter | Group Chief Financial Officer |
| Rory Tapner | Chairman and CEO Asia Pacific |
| Raoul Weil | Chairman and CEO Global Wealth Management & Business Banking |
| Alexander Wilmot-Sitwell | Chairman and CEO UBS Group EMEA and Joint Global Head Investment Banking Department, Investment Bank |

8 The BoD proposes to the Annual General Meeting on 23 April 2008 that it elect Peter Kurer, Group General Counsel of UBS, to the Board. It plans to appoint Peter Kurer to succeed Marcel Ospel as Chairman.

| | |
|---|---|
| Robert Wolf | Chairman and CEO, UBS Group Americas and President and Chief Operating Officer, Investment Bank |

No member of the GEB has any significant business interests outside the Bank.

4.1.3 Conflicts of interest

No conflicts exist between the private interests and/or other duties of the members of the BoD or the GEB and their obligations to the Issuer.

4.2 *Auditors*

On 18 April 2007, the UBS Annual General Meeting reelected Ernst & Young Ltd., Aeschengraben 9, 4002 Basel, Switzerland, as the Group and statutory auditor in accordance with company law and banking law provisions for a further one-year term. Ernst & Young Ltd., Basel, is a member of the Swiss Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

4.3 *Major Shareholders of the Issuer*

The ownership of UBS shares is broadly disbursed. As at 31 December 2007, Chase Nominees Ltd., London, was registered with a 7.99 per cent holding (31 December 2006: 8.81 per cent, 31 December 2005: 8.55 per cent) of total share capital held in trust for other investors. As at 31 December 2007, the US securities clearing organisation DTC (Cede & Co.) New York, "The Depository Trust Company", held 14.15 per cent (31 December 2006: 13.21 per cent, 31 December 2005: 9.95 per cent) of total share capital in trust for other beneficiaries. Pursuant to UBS provisions on registering shares, the voting rights of nominees are limited to 5 per cent. This regulation does not apply to securities clearing and settlement organisations. No other shareholder was registered with a holding in excess of 5 per cent of total share capital.

Further details on the distribution of UBS shares, the number of registered and non-registered securities, voting rights as well as distribution by shareholder categories and geographical regions can be found in the Annual Report 2007 of UBS AG, 3 Corporate Governance and Compensation Report, in English, on pages 5-6 (inclusive).

## 5. Financial Information concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses

A description of the Issuer's assets and liabilities, financial position and profits and losses is available in the Financial Report of the Issuer for financial year 2006 and in the Annual Report 2007 of UBS AG, 4 Financial Statements for financial year 2007, in English. In this context, the Issuer's fiscal year equals the calendar year.

In the case of financial year 2006 reference is made to

(i) the Financial Statements of UBS AG (Group), in particular to the Income Statement of UBS AG (Group) on page 82, the Balance Sheet of UBS AG (Group) on page 83, to the Statement of Cash Flows of the UBS AG (Group) on pages 86 - 87 (inclusive) and to the Notes to the Financial Statements on pages 88 - 214 (inclusive), and

(ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement of UBS AG (Parent Bank) on page 218, the Balance Sheet of UBS AG (Parent Bank) on page 219, to the Statement of Appropriation of Retained Earnings of UBS AG (Parent Bank) on page 220, to the Notes to the Financial Statements on page 221 — 225 (inclusive) and to the Parent Bank Review on page 217, and

(iii) the sections entitled "Accounting Standards and Policies" on pages 67 - 72 (inclusive) in the Financial Report 2006.

In the case of financial year 2007 reference is made to

(i) the Financial Statements of UBS AG (Group), in particular to the Income Statement of UBS AG (Group) on page 18, the Balance Sheet of UBS AG (Group) on page 19, to the Statement of Cash Flows of the UBS AG (Group) on pages 23 - 24 (inclusive) and to the Notes to the Financial Statements on pages 25 - 120 (inclusive), and

(ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement of UBS AG (Parent Bank) on page 125, the

Balance Sheet of UBS AG (Parent Bank) on page 126, to the Statement of Appropriation of Retained Earnings of UBS AG (Parent Bank) on page 127, to the Notes to the Financial Statements on page 128 and to the Parent Bank Review on page 124, and

(iii) the sections entitled "Accounting Standards and Policies" on pages 3 - 8 (inclusive) in the Annual Report 2007 of UBS AG, 4 Financial Statements.

All relevant financial information including the relevant notes thereto, contained therein and audited by the UBS auditor, form an integral component of this document, and are therefore fully incorporated in this document.

The Financial Reports form an essential part of UBS's reporting. They include the audited Consolidated Financial Statements of UBS, prepared in accordance with International Financial Reporting Standards ("IFRS"), a reconciliation to United States Generally Accepted Accounting Principles ("US GAAP"), and the audited financial statements of UBS AG, prepared according to Swiss banking law provisions. The Financial Reports also include discussions and analyses of the financial and business results of UBS and its Business Groups, as well as certain additional disclosures required under Swiss and US regulations.

The financial statements for UBS AG (Group) and its subsidiaries as well as for UBS AG (Parent Bank) were audited by Ernst & Young Ltd., Basel, for financial years 2006 and 2007. The "Report of the Statutory Auditors" of the UBS AG (Parent Bank) can be found on page 226 of the Financial Reports for 2006 and on page 140 of the Annual Report 2007 of UBS AG, 4 Financial Statements. The "Report of the Group Auditors" of the UBS AG (Group) can be found on pages 80 — 81 (inclusive) of the Financial Reports for 2006 and on page 16-17 (inclusive) of the Annual Report 2007 of UBS AG, 4 Financial Statements.

5.1 *Legal and Arbitration Proceedings*

The Issuer and other UBS Group companies operate in a legal and regulatory environment that exposes them to potentially significant litigation risks. As a result, UBS is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations. Such cases are subject to many uncertainties, and their outcome often is difficult to predict, particularly in the earlier stages of a case. In certain circumstances, to avoid the expense and distraction of legal proceedings, UBS may based on a cost benefit analysis enter a settlement even though UBS denies any wrongdoing. UBS Group makes provisions for cases brought against it only when after seeking legal advice, in the opinion of management, it is probable that a liability exists, and the amount can be reasonably estimated. No provision is made for claims asserted against UBS Group that in the opinion of management are without merit and where it is not likely that UBS will be found liable.

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

During the financial year 2007 until the date of this document, UBS has been involved in the following legal proceedings which could be material to the operating result of the Group in a given reporting period:

(a) Tax Shelter: In connection with a criminal investigation of tax shelters, the United States Attorney's Office for the Southern District of New York ("US Attorney's Office") is examining UBS's conduct in relation to certain tax-oriented transactions in which UBS and others engaged during the years 1996—2000. Some of these transactions were the subject of the Deferred Prosecution Agreement which the accounting firm KPMG LLP entered into with the US Attorney's Office in August 2005, and are at issue in United *States v. Stein, S1 05 Cr. 888 (LAK).* UBS is cooperating in the government's investigation.

(b) Municipal Bonds: In November 2006, UBS and others received subpoenas from the US Department of Justice, Antitrust Division, and the SEC relating to derivative transactions entered into with municipal bond issuers and to the investment of proceeds of municipal bond issuances. Both investigations are ongoing, and UBS is cooperating. In the SEC investigation, on 4 February 2008, UBS received a "Wells notice" advising that the SEC staff is considering recommending that the SEC bring a civil action against UBS AG in connection with the bidding of various financial instruments associated with municipal securities. Under the SEC's Wells process, UBS will have the opportunity to set forth reasons of law, policy or fact why such an action should not be brought.

(c) HealthSouth: UBS is defending itself in two purported securities class actions brought in the US District Court of the Northern District of Alabama by holders of stock and bonds in HealthSouth Corp. UBS also is a defendant in HealthSouth derivative litigation in Alabama State Court and has responded to an SEC investigation relating to UBS's role as a banker for HealthSouth.

(d) Parmalat: UBS is involved in a number of proceedings in Italy related to the bankruptcy of Parmalat. These proceedings include, inter alia, clawback proceedings against UBS Limited in connection with a structured finance transaction. Further, UBS is a defendant in two civil damages claims brought by Parmalat, one of which relates to the same structured finance transaction against UBS Limited, while the other against UBS AG relates to certain derivative transactions. In addition, UBS Limited and one current and one former UBS employee are the subject of criminal proceedings in Milan. UBS AG and UBS Limited are defendants in civil actions brought by Parmalat investors in parallel with the criminal proceedings in Milan. Furthermore, four current or former UBS employees are defendants in relation to criminal proceedings in Parma. Civil claims have also been recently filed in parallel with the criminal proceedings by Parmalat against the individuals and UBS Limited and also by Parmalat investors against the individuals, UBS AG and UBS Limited. UBS AG and UBS Limited deny the allegations made against them and against the individuals in these matters and are vigorously defending themselves in these proceedings.

(e) Insight One: In early July 2007, UBS agreed to a settlement of the InsightOne case after the New York State Attorney General filed a civil complaint regarding UBS's fee-based brokerage program for private clients in the United States in December 2006. UBS denied that the program was part of a scheme to disadvantage clients, but chose to settle to bring the proceedings to an end. Under the settlement, UBS paid a total of USD 23.3 million, of which USD 21.3 million was paid to certain current and former InsightOne customers pursuant to an agreed upon remediation plan, and USD 2 million was paid in penalties. In 2006, UBS established provisions sufficient to cover the settlement, and therefore the settlement did not impact UBS's Net profit in 2007.

(f) Bankruptcy Estate of Enron: In June 2007, UBS and Enron settled adversarial proceedings in the US Bankruptcy Court for the Southern District of New York brought by Enron to avoid and recover payments made prior to filing for bankruptcy in connection with equity forward and swap transactions. UBS believed it had valid defences to all of Enron's claims, but chose to settle to eliminate the uncertainty created by the proceeding. Under the terms of the settlement, UBS paid Enron USD 115 million and waived a proof of claim for approximately USD 5.5 million that UBS filed in Enron's bankruptcy case. In 2006, UBS recognized a provision for more than half of the settlement amount, with the difference recognized in 2007. Therefore, the settlement did not materially impact UBS's Net profit in 2007.

Besides the proceedings specified above under (a) through (f) no governmental, legal or arbitration proceedings, which may significantly affect the Issuer's financial condition (as opposed to the operating results in the quarterly reporting period) are or have been pending, nor is the Issuer aware that any such governmental, legal or arbitration proceedings are threatened.

5.2 *Material Contracts*

No material agreements have been concluded outside of the normal course of business which could lead to UBS being subjected to an obligation or obtaining a right, which would be of key significance to the Issuer's ability to meet its obligations to the investors in relation to the issued securities.

### 5.3 *Significant Changes in the Financial Situation of the Issuer*

Since the publication of the last audited financial statements for the period ending 31 December 2007, the following changes occurred or are planned to occur:

On 1 April 2008 UBS pre-announced an estimated net loss attributable to shareholders of approximately CHF 12 billion after losses and writedowns of approximately USD 19 billion on US real estate and related structured credit positions for the first quarter 2008. In order to further strengthen Tier 1 capital the Board of Directors will propose to the Annual General Meeting on 23 April 2008 a rights issue, fully underwritten by four leading international banks, to raise approximately CHF 15 billion. At the same time UBS also announces the formation of a new unit to hold certain currently illiquid US real estate assets.

Apart from the above-mentioned, there has been no material adverse change in UBS's financial or trading position since 31 December 2007.

### 5.4 *Documents on Display*

The Annual Report of UBS AG as at 31 December 2006, comprising (i) the Annual Review 2006, (ii) the Handbook 2006/2007 and (iii) the Financial Report 2006 (including the "Report of the Group Auditors" and the "Report of the Statutory Auditors"), the Annual Report of UBS AG as at 31 December 2007, comprising (i) the Review 2007, (ii) 1 Strategy, Performance and Responsibility, (iii) 2 Risk, Treasury and Capital Management, (iv) 3 Corporate Governance and Compensation Report, (v) 4 Financial Statements (including the "Report of the Group Auditors" and the "Report of the Statutory Auditors") and the Articles of Association of UBS AG Zurich/Basel, as the Issuer, shall be maintained in printed format, for free distribution, at the offices of the Issuer as well as at UBS Deutschland AG, Stephanstrasse 14 - 16, 60313 Frankfurt am Main, Federal Republic of Germany, for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports of UBS AG are published on the UBS website, at www.ubs.com/investors or a successor address.

# RISK FACTORS

*Not all of the risk factors described below will be applicable to a particular series of the Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investment in the Structured Products. Please read the following section together with the risk factors set out in the relevant supplemental listing document.*

**General risks relating to us**

*Structured Products are unsecured obligation*

Each series of Structured Products constitutes our general unsecured contractual obligations and of no other person and will rank equally with our other unsecured contractual obligations and unsecured and unsubordinated debt. At any given time, the number of our Structured Products outstanding may be substantial.

*Repurchase of our Structured Products*

We, our subsidiaries and affiliates (the "**Group**") may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

*Our creditworthiness*

If you purchase our Structured Products, you are relying upon our creditworthiness and have no rights under these products against:

(a) any company which issues the underlying shares;

(b) the trustee or the manager of the underlying trust; or

(c) any index compiler of the underlying index.

We do not guarantee the repayment of your investment in any Structured Product.

Any downgrading of our rating by rating agencies such as Moody's Investors Service, Inc., New York, Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. or Fitch Ratings Ltd., London, could result in a reduction in the value of the Structured Products.

*No deposit liability or debt obligation*

We are obliged to deliver to you the Cash Settlement Amount under the Conditions of each series of the Structured Products upon expiry or exercise, as the case may be. We do not intend (expressly, implicitly or otherwise) to create a deposit liability or a debt obligation of any kind by the issue of any Structured Product.

*Conflicts of interest*

The Group is a diversified financial institution with relationships in countries around the world. The Group engages in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for our own account or the account of others. In addition, the Group, in connection with our other business activities, may possess or acquire material information about the Underlying Assets or may issue or update research reports on the Underlying Assets. Such activities, information and/or research reports may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of Structured Products by us. Such actions and conflicts may include, without limitation, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Group:

(a) has no obligation to disclose such information about the Underlying Assets or such activities. The Group and our officers and directors may engage in any such activities without regard to the issue of Structured Products by us or the effect that such activities may directly or indirectly have on any Structured Product;

(b) may from time to time engage in transactions involving the Underlying Assets for our proprietary accounts and/or for accounts under our management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the price/level of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;

(c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;

(d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products; and

(e) may also act as underwriter in connection with future offerings of shares, units or other securities or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such share, unit or other security or in a commercial banking capacity for the issuer of any share, units or other security or the trustee or the manager of the trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

**General risks relating to Structured Products**

*You may lose all your investment in the Structured Products*

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest, foreign exchange, time value, market and/or political risks. Structured Products may expire worthless.

Options, warrants and asset linked instruments are priced primarily on the basis of the price/level of the Underlying Asset, the volatility of the Underlying Asset's price/level and the time remaining to expiry of the Structured Product.

The price of Structured Products generally may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the underlying share price, unit price or index level of a Structured Product moves in a direction against you and the shorter its remaining term to expiration, the greater the risk that you will lose all or a significant part of your investment.

"European Style" Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the value of your investment.

The risk of losing all or any part of the purchase price of a Structured Product upon expiration means that, in order to recover and realise a return on investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price/level of the Underlying Asset as may be specified in the relevant supplemental listing document.

Changes in the price/level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price/level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price/level of the relevant Underlying Asset does not move in the anticipated direction.

*The value of the Structured Products may be disproportionate or opposite to movement in price/level of the Underlying Assets*

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Asset. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. It is possible that while the price/level of the Underlying Assets is increasing, the value of the Structured Product is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in the Underlying Asset specified in the relevant supplemental listing document, you should recognise the complexities of utilizing Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price/level of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset. The Structured Products may not be a perfect hedge to the Underlying Asset or portfolio of which the Underlying Asset forms a part.

It may not be possible to liquidate the Structured Products at a level which directly reflects the price/level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

*Maximum exercise amount*

If so indicated in the relevant supplemental listing document, we will have the option to limit the number of Structured Products exercisable or being closed out on any Exercise Date to the maximum number specified therein and, in conjunction with such limitation, to limit the number of Structured Products exercisable or being closed out by any holder on such day. In the event that the total number of Structured Products being exercised or being closed out exceeds such specified maximum number, you may not be able to realise the value of your investment in all the Structured Products on that day.

*Minimum exercise amount*

If so indicated in the relevant Conditions, you may have to tender a specified minimum number of the Structured Products at any one time in order to exercise the Structured Products. If you have fewer than the specified minimum number of such Structured Products, you will either have to sell your Structured Products or purchase additional Structured Products, incurring transaction costs in each case, in order to realise a return on your investment, and you may incur the risk that the trading price of the Structured Product at that time is different from the applicable Cash Settlement Amount.

*Possible illiquidity of secondary market*

It is not possible to predict if and to what extent a secondary market may develop in any series of Structured Products and at what price such series of Structured Products will trade in the secondary market and whether such market will be liquid or illiquid. The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products. To the extent that any Structured Products of a series is exercised or closed out, the number of Structured Products outstanding in that series will decrease, which may result in a lessening of the liquidity of Structured Products. A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have, or will appoint, a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances we will use our best endeavours to appoint an alternative liquidity provider.

*Interest rates*

Investments in the Structured Products may involve interest rate risk with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

*Time decay*

The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend upon, among others, the length of the period remaining to expiration and expectations concerning the range of possible future price/level of the Underlying Assets. The value of a Structured Product is likely to decrease over time. Therefore, the Structured Products should not be viewed as products for long term investments.

*Exchange rate risk*

There may be an exchange rate risk in the case of Structured Products where the Cash Settlement Amount will be converted from a foreign currency into Hong Kong dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation.

Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies. There can be no assurance that rates of exchange between any relevant currencies which are current rates at the date of issue of any Structured Products will be representative of the relevant rates of exchange used in computing the value of the relevant Structured Products at any time thereafter.

Where Structured Products are described as being "quantoed", the value of the Underlying Assets will be converted from one currency (the "**Original Currency**") into a new currency (the "**New Currency**") on the date and in the manner specified in, or implied by, the Conditions using a fixed exchange rate. The cost to us of maintaining such a fixing between the Original Currency and the New Currency will have an implication on the value of the Structured Products, which will vary during the term of the Structured Products. No assurance can be given as to whether or not, taking into account relative exchange rate and interest rate fluctuations between the Original Currency and the New Currency, a quanto feature in a Structured Product would at any time enhance the return on the Structured Product over a level of a similar Structured Product issued without such a quanto feature.

*Taxes*

You may be required to pay stamp duty or other taxes or other documentary charges. If you are in doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. See "Do you need to pay any tax?" in the section headed "Important Information" on page 3 for further information.

*Modification to the Conditions*

Under the Conditions, we may, without your consent, modify the terms and conditions applicable to the Structured Products if such modification is:

(a) not materially prejudicial to your interest;

(b) of a formal, minor or technical nature;

(c) to correct an obvious error; or

(d) for compliance with any mandatory provisions under Hong Kong law.

**Risks relating to the Underlying Asset**

*You have no right to the Underlying Asset*

Unless specifically indicated in the Conditions, you will not be entitled to:

(i) voting rights or rights to receive dividends or other distributions or any other rights that a holder of the Underlying Asset would normally be entitled to; or

(ii) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

*Valuation risk*

An investment in Structured Products may involve valuation risk as regards the Underlying Assets to which the particular series of Structured Products relate. The price/level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors, speculation and (where the Underlying Asset is an index) changes in the formula for or the method of calculating the index.

You must be experienced with dealing in these types of Structured Products and must understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

*Adjustment related risk*

Certain events relating to the Underlying Asset require or, as the case may be, permit us to make certain adjustments or amendments to the Conditions. You have limited anti-dilution protection under the Conditions of the Structured Products. We may, in our sole discretion adjust, among other things, the Entitlement and the Exercise Price of any series of Structured Product for events such as stock splits and stock dividends or (in respect of Structured Products relating to an index) determine the Closing Level. However, we are not required to make an adjustment for every event that may affect an Underlying Asset, in which case the market price of the Structured Products and the return upon the exercise or expiry of the Structured Products may be affected.

In the case of Structured Products which relate to an index, the level of the index may be published by the index compiler at a time when one or more shares comprising in the index are not trading. If this occurs on the Valuation Date but such occurrence does not constitute a Market Disruption Event under the Conditions then the value of such share(s) may not be included in the level of the index. In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

*Suspension of trading*

If the Underlying Assets are suspended from trading or dealing for whatever reason on the market on which they are listed or dealt in (including the Stock Exchange), trading in the relevant series of Structured Products will be suspended for a similar period.

*Delay in settlement*

Unless otherwise specified in the relevant Conditions, in the case of any exercise or expiry, as the case may be, of Structured Products, there may be a time lag between the date on which the Structured Products are exercised or expire, and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of exercise or expiry and the determination of the settlement amount will be specified in the relevant Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the exercise or expiry of such Structured Products arising from our determination that a Market Disruption Event, Settlement Disruption Event or delisting of a company has occurred at any relevant time or that adjustments are required in accordance with the Conditions.

That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

You should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, payment of the Cash Settlement Amount may be delayed as more fully described in the Conditions.

**Risks relating to Structured Products over trusts**

In the case of Structured Products which relate to the units of a trust:

(a) neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any corporate actions that might affect the value of any Structured Product; and

(b) we have no role in the relevant trust. The manager of the relevant trust is responsible for making strategic, investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manager in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

## RISK RELATING TO CBBCS

*Correlation between the price of a CBBC and the price/level of the Underlying Asset*

When the Underlying Asset of a CBBC is trading at a price/level close to its Call Price/Call Level, the price of that CBBC tends to be more volatile and any change in the value of that CBBC at such time may be incomparable and disproportionate to the change in the price/level of the Underlying Asset.

*Mandatory Call Event is irrevocable except in limited circumstances*

A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEx (such as the setting up of wrong Call Price/Call Level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(b) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached between the Stock Exchange and us no later than such time as prescribed in the relevant supplemental listing document. Upon revocation of the Mandatory Call Event, trading of the CBBCs will resume and any trade cancelled after such Mandatory Call Event will be reinstated.

*Non-recognition of Post MCE Trades*

The Stock Exchange and its recognised exchange controller, HKEx, shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEx) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading ("**Trading Suspension**") or the non-recognition of trades after a Mandatory Call Event ("**Non-Recognition**

**of Post MCE Trades**"), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We and our affiliates shall not have any responsibility towards you for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a Mandatory Call Event, notwithstanding that such Trading Suspension or Non-Recognition of Post MCE Trades may have occurred as a result of an error in the observation of the event.

*Residual Value may not include residual funding cost*

For Category R CBBCs, the Residual Value (if any) payable by us following the occurrence of a Mandatory Call Event may or may not include the residual funding cost for the CBBCs. You may not receive any residual funding cost back from us upon early termination of a Category R CBBC upon a Mandatory Call Event.

*Delay in announcements of a Mandatory Call Event*

The Stock Exchange will notify the market as soon as practicable after the CBBC has been called. You must however be aware that there may be delay in the announcements of a Mandatory Call Event due to technical errors or system failures and other factors that are beyond our control or the control of the Stock Exchange.

*Our hedging activities may adversely affect the price/level of the Underlying Asset*

We and/or any of our affiliates may carry out activities that minimise our risks related to the CBBCs, including effecting transactions for our own account or for the account of our customers and hold long or short positions in the Underlying Asset whether for risk reduction purposes or otherwise. In addition, in connection with the offering of any CBBCs, we and/or any of our affiliates may enter into one or more hedging transactions with respect to the Underlying Asset. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by us and/or any of our affiliates, we and/or any of our affiliates may enter into transactions in the Underlying Asset which may affect the market price, liquidity or price/level of the Underlying Asset and/or the value of CBBCs and which could be deemed to be adverse to your interests. We and/or our affiliates are likely to modify our hedging positions throughout the life of the CBBCs whether by effecting transactions in the Underlying Asset or in derivatives linked to the Underlying Asset. Further, it is possible that the advisory services which we and/or our affiliates provide in the ordinary course of our business could lead to an adverse impact on the value of the Underlying Asset.

*Unwinding of hedging arrangements*

The trading and/or hedging activities of us or our affiliates related to CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price/level of the Underlying Asset and may trigger a Mandatory Call Event. In particular, when the Underlying Asset is trading close to the Call Price/Call Level, our unwinding activities may cause a fall or rise (as the case may be) in the trading price/level of the Underlying Asset, leading to a Mandatory Call Event as a result of such unwinding activities.

In respect of Category N CBBCs, we or our affiliates may unwind any hedging transactions entered into by us in relation to the CBBCs at any time even if such unwinding activities may trigger a Mandatory Call Event.

In respect of Category R CBBCs, before the occurrence of a Mandatory Call Event, we or our affiliates may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from time to time. Upon the occurrence of a Mandatory Call Event, we or our affiliates may unwind any hedging transactions in relation to the CBBCs. Such unwinding activities after the occurrence of a Mandatory Call Event may affect the trading price/level of the Underlying Asset and consequently the Residual Value for the CBBCs.

*Adjustment related risk*

We will make such adjustments as we consider appropriate as a consequence of certain corporate actions or index adjustment events affecting the Underlying Asset.

For Single Equity CBBCs, we may adjust the Call Price, the Strike Price and, if applicable, the

Entitlement to take into account the effect of such event. For example, we may make adjustment to the Call Price and the Strike Price for certain dividend payments by the issuer of the Underlying Asset, in accordance with the relevant Conditions. However, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution ("**Cash Distribution**") announced by the issuer of the Underlying Asset, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Underlying Asset's closing price on the day of announcement by the relevant issuer.

For Index CBBCs, we may determine the Closing Level in good faith in the case of an index adjustment event in accordance with the relevant Conditions.

We are not required to adjust each and every corporate action or index adjustment event. See Condition 6 of the Conditions of the relevant CBBCs for further details.

In addition, for Single Equity CBBCs, if the Underlying Asset ceases to be listed on the Stock Exchange during the term of the CBBCs, we may make adjustments and amendments to the rights attaching to the CBBCs pursuant to Condition 13 of the Conditions of the relevant CBBCs. Such adjustments and amendments will be conclusive and binding on you.

*Possible early termination for illegality or impracticality*

If we determine that, for reasons beyond our control, the performance of our obligations under the CBBCs has become illegal or impractical or it is no longer desirable or practical for us to maintain our hedging arrangement with respect to the CBBCs, we may terminate early the CBBCs. If we terminate early the CBBCs, we will, if and to the extent permitted by applicable law, pay an amount determined by us to be its fair market value notwithstanding the illegality or impracticality less the cost to us of unwinding any Underlying Asset related hedging arrangements.

**Risk relating to the legal form of the Structured Products**

Each series of Structured Products will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS).

Structured Products issued in global registered form and held on your behalf within a clearing system effectively means that the evidence of your title, as well as the efficiency of ultimate delivery of the Cash Settlement Amount, will be subject to the CCASS Rules. You should be aware of the following risks:

(a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

(b) any register that is maintained by us or on our behalf, while available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

(c) you will have to rely solely upon your broker/custodians and the statements you receive from such party as evidence of your interest in the investment;

(d) notices or announcements will be published on the HKEx website and/or released by HKSCC to its participants via CCASS. You will need to check the HKEx website regularly and/or rely on your brokers/ custodians to obtain such notices/ announcements; and

(e) following the Expiry Date or the Exercise Date, as the case may be, and the determination by us as to the Cash Settlement Amount, our obligations to you will be duly performed by payment of the Cash Settlement Amount in accordance with the Conditions to HKSCC Nominees Limited as the "holder" of the Structured Products. HKSCC or HKSCC Nominees

Limited will then distribute the received Cash Settlement Amount to the respective CCASS participants in accordance with the CCASS Rules.

**Fee arrangements with brokers and conflicts of interest of brokers**

We may enter into fee arrangements with brokers and/or any of its affiliates with respect to the primary market in the Structured Products. You should note that any brokers with whom we have a fee arrangement does not, and cannot be expected to, deal exclusively in the Structured Products, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the Underlying Assets and/or the structured products of other issuers over the same Underlying Assets to which the particular series of Structured Products may relate, or other underlying assets as the case may be, for their proprietary accounts and/or for the accounts or their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Structured Products and present certain conflicts of interests.

**Effect of the combination of risk factors unpredictable**

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

# APPENDIX 1 — TERMS AND CONDITIONS OF WARRANTS

*The following pages set out the Conditions in respect of different types of Warrants.*


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# PART A — TERMS AND CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE EQUITIES

*These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.*

## 1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

## 2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Average Price**" means, with respect to the automatic exercise of Warrants on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) for each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of call Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) In the case of a series of put Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(iii) In the case of a series of American Style call Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(iv) In the case of a series of American Style put Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Closing Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Price**" means, with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) on the Valuation Date;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material, (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Share**" means the share specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means,

(i) with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the Exercise Date provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on such Exercise Date, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, provided that if there is a Market Disruption Event on each of the five Business Days immediately following such Exercise Date that, but for the Market Disruption Event, would have been the Valuation Date, then:

   (a) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and

(b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth Business Day but for the Market Disruption Event; or

(ii) with respect to the automatic exercise of Warrants on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount;

Provided that if the postponement of the Valuation Date in accordance with paragraph (i) or (ii) above would result in the Valuation Date falling on or after the Expiry Date, then:

(aa) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(bb) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

## 3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

## 4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4(B)(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following:

(i) with respect to American Style Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the Valuation Date; or

(ii) with respect to Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), the Expiry Date,

("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

**5. Sponsor**

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

## 6. Adjustments

Adjustments may be made by the Issuer to the number of Shares to which the Warrants relate on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues.* If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the Subdivision or Consolidation takes effect. Such adjusted Entitlement is called "**Adjusted Entitlement**" and "**Adjustment Component**" means the Adjusted Entitlement divided by the Entitlement in effect immediately prior to the relevant adjustment. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component. The "**reciprocal of the Adjustment Component**" means one divided by the Adjustment Component. The adjustment to the Exercise Price shall take effect on the same date on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any

Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

## 7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

## 8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

## 9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

**10. Notices**

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

**11. Liquidation**

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

**12. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

**13. Delisting**

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

**14. Governing Law**

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

**15. Language**

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

**16. Prescription**

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

**Sponsor:**
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

# PART B — TERMS AND CONDITIONS OF CASH SETTLED AVERAGE RETURN WARRANTS OVER SINGLE EQUITIES

*These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.*

**1. Form, Status, Transfer, Title and Additional Costs and Expenses**

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

**2. Warrant Rights, Exercise Price and Exercise Expenses**

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \text{Entitlement x } \left( \frac{\text{Sum of the Periodic Reference Prices}}{\text{Number of Periodic Fixing Dates}} - \text{Exercise Price} \right) \text{ x } \frac{\text{One Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \text{Entitlement x } \left( \text{Exercise Price} - \frac{\text{Sum of the Periodic Reference Prices}}{\text{Number of Periodic Fixing Dates}} \right) \text{ x } \frac{\text{One Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

“**Market Disruption Event**” means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material, (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“**Periodic Reference Price**” means, in respect of each Periodic Fixing Date:

(i) in the case of a series of Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with the Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) for each Valuation Date; or

(ii) in the case of a series of American Style Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the periodic reference price specified as such in the relevant Supplemental Listing Document;

“**Periodic Fixing Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Share**” means the share specified as such in the relevant Supplemental Listing Document;

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited; and

“**Valuation Date**” means, with respect to the exercise of Warrants and each Periodic Fixing Date, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding such Periodic Fixing Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on the first succeeding Business Day will be referenced more than once in the determination of the relevant Periodic Reference Price, so that in no event shall there be less than five closing prices to determine the relevant Periodic Reference Price.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

## 3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

## 4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4(B)(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following the Exercise Date or the Expiry Date, as the case may be ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date, provided that if there is a Market Disruption Event on each of the five Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date, then: (i) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the relevant Periodic Fixing Date, then (i) the Business Day immediately preceding the relevant Periodic Fixing Date, (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

**5. Sponsor**

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

**6. Adjustments**

Adjustments may be made by the Issuer to the number of Shares to which the Warrants relate on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price and any

Periodic Reference Price which has or have been determined on a date prior to the Rights Issue Adjustment Date (each of which shall be rounded to the nearest Hong Kong dollar 0.001), by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price and any Periodic Reference Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price and any Periodic Reference Price which has or have been determined on a date prior to the Bonus Issue Adjustment Date (each of which shall be rounded to the nearest Hong Kong dollar 0.001), by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price and any Periodic Reference Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the Subdivision or Consolidation takes effect. Such adjusted Entitlement is called "**Adjusted Entitlement**" and "**Adjustment Component**" means the Adjusted Entitlement divided by the Entitlement in effect immediately prior to the relevant adjustment. In addition, the Issuer shall adjust the Exercise Price and any Periodic Reference Price which has or have been determined on a date prior to the date on which the Subdivision or Consolidation (as the case may be) takes effect (each of which shall be rounded to the nearest Hong Kong dollar 0.001), by the reciprocal of the Adjustment Component. The "**reciprocal of the Adjustment Component**" means one divided by the Adjustment Component. The adjustment to the Exercise Price and any Periodic Reference Price shall take effect on the same date on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

**7. Purchase**

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

**8. Global Certificate**

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

**9. Meetings of Warrantholders and Modification**

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

**10. Notices**

(A) Website publication. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) Request for copies. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholder at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

## 11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## 12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

## 13. Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

## 14. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## 15. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

## 16. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

**Sponsor:**
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

# PART C — TERMS AND CONDITIONS OF CASH SETTLED BASKET WARRANTS

*These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.*

## 1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Basket comprising Shares of each of the Companies are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

## 2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Exercise Amount initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Average Price**" means, with respect to the automatic exercise of Warrants on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), the arithmetic mean of the closing prices of the relevant Share to which each Basket Component relates (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) for each Valuation Date;

"**Basket**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Basket Component**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means in respect of each Exercise Amount, an amount in Hong Kong dollars calculated by the Issuer as follows:

(i) In the case of a series of call Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G):

(1) the sum of each of the Basket Components comprising the Basket (subject to adjustment as provided in Condition 6) multiplied by the Average Price of the relevant Share to which each Basket Component relates less (2) the Exercise Price;

(ii) In the case of a series of put Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G):

(1) the Exercise Price less (2) the sum of each of the Basket Components comprising the Basket (subject to adjustment as provided in Condition 6) multiplied by the Average Price of the relevant Share to which each Basket Component relates;

(iii) In the case of a series of American Style call Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii):

(1) the sum of each of the Basket Components comprising the Basket (subject to adjustment as provided in Condition 6) multiplied by the Closing Price of the relevant Share to which each Basket Component relates less (2) the Exercise Price; or

(iv) In the case of a series of American Style put Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii):

(1) the Exercise Price less (2) the sum of each of the Basket Components comprising the Basket (subject to adjustment as provided in Condition 6) multiplied by the Closing Price of the relevant Share to which each Basket Component relates;

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Price**" means, with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the closing price of the relevant Share to which each Basket Component relates (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) on the Valuation Date;

"**Company**" means each company included in the Basket, specified as such in the relevant Supplemental Listing Document;

"**Exercise Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) any Share; or (b) any options or futures contracts relating to any Share if, in any such case, such suspension or limitation is, in the determination of the Issuer, material; (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Shares**" means the shares of the Companies or, as the context requires, the shares of a particular Company, specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means,

(i) with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the Exercise Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on such Exercise Date, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, provided that if there is a Market Disruption Event on each of the five Business Days immediately following such Exercise Date that, but for the Market Disruption Event, would have been the Valuation Date, then:

(a) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and

(b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on that fifth Business Day but for the Market Disruption Event; or

(ii) with respect to the automatic exercise of Warrants on the Expiry Date in accordance with Conditions 4B(iii) and 4(G), each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the relevant Shares on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price of the Shares comprising a Basket Component;

Provided that if the postponement of the Valuation Date in accordance with paragraph (i) or (ii) above would result in the Valuation Date falling on or after the Expiry Date, then:

(aa) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(bb) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

## 3. Exercise Period

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

**4. Exercise of Warrants**

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4(B)(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following:

(i) with respect to American Style Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the Valuation Date; or

(ii) with respect to Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), the Expiry Date,

("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Exercise Amount the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

**5. Sponsor**

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

## 6. Adjustments

Adjustments may be made by the Issuer to the Basket Components on the basis of the following provisions:

(A) *Rights Issues*. If and whenever any of the Companies shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of its existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Basket Component relating to the Share(s) of the Company making the Rights Offer shall be adjusted to take effect on the Business Day on which trading in those Share(s) becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer} = \frac{1 + M}{1 + (R/S) \times M} \times E$$

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share of the Company making the Rights Offer as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which shares are traded on a Cum-Rights basis

R: Subscription price per Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: In respect of the Company making the Rights Offer, the number of new Share(s) (whether a whole or fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Basket Component relating to the Share(s) of the Company making the Rights Offer of less than one per cent. of the Basket Component immediately prior to the adjustment, then no adjustment will be made to that Basket Component.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever any of the Companies shall make an issue of Shares credited as fully paid to the holders of its Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the relevant Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Basket Component relating to the Share(s) of the Company making the Bonus Issue shall be adjusted to take effect on the Business Day on which trading in those Share(s) becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue} = (1 + N) \times E$$

Where:

E: Existing Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue immediately prior to the Bonus Issue

N: In respect of the Company making the Bonus Issue, the number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each existing Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Basket Component relating to the Share(s) of the Company making the Bonus Issue of less than one per cent. of the Basket Component immediately prior to the adjustment, then no adjustment will be made to that Basket Component.

(C) *Subdivisions and Consolidations*. If and whenever any of the Companies shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the relevant Basket Component, insofar as it relates to the Share(s) of the Company making the Subdivision or Consolidation (as the case may be) in effect immediately prior thereto shall be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the relevant Subdivision or Consolidation takes effect.

(D) *Restructuring Events*. If it is announced that any of the Companies is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where that Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment (i) is considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

## 7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

## 8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

## 9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

**10. Notices**

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

**11. Liquidation**

In the event of a liquidation or dissolution of all of the Companies or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of their undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation of the last Company to be so affected, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution of the last Company to be so affected, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

**12. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

**13. Delisting**

(A) If at any time any of the Shares ceases to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where any of the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustments or amendments and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

## 14. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## 15. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

## 16. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

**Sponsor:**
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

# PART D — TERMS AND CONDITIONS OF CASH SETTLED INDEX WARRANTS

*These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.*

**1. Form, Status, Transfer, Title and Additional Costs and Expenses**

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Index are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expressions "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

## 2. Warrant Rights and Exercise Expenses

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{(Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{(Strike Level - Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Divisor**" means the number specified as such in the relevant Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Compiler**" means the index compiler specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means a day on which the Index is published by the Index Compiler or, as the case may be, the Successor Index Compiler (as defined below);

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" means the index exchange specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(i) the occurrence or existence, on a Valuation Date during the one-half hour period that ends at the close of trading, of any of:

(1) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or

(2) the suspension or material limitation of the trading of securities/commodities (a) on the Index Exchange; or (b) generally; or

(3) the suspension or material limitation of the trading of (a) options or futures contracts relating to the Index on any exchanges or (b) options or futures generally on any options and/or futures exchanges on which options or futures contracts relating to the Index are traded; or

(4) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition, (a) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (b) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(ii) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(iii) a limitation or closure of the Index Exchange or the Stock Exchange due to any unforeseen circumstances.

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date specified in the relevant Supplemental Listing Document.

Trading in Warrants on the Stock Exchange shall ceased prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalised terms shall, unless otherwise defined herein, bear the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

**3. Exercise Period**

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending on the Expiry Date. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

**4. Exercise of Warrants**

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4(B)(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following the Exercise Date or the Expiry Date, as the case may be ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of a Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such Closing Level by having regard to the manner in which the Index Compiler, or the relevant body or entity, as the case may be, calculates the Closing Level.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

**5. Sponsor**

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another agent provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

**6. Adjustments to the Index**

(A) *Successor Index Compiler Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) *Modification and Cessation of Calculation of Index*. If (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) *Other Adjustments*. Except as provided in this Condition 6 and in Condition 9, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment (i) is considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(D) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

**7. Purchase**

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

**8. Global Certificate**

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised officer(s) or attorney(s) of the Issuer.

**9. Meetings of Warrantholders and Modification**

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

## 10. Notices

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

## 11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

## 12. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholders (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## 13. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

## 14. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

**Sponsor:**
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

# PART E — TERMS AND CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

*These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.*

**1. Form, Status, Transfer, Title and Additional Costs and Expenses**

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Units of the Trust are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

## 2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Board Lot initially entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 4(F).

(C) For the purposes of these Conditions:

"**Average Price**" means, with respect to the automatic exercise of Warrants on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) for each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of call Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(ii) In the case of a series of put Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(iii) In the case of a series of American Style call Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(iv) In the case of a series of American Style put Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii):

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Closing Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Price**" means, with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any rights issue, bonus issue, consolidation or subdivision, restructuring event or the like) on the Valuation Date;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material, (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means,

(i) with respect to the exercise of American Style Warrants on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the Exercise Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on such Exercise Date, then the Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, provided that if there is a Market Disruption Event on each of the five Business Days immediately following such Exercise Date that, but for the Market Disruption Event, would have been the Valuation Date, then:

(a) that fifth Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event, and

(b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on that fifth Business Day but for the Market Disruption Event; or

(ii) with respect to the automatic exercise of Warrants on the Expiry Date in accordance with Conditions 4B(iii) and 4(G), each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than five closing prices to determine the Average Price;

Provided that if the postponement of the Valuation Date in accordance with paragraph (i) or (ii) would result in the Valuation Date falling on or after the Expiry Date, then:

(aa) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(bb) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate (as defined below).

**3. Exercise Period**

(A) The Warrants may be exercised by valid delivery of an Exercise Notice (as defined below), in accordance with Condition 4 at any time during the Exercise Period. In the case of an exercise of American Style Warrants the Exercise Period shall be the period beginning at 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealings in the Warrants on the Stock Exchange) and ending at 10:00 a.m. (Hong Kong time) on the Expiry Date, subject to prior termination of the Warrants as provided for in Condition 11. If the Expiry Date is not a Business Day, the immediately succeeding Business Day shall be deemed to be the Expiry Date for the purposes of this Condition 3(A). Warrants may not be exercised at any other time.

Subject to Condition 4(B)(iii), in the case of an exercise of European Style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Subject to Conditions 4(B)(iii) and 4(G), any Warrant which has not been exercised during the Exercise Period shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

## 4. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Delivery of an Exercise Notice:

(i) In the case of an exercise of American Style Warrants, in order to exercise Warrants, the Warrantholders shall deliver to the Sponsor a duly completed exercise notice obtainable from the Sponsor (an "**Exercise Notice**"), such delivery to be made at any time during the Exercise Period.

In the case of an exercise of European Style Warrants, there will be no requirement to deliver an Exercise Notice and Warrants will be automatically exercised (if in the money) in accordance with Conditions 4(B)(iii) and 4(G).

(ii) In the case of American Style Warrants, the date upon which a Warrant is, or is to be treated as, exercised (an "**Exercise Date**") shall be the Business Day on which an Exercise Notice is delivered to the Sponsor and in respect of which there is a valid exercise of Warrants in accordance with the requirements of these Conditions, provided that any Exercise Notice received by the Sponsor after 10:00 a.m. (Hong Kong time) on any Business Day shall be deemed to have been delivered on the next following Business Day.

(iii) Any Warrant with respect to which an Exercise Date has not occurred during the Exercise Period will automatically be exercised on the Expiry Date (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any Exercise Notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 4(F).

(C) Any Exercise Expenses which are not determined by the Issuer on the Exercise Date and/or the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 4, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholders to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authority to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to a valid exercise or deemed exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Exercise Date and/or Expiry Date as the case may be, remove the name of each Warrantholder from the register of Warrantholders in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate (as defined below).

(F) Upon a valid exercise or deemed exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three Business Days following:

(i) with respect to American Style Warrants exercised on any Exercise Date in accordance with Conditions 4(B)(i) and (ii), the Valuation Date; or

(ii) with respect to Warrants automatically exercised on the Expiry Date in accordance with Conditions 4(B)(iii) and 4(G), the Expiry Date,

("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(G) Any Warrants which have not been exercised in the manner set out in Condition 4(B) before the Expiry Date shall be automatically exercised on that date, without notice to the Warrantholders or the requirement of the delivery of an Exercise Notice, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) will be positive. In respect of each Board Lot the Cash Settlement Amount shall be paid in the manner set out in Condition 4(F).

(H) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(F).

**5. Sponsor**

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 10.

**6. Adjustments**

Adjustments may be made by the Issuer to the number of Units to which the Warrants relate on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the

Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing bid price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Units held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the Subdivision or Consolidation takes effect. Such adjusted Entitlement is called "**Adjusted Entitlement**" and "**Adjustment Component**" means the Adjusted Entitlement divided by the Entitlement in effect immediately prior to the relevant adjustment. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component. The "**reciprocal of the Adjustment Component**" means one divided by the Adjustment Component. The adjustment to the Exercise Price shall take effect on the same date on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to, or may, sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(F) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

## 7. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

## 8. Global Certificate

A global warrant certificate (the "**Global Certificate**") representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

## 9. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of American Style Warrants, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

## 10. Notices

(A) *Website publication*. All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

(B) *Request for copies*. If so requested by the Warrantholders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Warrantholders at the address recorded in the register of Warrantholders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Warrantholders.

## 11. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 11, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

## 12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

## 13. Delisting

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

**14. Governing Law**

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

**15. Language**

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

**16. Prescription**

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Exercise Date or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

**Sponsor:**
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

# APPENDIX 2 — TERMS AND CONDITIONS OF CBBCS

*The following pages set out the Conditions in respect of different types of CBBCs.*


*PAGE*

**Part A — Terms and Conditions of Cash Settled Callable Bull/Bear Contracts over Single Equities** . . . . . . 84

**Part B — Terms and Conditions of Cash Settled Callable Bull/Bear Contracts over An Index** . . . . . . 97

# PART A — TERMS AND CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES

*These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs.*

**1. Form, Status, Transfer, Title and Additional Costs and Expenses**

(A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Holders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The CBBCs are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the CBBCs. The expression "**Holder**" and "**Holders**" shall be construed accordingly.

(E) Holders are responsible for additional costs and expenses in connection with any exercise of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(G) and to the extent necessary, be payable to the Issuer and collected from the Holders.

## 2. Definitions

For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Cash Settlement Amount**" means:

(i) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value, provided that the Issuer may, at its absolute discretion, pay a higher cash amount than the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

(ii) at expiry:

(a) in the case of a series of callable bull contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(b) in the case of a series of callable bear contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price - Closing Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Price**" means the official closing price of the Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, consolidation, restructuring event or the like) on the Valuation Date;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of CBBCs;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Price of the Shares on any Trading Day during the Observation Period is:

(i) in the case of a series of callable bull contracts, at or below the Call Price; or

(ii) in the case of a series of callable bear contracts, at or above the Call Price;

"**Market Disruption Event**" means (1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material, (2) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Shares during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date and ending on and including the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such notification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means:

(i) in the case of a series of callable bull contracts:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(ii) in the case of a series of callable bear contracts:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

"**Settlement Date**" means the third Business Day following (i) the Valuation Date or (ii) the end of the MCE Valuation Period, as the case may be;

"**Share**" means the share specified as such in the relevant Supplemental Listing Document;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Valuation Date**" means, the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

## 3. Hedging Disruption and Illegality

(A) *Hedging Disruption*

(i) *Notification*. The Issuer shall as soon as reasonably practicable give notice to the Holders in accordance with Condition 10:

(1) if it determines that a Hedging Disruption Event has occurred; and

(2) of the consequence of such Hedging Disruption Event as determined by the Issuer pursuant to Condition 3(A)(iii).

(ii) *Hedging Disruption Event*. A "**Hedging Disruption Event**" occurs if the Issuer determines that it is or has become not reasonably practicable or it has otherwise become undesirable, for any reason, for the Issuer wholly or partially to establish, re-establish, substitute or maintain a relevant hedging transaction (a "**Relevant Hedging Transaction**") it deems necessary or desirable to hedge the Issuer's obligations in respect of the CBBCs. The reasons for such determination by the Issuer may include, but are not limited to, the following:

(1) any material illiquidity in the market for the Shares;

(2) a change in any applicable law (including, without limitation, any tax law) or the promulgation of, or change in, the interpretation of any court, tribunal or regulatory authority with competent jurisdiction of any applicable law (including any action taken by a taxing authority);

(3) a material decline in the creditworthiness of a party with whom the Issuer has entered into any such Relevant Hedging Transaction; or

(4) the general unavailability of:

(A) market participants who will agree to enter into a Relevant Hedging Transaction; or

(B) market participants who will so enter into a Relevant Hedging Transaction on commercially reasonable terms.

(iii) *Consequences*. The Issuer, in the event of a Hedging Disruption Event, may determine to:

(1) terminate the CBBCs. In such circumstances the Issuer will, however, if and to the extent permitted by the Applicable Law (as defined in Condition 3(B)), pay to each Holder in respect of each CBBC held by such Holder an amount calculated by it as the fair market value of the CBBC immediately prior to such termination less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10; or

(2) make any other adjustment to the Conditions as it considers appropriate in order to maintain the theoretical value of the CBBCs after adjusting for the relevant Hedging Disruption Event.

(B) *Illegality*. The Issuer shall have the right to terminate the CBBCs if it shall have determined in its absolute discretion that for reasons beyond its control its performance thereunder shall have become unlawful in whole or in part as a result of compliance in good faith by the Issuer with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power ("**Applicable Law**"). In such circumstances the Issuer will, however, if and to the extent permitted by the Applicable Law, pay to each Holder in respect of each CBBC held by such Holder an amount calculated by it as the fair market value of the CBBC immediately prior to such termination (ignoring such illegality) less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10.

## 4. EXERCISE OF CBBCS

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised at 10:00 am on the Expiry Date.

(C) *Mandatory Call Event*

(i) Subject to paragraph (ii) below, following a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 10. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

*Revocation*

(ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(1) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEx**") (such as the setting up of wrong Call Price and other parameters); or

(2) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs.

(D) Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

(E) Any Exercise Expenses which are not determined by the Issuer by the Business Day after the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Condition 4, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

(F) In the event that the CBBCs have been exercised or have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, remove the name of each Holder from the register of Holders in respect of the number of CBBCs which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant CBBCs and, if applicable, cancel the Global Certificate.

(G) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Holder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

(H) In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation of the Cash Settlement Amount.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Shares.

(I) Exercise and settlement of the CBBCs is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(J) Subject to Condition 4(C)(ii), trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of a Mandatory Call Event or (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session), whichever is the earlier. All Post MCE Trades will be invalid and will be cancelled, and will not be recognised by the Issuer or the Stock Exchange.

**5. Sponsor**

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 10.

## 6. Adjustments

Adjustments may be made by the Issuer to the number of Shares to which the CBBCs relate on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Trading Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing bid price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Trading Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Trading Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to less than one per cent. of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) in the same ratio as the Subdivision or Consolidation (as the case may be) on the day on which the Subdivision or Consolidation takes effect. Such adjusted Entitlement is called "**Adjusted Entitlement**" and "**Adjustment Component**" means the Adjusted Entitlement divided by the Entitlement in effect immediately prior to the relevant adjustment. In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component. The "**reciprocal of the Adjustment Component**" means one divided by the Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the same date on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Trading Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Cash Dividends*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Call Price and the Strike Price shall be adjusted to take effect on the Trading Day on which trading in the Shares becomes ex-entitlement ("**Dividend Adjustment Date**") in accordance with the following formula:

Adjusted Strike Price = ESP - CD

Adjusted Call Price = ECP - CD

Where:

ESP: The existing Strike Price immediately prior to the Cash Distribution

ECP: The existing Call Price immediately prior to the Cash Distribution

CD: The Cash Distribution

(F) *Other Adjustments*. Except as provided in this Condition 6 and in Conditions 9 and 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the CBBCs and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is (i) considered by the Issuer not to be materially prejudicial to the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(G) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

**7. Purchase**

The Issuer or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

**8. Global Certificate**

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

## 9. Meetings of Holders and Modification

(A) *Meetings of Holders*. The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the provisions of the CBBCs or the Instrument which is (i) not materially prejudicial to the interests of the Holders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

## 10. Notices

(A) *Website publication*. All notices to the Holders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

(B) *Request for copies*. If so requested by the Holders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Holders at the address recorded in the register of Holders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Holders.

## 11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## 12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts so as to form a single series with the CBBCs.

## 13. Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 10 as soon as practicable after they are determined.

## 14. Governing Law

The CBBCs and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"). The Issuer and each Holder (by its purchase of the CBBCs) submit for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## 15. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

## 16. Prescription

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years after the MCE Valuation Period or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

**Sponsor:**
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

# PART B — TERMS AND CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX

*These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs.*

**1. Form, Status, Transfer, Title and Additional Costs and Expenses**

(A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 11) relating to the Index are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Holders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The CBBCs are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the CBBCs. The expressions "**Holder**" and "**Holders**" shall be construed accordingly.

(E) Holders are responsible for additional costs and expenses in connection with any exercise of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(G) and to the extent necessary, be payable to the Issuer and collected from the Holders.

## 2. Definitions

For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which banks are open for business in Hong Kong;

"**Call Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) following a Mandatory Call Event:

   (a) in the case of a series of Category R CBBCs, the Residual Value, provided that the Issuer may, at its absolute discretion, pay a higher cash amount than the Residual Value; or

   (b) in the case of a series of Category N CBBCs, zero.

(ii) at expiry:

   (a) in the case of a series of callable bull contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{(Closing Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

   (b) in the case of a series of callable bear contracts:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{(Strike Level - Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a Series of CBBCs where the Call Level is equal to the Strike Level;

"**Category R CBBCs**" means a Series of CBBCs where the Call Level is different from the Strike Level;

"**CCASS**" means the Central Clearing and Settlement System;

"**Closing Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Divisor**" means the number specified as such in the relevant Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of CBBCs;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to be open for trading for its regular trading sessions;

"**Index Compiler**" means the index compiler specified as such in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" means the index exchange specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Level of the Index is, at any time on any Index Business Day during the Observation Period:

(a) in the case of a series of callable bull contracts, at or below the Call Level; and

(b) in the case of a series of callable bear contracts, at or above the Call Level;

"**Market Disruption Event**" means:

(i) the occurrence or existence, on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading, of any of:

   (1) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or

   (2) the suspension or material limitation of the trading of securities/commodities (a) on the Index Exchange; or (b) generally; or

   (3) the suspension or material limitation of the trading of (a) options or futures contracts relating to the Index on any exchanges or (b) options or futures generally on any options and/or futures exchanges on which options or futures contracts relating to the Index are traded; or

   (4) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition, (a) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (b) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(ii) the hoisting of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been hoisted or issued; or

(iii) a limitation or closure of the Index Exchange or the Stock Exchange due to any unforeseen circumstances;

"**Maximum Index Level**" means the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Index Exchange during which the Mandatory Call Event occurs is the "**1st Session**") up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting for the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Index Level**" means the lowest Spot Level of the Index during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date and ending on and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of callable bull contracts:

$$\text{Residual Value per Board Lot} = \frac{\text{(Minimum Index Level - Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of callable bear contracts:

$$\text{Residual Value per Board Lot} = \frac{\text{(Strike Level - Maximum Index Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Date**" means the third Business Day following (i) the Valuation Date or (ii) the end of the MCE Valuation Period, as the case may be;

"**Spot Level**" means the spot level of the Index as complied and published by the Index Compiler;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions;

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document;

Other capitalised terms shall, unless otherwise defined herein, bear the meaning ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

## 3. Hedging Disruption and Illegality

(A) *Hedging Disruption*

(i) *Notification*. The Issuer shall as soon as reasonably practicable give notice to the Holders in accordance with Condition 10:

(1) if it determines that a Hedging Disruption Event has occurred; and

(2) of the consequence of such Hedging Disruption Event as determined by the Issuer pursuant to Condition 3(A)(iii).

(ii) *Hedging Disruption Event*. A "**Hedging Disruption Event**" occurs if the Issuer determines that it is or has become not reasonably practicable or it has otherwise become undesirable, for any reason, for the Issuer wholly or partially (a) to establish, re-establish, substitute or maintain a relevant hedging transaction (including, without limitation, any hedging transaction with respect to options or futures relating to the Index, or any currency in which the components of the Index are denominated) (a "**Relevant Hedging Transaction**") it deems necessary or desirable to hedge the Issuer's obligations in respect of the CBBCs or (b) to freely realize, recover, receive, repatriate, remit or transfer the proceeds of the Relevant Hedging Transactions between accounts within the jurisdiction of the Relevant Hedging Transactions (the "**Affected Jurisdiction**") or from accounts within the Affected Jurisdiction to accounts outside of the Affected Jurisdiction. The reasons for such determination by the Issuer may include, but are not limited to, the following:

(1) any material illiquidity in the market for the components of the Index;

(2) a change in any applicable law (including, without limitation, any tax law) or the promulgation of, or change in, the interpretation of any court, tribunal or regulatory authority with competent jurisdiction of any applicable law (including any action taken by a taxing authority);

(3) a material decline in the creditworthiness of a party with whom the Issuer has entered into any such Relevant Hedging Transaction; or

(4) the general unavailability of:

(A) market participants who will agree to enter into a Relevant Hedging Transaction; or

(B) market participants who will so enter into a Relevant Hedging Transaction on commercially reasonable terms.

(iii) *Consequences*. The Issuer, in the event of a Hedging Disruption Event, may determine to:

(1) terminate the CBBCs. In such circumstances the Issuer will, however, if and to the extent permitted by the Applicable Law (as defined in Condition 3(B)), pay to each Holder in respect of each CBBC held by such Holder an amount calculated by it as the

fair market value of the CBBC immediately prior to such termination less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10; or

(2) make any other adjustment to the Conditions as it considers appropriate in order to maintain the theoretical value of the CBBCs after adjusting for the relevant Hedging Disruption Event.

(B) *Illegality*. The Issuer shall have the right to terminate the CBBCs if it shall have determined in its absolute discretion that for reasons beyond its control its performance thereunder shall have become unlawful in whole or in part as a result of compliance in good faith by the Issuer with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power ("**Applicable Law**"). In such circumstances the Issuer will, however, if and to the extent permitted by the Applicable Law, pay to each Holder in respect of each CBBC held by such Holder an amount calculated by it as the fair market value of the CBBC immediately prior to such termination (ignoring such illegality) less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10.

## 4. EXERCISE OF CBBCS

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised at 10:00 am (Hong Kong time) on the Expiry Date.

(C) *Mandatory Call Event*

(i) Subject to paragraph (ii) below, following a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 10. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange.

*Revocation*

(ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(1) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEx**") (such as the setting up of wrong Call Level and other parameters); or

(2) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler);

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs.

(D) Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

(E) Any Exercise Expenses which are not determined by the Issuer by the Business Day after the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Condition 4, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

(F) In the event that the CBBCs have been exercised or have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or Expiry Date, as the case may be, remove the name of each Holder from the register of Holders in respect of the number of CBBCs which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant CBBCs and, if applicable, cancel the Global Certificate.

(G) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Holder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of a Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such Closing Level by having regard to the manner in which the Index Compiler, or the relevant body or entity, as the case may be, calculates the Closing Level.

(H) In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation of the Cash Settlement Amount.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities, contracts, commodities or currencies comprising the Index.

(I) Exercise and settlement of the CBBCs is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(J) Subject to Condition 4(C)(ii), trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of a Mandatory Call Event or (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session), whichever is the earlier. All Post MCE Trades will be invalid and will be cancelled, and will not be recognised by the Issuer or the Stock Exchange.

**5. Sponsor**

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another agent provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 10.

**6. Adjustments to the Index**

(A) *Successor Index Compiler Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) *Modification and Cessation of Calculation of Index*. If (i) on any Index Business Day the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events), or (ii) on any Index Business Day the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Index Business Day as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) *Other Adjustments*. Except as provided in this Condition 6 and in Condition 9, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion and notwithstanding any prior adjustment made pursuant to the above should, in the context of the issue of the CBBCs and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment (i) is considered by the Issuer not to be materially prejudicial to the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by the Stock Exchange.

(D) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

**7. Purchase**

The Issuer or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

**8. Global Certificate**

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised officer(s) or attorney(s) of the Issuer.

**9. Meetings of Holders and Modification**

(A) *Meetings of Holders*. The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the provisions of the CBBCs or the Instrument which is (i) not materially prejudicial to the interests of the Holders; (ii) of a formal, minor or technical nature; (iii) made to correct an obvious error; or (iv) necessary in order to comply with mandatory provisions of the laws of Hong Kong (as defined below). Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

**10. Notices**

(A) *Website publication*. All notices to the Holders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

(B) *Request for copies*. If so requested by the Holders (such request to be communicated to the Issuer or the Sponsor), the Issuer will deliver or procure delivery of copies of the notices published pursuant to Condition 10(A) by post addressed to such Holders at the address recorded in the register of Holders kept by the Issuer and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this Condition shall be sent or delivered at the risk of such Holders.

**11. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts so as to form a single series with the CBBCs.

**12. Governing Law**

The CBBCs and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Holders (by its purchase of the CBBCs) submit for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

**13. Language**

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

**14. Prescription**

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years after the MCE Valuation Period or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

**Sponsor:**
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

This information in this Appendix 3 has been extracted from our Annual Report 2007 as at and for the year ended 31 December 2007. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 3.

ERNST & YOUNG

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To the General Meeting of

**UBS AG, Zurich and Basel**

Basel, 6 March 2008

**Report of the group auditors – Independent Registered Public Accounting Firm Consolidated Financial Statements**

As auditors of the group we have audited the consolidated balance sheets of UBS AG as of 31 December 2007 and 2006, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended 31 December 2007, and notes thereto on pages 18 to 120. These consolidated financial statements are the responsibility of the company's management and the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We confirm that we meet the legal requirements in Switzerland concerning professional qualification and independence.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), International Standards on Auditing as well as Swiss Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UBS AG at 31 December 2007 and 2006, and the consolidated results of operations and cash flows for each of the three years in the period ended 31 December 2007 in conformity with International Financial Reporting Standards, and they comply with Swiss Law.

In accordance with Swiss Law, we recommend that the consolidated financial statements submitted to you be approved.

ERNST & YOUNG



We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), UBS AG's internal control over financial reporting as of 31 December 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 6 March 2008 expresses an unqualified opinion thereon.

Ernst & Young Ltd

Andrew McIntyre
Chartered Accountant
(in charge of the audit)

Dr. Andreas Blumer
Swiss Certified Accountant

# Financial Statements

## Income Statement

| | | For the year ended | | | % change from |
|---|---|---|---|---|---|
| *CHF million, except per share data* | Note | **31.12.07** | 31.12.06 | 31.12.05 | 31.12.06 |
| **Continuing operations** | | | | | |
| Interest income | 3 | **109,112** | 87,401 | 59,286 | 25 |
| Interest expense | 3 | **(103,775)** | (80,880) | (49,758) | 28 |
| Net interest income | 3 | **5,337** | 6,521 | 9,528 | (18) |
| Credit loss (expense) / recovery | | **(238)** | 156 | 375 | |
| Net interest income after credit loss expense | | **5,099** | 6,677 | 9,903 | (24) |
| Net fee and commission income | 4 | **30,634** | 25,456 | 21,184 | 20 |
| Net trading income | 3 | **(8,353)** | 13,743 | 8,248 | |
| Other income | 5 | **4,332** | 1,598 | 1,127 | 171 |
| Revenues from industrial holdings | | **268** | 262 | 229 | 2 |
| Total operating income | | **31,980** | 47,736 | 40,691 | (33) |
| Personnel expenses | 6 | **24,798** | 23,591 | 20,067 | 5 |
| General and administrative expenses | 7 | **8,465** | 7,980 | 6,504 | 6 |
| Depreciation of property and equipment | 15 | **1,251** | 1,252 | 1,247 | 0 |
| Amortization of intangible assets | 16 | **282** | 153 | 133 | 84 |
| Goods and materials purchased | | **119** | 116 | 97 | 3 |
| Total operating expenses | | **34,915** | 33,092 | 28,048 | 6 |
| Operating profit from continuing operations before tax | | **(2,935)** | 14,644 | 12,643 | |
| Tax expense | 22 | **1,311** | 2,785 | 2,465 | (53) |
| Net profit from continuing operations | | **(4,246)** | 11,859 | 10,178 | |
| **Discontinued operations** | | | | | |
| Operating profit from discontinued operations before tax | 36 | **135** | 879 | 5,094 | (85) |
| Tax expense | 22 | **(266)** | (12) | 582 | |
| Net profit from discontinued operations | | **401** | 891 | 4,512 | (55) |
| Net profit | | **(3,845)** | 12,750 | 14,690 | |
| Net profit attributable to minority interests | | **539** | 493 | 661 | 9 |
| from continuing operations | | **539** | 390 | 430 | 38 |
| from discontinued operations | | **0** | 103 | 231 | (100) |
| **Net profit attributable to UBS shareholders** | | **(4,384)** | 12,257 | 14,029 | |
| from continuing operations | | **(4,785)** | 11,469 | 9,748 | |
| from discontinued operations | | **401** | 788 | 4,281 | (49) |
| **Earnings per share** | | | | | |
| Basic earnings per share (CHF) | 8 | **(2.28)** | 6.20 | 6.97 | |
| from continuing operations | | **(2.49)** | 5.80 | 4.84 | |
| from discontinued operations | | **0.21** | 0.40 | 2.13 | (48) |
| Diluted earnings per share (CHF) | 8 | **(2.28)** | 5.95 | 6.68 | |
| from continuing operations | | **(2.49)** | 5.57 | 4.65 | |
| from discontinued operations | | **0.21** | 0.38 | 2.03 | (45) |

## Balance Sheet

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

## Statement of Changes in Equity

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

## Statement of Changes in Equity (continued)

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

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

### Additional information: Equity attributable to minority interests

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

### Shares issued

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

### Treasury shares

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

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

On 31 December 2007, a maximum of 144,338 shares could be issued against the future exercise of options from former PaineWebber employee option plans. These shares are shown as conditional share capital in the UBS AG (Parent Bank) disclosure. In addition, during 2006, shareholders approved the creation of conditional capital of up to a maximum of 150 million shares to fund UBS's employee share option programs. As of 31 December 2007 and 31 December 2006, 5,704 shares and zero shares, respectively, have been issued under this program.

All issued shares are fully paid.

## Statement of Recognized Income and Expense

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

## Statement of Cash Flows

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

1 Includes issuance of preferred securities of CHF 996 million, CHF 1,219 million and CHF 1,539 million for the years ended 31 December 2007, 31 December 2006 and 31 December 2005, respectively. 2 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. CHF 3,364 million, CHF 7,183 million and CHF 4,744 million were pledged at 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

## Statement of Cash Flows (continued)

| | For the year ended | | |
|---|---|---|---|
| *CHF million* | **31.12.07** | 31.12.06 | 31.12.05 |
| **Additional information** | | | |
| Cash received as interest | **103,828** | 79,805 | 53,117 |
| Cash paid as interest | **97,358** | 76,109 | 44,392 |
| Cash received as dividends on equities (including associates, see Note 14) | **5,313** | 4,839 | 3,869 |
| **Significant non-cash investing and financing activities** | | | |
| Private Banks and GAM, deconsolidation | | | |
| Financial investments available-for-sale | | | 60 |
| Property and equipment | | | 180 |
| Goodwill and intangible assets | | | 362 |
| Debt issued | | | 5 |
| Private equity investments, deconsolidation | | | |
| Property and equipment | 24 | 264 | 248 |
| Goodwill and intangible assets | | | 3 |
| Minority interests | | 62 | 27 |
| Acquisitions of businesses | | | |
| Financial investments available-for-sale | | | 35 |
| Property and equipment | | | 112 |
| Goodwill and intangible assets | | | 377 |
| Minority interests | | | 6 |
| Motor-Columbus , deconsolidation | | | |
| Financial investments available-for-sale | | 178 | |
| Property and equipment | | 2,229 | |
| Goodwill and intangible assets | | 951 | |
| Debt issued | | 718 | |
| Minority interests | | 2,057 | |
| Acquisition of ABN AMRO's Global Futures and Options Business | | | |
| Property and equipment | | 13 | |
| Goodwill and intangible assets | | 428 | |
| Acquisition of Banco Pactual | | | |
| Financial investments available-for-sale | | 36 | |
| Property and equipment | | 9 | |
| Goodwill and intangible assets | | 2,218 | |
| Debt issued | | 1,496 | |
| Acquisition of Piper Jaffray | | | |
| Goodwill and intangible assets | | 605 | |
| Acquisition of McDonald Investments branch network | | | |
| Property and equipment | 3 | | |
| Goodwill and intangible assets | 262 | | |
| Acquisition of Daehan Investment Trust Management Company | | | |
| Property and equipment | 2 | | |
| Goodwill and intangible assets | 224 | | |
| Minority interests | 60 | | |

# Notes to the Financial Statements

## Note 1 Summary of Significant Accounting Policies

### a) Significant Accounting Policies

1) Basis of accounting
UBS AG and subsidiaries ("UBS" or the "Group") provide a broad range of financial services including advisory services, underwriting, financing, market making, asset management and brokerage on a global level, and retail banking in Switzerland. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged. The merger was accounted for using the uniting of interests method of accounting.

The consolidated financial statements of UBS (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and stated in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. On 6 March 2008, the Board of Directors approved them for issue.

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

2) Use of estimates in the preparation of Financial Statements
In preparing the Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences may be material to the Financial Statements.

3) Subsidiaries, associates and jointly controlled entities
The Financial Statements comprise those of the parent company (UBS AG) and its subsidiaries including certain special purpose entities, presented as a single economic entity. The effects of intra-group transactions are eliminated in preparing the Financial Statements. Subsidiaries including special purpose entities that are directly or indirectly controlled by the Group are consolidated. UBS controls an entity if it has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Subsidiaries acquired are consolidated from the date control is transferred to the Group. Subsidiaries to be divested are consolidated up to the date of disposal (i. e. loss of control).

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

The Group sponsors the formation of entities, which may or may not be directly or indirectly owned subsidiaries, for the purpose of asset securitization transactions and structured debt issuance, and to accomplish certain narrow and well defined objectives. These companies may acquire assets directly or indirectly from UBS or its affiliates. Some of these companies are bankruptcy-remote entities whose assets are not available to satisfy the claims of creditors of the Group or any of its subsidiaries. Such companies are consolidated in the Group's Financial Statements when the substance of the relationship between the Group and the company indicates that the company is controlled by the Group.

Investments in associates in which UBS has a significant influence are accounted for under the equity method of accounting. Significant influence is normally evidenced when UBS owns 20% or more of a company's voting rights. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased to recognize the Group's share of the investee's net profit or loss (including net profit or loss recognized directly in equity) after the date of acquisition.

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

Assets and liabilities of subsidiaries, investments in associates and interests in jointly controlled entities are classified as "held for sale" if UBS has entered into an agreement for their disposal within a period of 12 months. Major lines of business and subsidiaries that were acquired exclusively with the intent for resale are presented as discontinued operations in the income statement in the period where the sale occurred or it becomes clear that a sale will occur within

12 months. Discontinued operations are presented in the income statement as profit from discontinued operations before tax, comprising the total of profit or loss before tax from operations and net gain or loss on sale before tax, as well as discontinued operations tax expense.

4) Recognition and derecognition of financial instruments

UBS recognizes financial instruments on its balance sheet when the Group becomes a party to the contractual provisions of the instrument.

UBS enters into transactions where it transfers financial assets recognized on its balance sheet but retains either all risks and rewards of the transferred financial assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transfers of financial assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions described in this Note under parts 12) and 13). They further include transactions where financial assets are sold to a third party with a concurrent total rate of return swap on the transferred assets to retain all their risks and rewards. These types of transactions are accounted for as secured financing transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS derecognizes the financial asset if control over the asset is lost. The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate. In transfers where control over the financial asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Examples of such transactions are transfers of financial assets involving guarantees, writing put options, acquiring call options, or specific types of swaps linked to the performance of the asset.

UBS removes a financial liability from its balance sheet when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

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

5) Determination of fair value

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

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist and valuation models. UBS uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity like options or interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, UBS uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on Net profit of financial instrument valuations reflecting non-market observable inputs is disclosed in Note 26d). When entering into a transaction where model inputs are not market observable, the financial instrument is initially recognized at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in income of this initial difference in fair value ("Deferred day 1 profit or loss") depends on the individual facts and circumstances of each transaction but is never later than when the market data become observable. Refer to Note 26e) for details on deferred day 1 profit or loss.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions UBS holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value and model governance policies and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value on the balance sheet.

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

6) Trading portfolio assets and liabilities

Trading portfolio assets consist of money market paper, other debt instruments, including traded loans, equity instruments, precious metals and other commodities owned by the Group ("long" positions). Trading portfolio liabilities consist of obligations to deliver financial instruments such as money market paper, other debt instruments and equity instruments which the Group has sold to third parties but does not own ("short" positions).

The trading portfolio is carried at fair value. Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in the fair value of trading portfolio assets and liabilities are reported as Net trading income. Interest and dividend income and expense on trading portfolio assets or liabilities are included in Interest and dividend income or Interest and dividend expense.

The Group uses settlement date accounting when recording trading financial asset transactions. From the date the transaction is entered into (trade date), UBS recognizes any unrealized profits and losses arising from revaluing that contract to fair value in Net trading income. The corresponding receivable or payable is presented on the balance sheet as a positive or negative replacement value. When the transaction is consummated (settlement date), a resulting financial asset is recognized on or derecognized from the balance sheet at the fair value of the consideration given or received plus or minus the change in fair value of the contract since the trade date. When the Group becomes party to a sales contract of a financial asset classified in its trading portfolio, it derecognizes the asset on the day of its transfer (settlement date).

Trading portfolio assets transferred to external parties that do not qualify for derecognition (see part 4) ) are reclassified on UBS's balance sheet from Trading portfolio assets to Trading portfolio assets pledged as collateral, if the transferee has received the right to sell or repledge them.

7) Financial assets and Financial liabilities designated at fair value through profit or loss ("Fair Value Option")

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

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

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

Hybrid instruments which fall under criterion a) above include i) bonds and compound debt liabilities issued, ii) compound debt liabilities – OTC, and iii) hybrid financial assets from reverse repurchase agreements. Bonds and compound debt liabilities issued and OTC generally include embedded derivative components which refer to an underlying, e.g. equity price, interest rate, commodities price or index. UBS has designated almost all of its issued hybrid debt instruments as Financial liabilities designated at fair value through profit or loss.

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

UBS has also applied the fair value option to a hedge fund investment which is part of a portfolio managed on a fair value basis. Fair value changes related to financial instruments designated at fair value through profit or loss are recognized in Net trading income.

Interest and dividend income and interest expense on financial assets and liabilities designated at fair value through profit or loss are included in Interest income or Interest expense.

UBS applies the same recognition and derecognition principles to financial instruments designated at fair value as for financial instruments held for trading (refer to parts 4) and 6)).

8) Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets that are not classified as held for trading, designated at fair value through profit or loss, or loans and receivables. They are recognized on a settlement date basis. Financial investments available-for-sale include strategic equity investments as well as instruments that, in management's opinion, may be sold in response to or in anticipation of needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. Financial investments available-for-sale consist mainly of equity instruments, including certain private equity investments. In addition, certain debt instruments and non-performing loans acquired in the secondary market are classified as financial investments available-for-sale.

Financial investments available-for-sale are carried at fair value. Lock-in periods for equity investments are considered when determining fair value. Unrealized gains or losses are reported in Equity, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. On disposal of an investment, the accumulated unrealized gain or loss included in Equity is transferred to Net profit for the period and reported in Other income. Gains and losses on disposal are determined using the average cost method.

Interest and dividend income on financial investments available-for-sale are included in Interest and dividend income from financial investments available-for-sale.

If a financial investment available-for-sale is determined to be impaired, the cumulative unrealized loss previously recognized in Equity is included in Net profit for the period and reported in Other income. UBS assesses at each balance sheet date whether there is objective evidence that a financial investment available-for-sale is impaired. In case of such evidence, it is considered impaired if its cost exceeds the recoverable amount. For a quoted financial investment available-for-sale, the recoverable amount is determined by reference to the market price. It is considered impaired if objective evidence indicates that the decline in market price has reached such a level that recovery of the cost value cannot be reasonably expected within the foreseeable future. For non-quoted financial instruments (debt and equity instruments), the recoverable amount is determined by applying recognized valuation techniques. The standard method applied for non-quoted equity investments available-for-sale is based on the multiple of earnings observed in the market for comparable companies. Management may adjust valuations determined in this way based on its judgment. For non-quoted debt instruments, UBS typically determines the recoverable amount by applying the discounted cash flow method.

After the recognition of impairment on a financial investment available-for-sale, a) increases in fair value of equity instruments are reported in Equity and b) increases in fair value of debt instruments up to original cost are recognized in Other income, provided the fair value increase has been triggered by a specific event (as defined by IFRS).

9) Loans and receivables

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

Loans include loans originated by the Group where money is provided directly to the borrower, participation in a loan from another lender and purchased loans that are not quoted in an active market and for which no intention of immediate or short-term resale exists. Originated and purchased loans that are intended to be sold in the short term are generally recorded as Trading portfolio assets. Certain purchased non-performing loans are recognized as financial investments available-for-sale.

Loans are recognized when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, plus any transaction costs, and are subsequently measured at amortized cost using the effective interest rate method.

Interest on loans is included in Interest earned on loans and advances and is recognized on an accrual basis. Fees and direct costs relating to loan origination, refinancing or restructuring and to loan commitments are deferred and amortized to Interest earned on loans and advances over the life of the loan using the straight-line method which approximates the effective interest rate method. Fees received for commitments that are not expected to result in a loan are included in Credit-related fees and commissions over the commitment period. Loan syndication fees where UBS does not retain a portion of the syndicated loan are credited to commission income.

*Commitments*

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

10) Allowance and provision for credit losses

An allowance or provision for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due on a claim according to the original contractual terms or the equivalent value. A "claim" means a loan or receivable carried at amortized cost, or a commitment such as a letter of credit, a guarantee, a commitment to extend credit or other credit products.

An allowance for credit losses is reported as a reduction of the carrying value of a claim on the balance sheet. For an off-balance sheet item, such as a commitment, a provision for credit loss is reported in Other liabilities. Additions to allowances and provisions for credit losses are made through Credit loss expense.

Allowances and provisions for credit losses are evaluated at a counterparty-specific level and collectively based on the following principles:

*Counterparty-specific:* A claim is considered impaired when management determines that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

Individual credit exposures are evaluated based on the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realizable value of any collateral.

The estimated recoverable amount is the present value, using the loan's original effective interest rate, of expected future cash flows, including amounts that may result from restructuring or the liquidation of collateral. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of impaired claims due to the passage of time is reported as Interest income.

All impaired claims are generally reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with the prior estimates result in a change in the allowance for credit losses and are charged or credited to Credit loss expense.

An allowance for impairment is reversed only when the credit quality has improved to such an extent that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim or equivalent value.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established allowances for credit losses or directly to Credit loss expense and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are credited to Credit loss expense.

A loan is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that it will be made good by later payments or the liquidation of collateral, or when insolvency proceedings have commenced, or when obligations have been restructured on concessionary terms.

*Collectively:* All loans for which no impairment is identified on a counterparty-specific level are grouped into sub-portfolios with similar credit risk characteristics to collectively assess whether impairment exists within a portfolio. Allowances from collective assessment of impairment are recognized as Credit loss expense and result in an offset to the aggregated loan position. As the allowance cannot be allocated to individual loans, the loans are not considered to be impaired and interest is accrued on each loan according to its contractual terms.

### 11) Securitizations

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

Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in Trading portfolio assets and carried at fair value. Gains or losses on securitization are recognized in Net trading income, which is generally when the derecognition criteria are satisfied. Typically, the Group seeks to exit its risk in retained interests shortly after close of the securitization. The Group is also an active market maker in these securities and may therefore subsequently reacquire interests in the assets it securitizes. Financial assets purchased with the intention of securitizing them in the future, often referred to as warehousing assets or loans, are generally reflected in Trading portfolio assets, with changes in fair value recognized in net trading income. Synthetic securitization structures typically involve derivative financial instruments for which the principles set out in part 14) apply. Purchased asset-backed securities (ABS), including mortgage-backed securities (MBS), originated by third parties are recognized as financial assets held for trading, or in a minority of cases, as Financial investments available-for-sale.

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

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

### 12) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis. In such transactions, UBS typically lends or borrows securities in exchange for securities or cash collateral. Additionally, UBS borrows securities from its clients' custody accounts in exchange for a fee. The majority of securities lending and borrowing agreements involve shares, and the remainder typically involve bonds and notes. The transactions are conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

The securities which have been transferred, whether in a borrowing/lending transaction or as collateral, are not recognized on or derecognized from the balance sheet unless the risks and rewards of ownership are also transferred. In such transactions where UBS transfers owned securities and where the borrower is granted the right to sell or repledge them, the securities are reclassified on the balance sheet from Trading portfolio assets to Trading portfolio assets pledged as collateral. Cash collateral received is recognized with a corresponding obligation to return it (Cash collateral on securities lent). Cash collateral delivered is derecognized with a corresponding receivable reflecting UBS's right to receive it back (Cash collateral on securities borrowed). Securities received in a lending or borrowing transaction are disclosed as off-balance sheet items if UBS has the right to resell or repledge them, with securities that UBS has actually resold or repledged also disclosed separately (see Note 24). Additionally, the sale of securities received in a borrowing or lending transaction triggers the recognition of a trading liability (short sale).

Consideration exchanged in financing transactions (i.e. interest received or paid) is recognized on an accrual basis and recorded as Interest income or Interest expense.

13) Repurchase and reverse repurchase transactions

Securities purchased under agreements to resell (Reverse repurchase agreements) and securities sold under agreements to repurchase (Repurchase agreements) are generally treated as collateralized financing transactions. Nearly all repurchase and reverse repurchase agreements involve debt instruments, such as bonds, notes or money market paper. The transactions are conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors the market value of the securities received or delivered on a daily basis and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

In reverse repurchase agreements, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded in the balance sheet line Reverse repurchase agreements, recognizing UBS's right to receive it back. In Repurchase agreements, the cash received, including accrued interest, is recognized on the balance sheet with a corresponding obligation to return it (Repurchase agreements). Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized on or derecognized from the balance sheet, unless the risks and rewards of ownership are obtained or relinquished. In repurchase agreements where UBS transfers owned securities and where the recipient is granted the right to resell or repledge them, the securities are reclassified in the balance sheet from Trading portfolio assets to Trading portfolio assets pledged as collateral. Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if UBS has the right to resell or repledge them, with securities that UBS has actually resold or repledged also disclosed separately (see Note 24). Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading liability (short sale).

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

The Group offsets reverse repurchase agreements and repurchase agreements with the same counterparty, maturity, currency and Central Securities Depository (CSD) for transactions covered by legally enforceable master netting agreements when net or simultaneous settlement is intended.

14) Derivative instruments and hedge accounting

All derivative instruments are carried at fair value on the balance sheet and are reported as Positive replacement values or Negative replacement values. Where the Group enters into derivatives for trading purposes, realized and unrealized gains and losses are recognized in Net trading income.

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

*Hedge accounting*

The Group also uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Group applies either fair value or cash flow hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment.

At the time a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been "highly effective" in offsetting changes in the fair value or cash flows of the hedged items. UBS regards a hedge as highly effective only if the following criteria are met: a) at inception of the hedge and throughout its life, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and b) actual results of the hedge are within a range of 80% to 125%. In the case of hedging a forecast transaction, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that could ultimately affect the reported net profit or loss. The Group discontinues hedge accounting when it determines that a derivative is not, or has ceased to be, highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedged item matures, is sold or repaid; or when a forecast transaction is no longer deemed highly probable.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item or the amount by which changes in the present value of cash flows of the hedging derivative differ from changes (or expected changes) in the present value of cash flows of the hedged item. Such ineffectiveness is recorded in current period earnings in Net trading income, as are gains and losses on components of a hedging derivative that are excluded from assessing hedge effectiveness.

*Fair value hedges*
For qualifying fair value hedges, the change in fair value of the hedging derivative is recognized in the income statement. Those changes in fair value of the hedged item that are attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying value of the hedged item, which is also recognized in the income statement. The fair value change of the hedged item in a portfolio hedge of interest rate risks is reported separately from the hedged portfolio in Other assets or Other liabilities as appropriate. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortized fair value adjustment") is, in the case of interest-bearing instruments, amortized to the income statement over the remaining term of the original hedge, while for non-interest-bearing instruments that amount is immediately recognized in earnings. If the hedged item is derecognized, e.g. due to sale or repayment, the unamortized fair value adjustment is recognized immediately in the income statement.

*Cash flow hedges*
A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognized initially in Equity. When the cash flows that the derivative is hedging materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from Equity to the corresponding income or expense line item.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in Equity remains there until the committed or forecast transaction occurs or is no longer expected to occur, at which point it is transferred to the income statement.

*Economic hedges which do not qualify for hedge accounting*
Derivative instruments which are transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments used for trading purposes, i.e. realized and unrealized gains and losses are recognized in Net trading income except that, in certain cases, the forward points on short duration foreign exchange contracts are reported in Net interest income. Additionally, the Group has entered into economic hedges of credit risk within the loan portfolio using credit default swaps to which it cannot apply hedge accounting. In the event that the Group recognizes an impairment on a loan that is economically hedged in this way, the impairment is recognized in Credit loss expense, whereas any gain on the credit default swap is recorded in Net trading income. See Note 23 for additional information. Where UBS designates an economically hedged item at fair value through profit or loss, all fair value changes, including impairments, on both the hedged item and the hedging instrument are reflected in Net trading income (refer to part 7)). Credit losses incurred on over-the-counter (OTC) derivatives are reported in Net trading income.

*Embedded derivatives*
A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. If the host contract is not carried at fair value with changes in fair value reported in the income statement, the embedded derivative is generally required to be separated from the host contract and accounted for as a stand-alone derivative instrument at fair value through profit or loss if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the embedded derivative actually meets the definition of a derivative. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract, and are shown in Note 28 in the "Held for trading" category, reflecting the measurement and recognition principles applied.

Typically, UBS applies the fair value option to hybrid instruments (see part 7)), in which case bifurcation of an embedded derivative component is not required.

15) Cash and cash equivalents
Cash and cash equivalents consist of Cash and balances with central banks, balances included in Due from banks with original maturity of less than three months, and Money market paper included in Trading portfolio assets and Financial investments available-for-sale.

16) Physical commodities
Physical commodities (precious metals, base metals, energy and other commodities) held by UBS as a result of its broker-

trader activities are accounted for at fair value less costs to sell and presented within the Trading portfolio. Changes in fair value less costs to sell are reflected in Net trading income.

17) Property and equipment
Property and equipment includes own-used properties, investment properties, leasehold improvements, IT, software and communication, plant and manufacturing equipment, and other machines and equipment.

With the exception of investment properties, Property and equipment is carried at cost less accumulated depreciation and accumulated impairment losses, and is periodically reviewed for impairment. The useful life of property and equipment is estimated on the basis of the economic utilization of the asset.

*Classification for own-used property*
Own-used property is defined as property held by the Group for use in the supply of services or for administrative purposes, whereas investment property is defined as property held to earn rental income and/or for capital appreciation. If a property of the Group includes a portion that is own-used and another portion that is held to earn rental income or for capital appreciation, the classification is based on whether or not these portions can be sold separately. If the portions of the property can be sold separately, they are separately accounted for as own-used property and investment property. If the portions cannot be sold separately, the whole property is classified as own-used property unless the portion used by the Group is minor. The classification of property is reviewed on a regular basis to account for major changes in its usage.

*Leasehold improvements*
Leasehold improvements are investments made to customize buildings and offices occupied under operating lease contracts to make them suitable for the intended purpose. The present value of estimated reinstatement costs to bring a leased property into its original condition at the end of the lease, if required, is capitalized as part of the total leasehold improvements costs. At the same time, a corresponding liability is recognized to reflect the obligation incurred. Reinstatement costs are recognized in profit and loss through depreciation of the capitalized leasehold improvements over their estimated useful life.

*Software*
Software development costs are capitalized when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise, and the cost can be measured reliably. Internally developed software meeting these criteria and purchased software are classified within IT, software and communication.

Property and equipment is depreciated on a straight-line basis over its estimated useful life as follows:

| | |
|---|---|
| Properties, excluding land | Not exceeding 50 years |
| Leasehold improvements | Residual lease term, but not exceeding 10 years |
| Other machines and equipment | Not exceeding 10 years |
| IT, software and communication | Not exceeding 5 years |

*Property held for sale*
Non-current property formerly own-used or leased to third parties under an operating lease and equipment the Group has decided to sell are classified as non-current assets held for sale and recorded in Other assets. Upon classification as held for sale, they are no longer depreciated and are carried at the lower of book value or fair value less costs to sell. Foreclosed properties and other properties classified as current assets are included in Properties held for sale and recorded in Other assets. They are carried at the lower of cost and net realizable value.

*Investment property*
Investment property is carried at fair value with changes in fair value recognized in the income statement in the period of change. UBS employs internal real estate experts to determine the fair value of investment property by applying recognized valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions.

18) Goodwill and intangible assets
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition. Goodwill is not amortized; it is tested yearly for impairment, and, additionally, when a reasonable indication of impairment exists. The impairment test is conducted at the segment level as reported in Note 2a. The segment has been determined as the cash generating unit for impairment testing purposes as this is the level at which the performance of investments is reviewed and assessed by management. Refer to Note 16 for details.

Intangible assets comprise separately identifiable intangible items arising from acquisitions and certain purchased trademarks and similar items. Intangible assets acquired in business combinations are recognized on the balance sheet with their fair value at the date of acquisition and, if they have a definite useful life, are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Almost all identified intangible assets of UBS have a definite useful life. At each balance sheet date, intangible assets are reviewed for indications of impairment or changes in estimated future benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

Intangible assets are classified into two categories: a) infrastructure, and b) customer relationships, contractual rights and other. Infrastructure consists of an intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Customer relationships, contractual rights and other includes mainly intangible assets for client relationships, non-compete agreements, favorable contracts, proprietary software, trademarks and trade names acquired in business combinations.

19) Income taxes

Income tax payable on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilized.

Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Tax assets and liabilities of the same type (current or deferred) are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Current and deferred taxes are recognized as income tax benefit or expense except for current and deferred taxes recognized (i) upon the acquisition of a subsidiary, (ii) for unrealized gains or losses on financial investments available-for-sale, for changes in fair value of derivative instruments designated as cash flow hedges, for certain foreign currency translations of foreign operations, (iii) for certain tax benefits on deferred compensation awards, and (iv) for gains and losses on the sale of treasury shares. Deferred taxes recognized in a business combination (item (i)) are considered when determining goodwill. Items (ii), (iii) and (iv) are recorded in Net income recognized directly in equity.

20) Debt issued

Debt issued is initially measured at fair value, which is the consideration received, net of transaction costs incurred. Subsequent measurement is at amortized cost, using the effective interest rate method to amortize cost at inception to the redemption value over the life of the debt. Refer to Note 28.

Hybrid debt instruments that are related to non-UBS AG equity instruments, foreign exchange, credit instruments or indices are considered structured instruments. If such instruments have not been designated at fair value through profit or loss, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if the criteria for separation are met. The host contract is subsequently measured at amortized cost. UBS has designated most of its structured debt instruments at fair value through profit or loss – see part 7). The fair value option is not applied to certain hybrid instruments which contain bifurcatable embedded derivatives with references to foreign exchange rates and precious metal prices and which are not hedged by derivative instruments. Those hybrids are still subject to bifurcation of the embedded derivative.

Debt instruments with embedded derivatives that are related to UBS AG shares or to a derivative instrument that has UBS AG shares as its underlying are separated into a liability and an equity component at issue date if they require physical settlement. When the hybrid debt instrument is issued, a portion of the net proceeds is allocated to the debt component based on its fair value. The determination of fair value is generally based on quoted market prices for UBS debt instruments with comparable terms. The debt component is subsequently measured at amortized cost. The remaining amount of the net proceeds is allocated to the equity component and reported in Share premium. Subsequent changes in fair value of the separated equity component are not recognized. However, if the hybrid instrument or the embedded derivative related to UBS AG shares is to be cash settled or if it contains a settlement alternative, then the separated derivative is accounted for as a freestanding derivative, with changes in fair value recorded in Net trading income unless the entire hybrid debt instrument is designated at fair value through profit or loss (refer to part 7)).

It is the Group's policy to hedge the fixed interest rate risk on debt issues (except for certain subordinated long-term note issues), and to apply fair value hedge accounting, if the fair value option is not applied to such financial instruments – see part 7). When hedge accounting is applied to fixed-rate debt instruments, the carrying values of debt issues are adjusted for changes in fair value related to the hedged exposure rather than carried at amortized cost – refer to part 14) for further discussion.

Bonds issued by UBS held as a result of market making activities or deliberate purchases in the market are treated as redemption of debt. A gain or loss on redemption is recorded depending on whether the repurchase price of the bond is lower or higher than its carrying value. A subsequent sale of own bonds in the market is treated as a reissuance of debt.

Interest expense on debt instruments is included in Interest on debt issued.

21) Retirement benefits
UBS sponsors a number of retirement benefit plans for its employees worldwide. These plans include both defined benefit and defined contribution plans and various other retirement benefits such as post-employment medical benefits. Contributions to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution.

The Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related service cost and, where applicable, past service cost.

The principal actuarial assumptions used by the actuary are set out in Note 29.

The Group recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period are outside the corridor defined as the greater of:

a) 10% of present value of the defined benefit obligation at that date (before deducting plan assets); and
b) 10% of the fair value of any plan assets at that date.

The unrecognized actuarial gains and losses exceeding the greater of these two values are recognized in the income statement over the expected average remaining working lives of the employees participating in the plans.

If an excess of the fair value of the plan assets over the present value of the defined benefit obligation cannot be recovered fully through refunds or reductions in future contributions, no gain is recognized solely as a result of deferral of an actuarial loss or past service cost in the current period, and no loss is recognized solely as a result of deferral of an actuarial gain in the current period.

22) Equity participation plans
UBS provides various equity participation plans in the form of share plans and share option plans. UBS recognizes the fair value of share and share option awards determined at the date of grant as compensation expense over the required service period, which generally is equal to the vesting period. The fair value of share awards is equal to the average UBS share price at the date of grant. For share option awards, fair value is determined using a Monte Carlo valuation model which takes into account the specific terms and conditions under which the share options are granted. Equity settled awards are classified as equity instruments and are not remeasured subsequent to the grant date, unless an award is modified such that its fair value immediately after modification exceeds its fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognized as compensation expense, either over the remaining service period or immediately for vested awards.

Cash settled awards are classified as liabilities and remeasured to fair value at each balance sheet date as long as they are outstanding. Decreases in fair value reduce compensation expense, and no compensation expense, on a cumulative basis, is recognized for awards that expire worthless or remain unexercised.

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

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

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

25) Equity, treasury shares and contracts on UBS shares
*UBS AG shares held*
UBS AG shares held by the Group are classified in Equity as Treasury shares and accounted for at weighted average cost. The difference between the proceeds from sales of Treasury shares and their cost (net of tax, if any) is classified as Share premium.

*Contracts with gross physical settlement*
Contracts that require gross physical settlement in UBS AG shares are classified as Equity (provided a fixed amount of shares is exchanged against a fixed amount of cash) and reported as Share premium. Upon settlement of such contracts, the proceeds received – less cost (net of tax, if any) – are reported as Share premium.

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

*Physically settled written put options and forward share purchase contracts*
Exceptions to the accounting treatments described on this and previous page are physically settled written put options and forward share purchase contracts, including contracts where physical settlement is a settlement alternative. In both cases, the present value of the obligation to purchase own shares in exchange for cash is transferred out of Equity and recognized as a liability at inception of a contract. The liability is subsequently accreted, using the effective interest rate method, over the life of the contract to the nominal purchase obligation by recognizing interest expense. Upon settlement of a contract, the liability is derecognized, and the amount of equity originally transferred to liability is reclassified within Equity to Treasury shares. The premium received for writing put options is recognized directly in Share premium.

*Minority interests*
Net profit and Equity are presented including minority interests. Net profit is split into Net profit attributable to UBS shareholders and Net profit attributable to minority interests.

*Trust preferred securities issued*
UBS has issued trust preferred securities through consolidated preferred funding trusts which hold debt issued by UBS. UBS AG has fully and unconditionally guaranteed all of these securities. UBS's obligations under these guarantees are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. The trust preferred securities represent equity instruments which are owned by third parties. They are presented as minority interests in UBS's consolidated financial statements with dividends paid also reported under Equity attributable to minority interests. UBS bonds held by preferred funding trusts are eliminated in consolidation.

### 26) Discontinued operations and non-current assets held for sale
UBS classifies individual non-current non-financial assets and disposal groups as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – see part 17). Such assets or disposal groups are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups and their sale is considered highly probable. These assets (and liabilities in the case of disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell and presented in Other assets and Other liabilities (see Notes 17 and 20). Netting of assets and liabilities is not permitted.

UBS presents discontinued operations in a separate line in the income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, or b) is a subsidiary acquired exclusively with a view to resale (e. g. certain private equity investments). Net profit from discontinued operations includes the total of operating profit from discontinued operations and the gain or loss recognized on sale or measurement to fair value less costs to sell of the net assets constituting the discontinued operations. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of UBS's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, UBS restates prior periods in the income statement – see part 3). Refer to Note 36 for details.

### 27) Leasing
UBS enters into lease contracts, predominately of premises and equipment, as a lessor as well as a lessee. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or finance leases according to their economic substance. When making such an assessment, the Group focuses on the following aspects: a) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; d) Whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term. If one or more of the these conditions is met, the lease is generally classified as a finance lease, while the non-existence of such conditions normally leads to a classification as an operating lease.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 25 Operating Lease Commitments. These contracts include non-cancellable long-term leases of office buildings in most UBS locations. Lease contracts classified as operating leases where UBS is the lessor, and finance lease contracts where UBS is the lessor or the lessee, are not material. Contractual arrangements which are not considered leases in their entirety but which include lease elements are not material to UBS.

### 28) Fee income
UBS earns fee income from a diverse range of services it provides to its customers. Fee income can be divided into two broad categories: income earned from services that are provided over a certain period of time, for which customers are generally billed on an annual or semi-annual

basis, and income earned from providing transaction-type services. Fees earned from services that are provided over a certain period of time are recognized ratably over the service period. Fees earned from providing transaction-type services are recognized when the service has been completed. Performance-linked fees or fee components are recognized when the recognition criteria are fulfilled.

The following fee income is predominantly earned from services that are provided over a period of time: investment fund fees, fiduciary fees, custodian fees, portfolio and other management and advisory fees, insurance-related fees, credit-related fees and commission income. Fees predominantly earned from providing transaction-type services include underwriting fees, corporate finance fees and brokerage fees.

29) Foreign currency translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For a non-monetary financial asset held for trading and for non-monetary financial assets designated at fair value through profit or loss, unrealized exchange differences are recognized in the income statement. For non-monetary financial investments available-for-sale, unrealized exchange differences are recorded directly in Equity until the asset is sold or becomes impaired.

When preparing consolidated financial statements, assets and liabilities of foreign entities are translated at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Differences resulting from the use of closing and weighted average exchange rates and from revaluing a foreign entity's net asset balance at the closing rate are recognized directly in Foreign currency translation within Equity.

30) Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

31) Segment reporting

UBS's financial businesses are organized on a worldwide basis into three Business Groups and the Corporate Center. Global Wealth Management & Business Banking consists of three segments: Wealth Management International & Switzerland, Wealth Management US and Business Banking Switzerland. The Business Groups Investment Bank and Global Asset Management constitute one segment each. The Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS reports six business segments in 2007. Corporate Center includes all corporate functions and elimination items, and is not considered a business segment.

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

32) Revenues from Industrial Holdings and Goods and materials purchased

Revenues from Industrial Holdings include sales of goods and services from one consolidated entity. Revenue is generally recognized upon customer acceptance of goods delivered and when services have been rendered. Expenses from Goods and materials purchased include costs for raw materials, parts and finished goods purchased from third-party suppliers to produce the goods and services sold.

**b) Changes in accounting policies, comparability and other adjustments**

Effective in 2007

*IFRS 7 Financial Instruments: Disclosures*

On 1 January 2007, UBS adopted the disclosure requirements for financial instruments under IFRS 7. The new standard has no impact on recognition, measurement and presentation of financial instruments. Accordingly, the first-time adoption of IFRS 7 had no effect on Net profit and Equity. Rather, it requires UBS to provide disclosures in its financial statements that enable users to evaluate: a) the significance of financial instruments for the entity's financial position and performance (refer to the notes to the Financial Statements), and b) the nature and extent of credit, market and liquidity risks arising from financial instruments (including details about concentrations of such risks) during the period and at the reporting date, and how UBS manages those risks (refer to the audited sections in *Risk, Treasury and Capital Management 2007*). The disclosure principles of IFRS 7 complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in IAS 32

*Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

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

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

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

*IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity (this could be a subsidiary) identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29. UBS has no subsidiaries operating in a hyperinflationary economy.

*IFRIC 8 Scope of IFRS 2*
This IFRIC addresses whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. The Interpretation requires that IFRS 2 be applied to transactions in which goods or services are received, such as transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received. The unidentifiable goods or services received (or to be received) should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). Measurement of the unidentifiable goods or services received should take place at the grant date. However, for cash-settled transactions, the liability should be remeasured at each reporting date until it is settled.

*IFRIC 9 Reassessment of Embedded Derivatives*
The Interpretation clarifies that an entity should not reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract is recognized, unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

*IFRIC 10 Interim Financial Reporting and Impairment*
The new Interpretation of IAS 39 requires that impairment losses recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost must not be reversed at a subsequent balance sheet date.

*IFRIC 11 IFRS 2: Group and Treasury Share Transactions*
IFRIC 11 provides guidance on (a) how to account for share-based payment arrangements between entities within the same group; (b) determining whether a transaction should be accounted for as equity-settled or cash-settled when an entity either chooses or is required to buy equity instruments (i. e. treasury shares) from another party, to satisfy its obligations to its employees; and (c) determining whether a transaction should be accounted for as equity-settled or cash-settled when an entity's employees are granted rights to equity instruments of the entity (e. g. share options), either by the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed. The Interpretation requires that share-based payment transactions in which an entity receives services as consideration for its own equity instruments be accounted for as an equity-settled transaction. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement.

Effective in 2006 and earlier

*IAS 39 Financial Instruments: Recognition and Measurement – Amendment to the Fair Value Option*
UBS adopted the revised IAS 39 fair value option on 1 January 2006. Under the amended guidance, the use of the fair value option requires that at least one of three defined criteria is satisfied, which is more restrictive than the previous

guidance. All financial instruments designated at fair value through profit or loss at 31 December 2005 continued to qualify for the use of the fair value option under the revised fair value option. On the transition date of the revised standard, 1 January 2006, UBS did not apply the fair value option to any previously recognized financial asset or financial liability for which the fair value option had not been used under the previous fair value option guidance. Therefore, the initial adoption of the revised standard did not have an impact on UBS's Financial Statements. See part 7) for details on the use of the revised fair value option during 2006 and 2007. In addition, effective 1 January 2006, the disclosure requirements for financial instruments designated at fair value through profit or loss (refer to Notes 12 and 19) have been amended due to the revision of IAS 32 *Financial Instruments: Presentation*.

*Staff Accounting Bulletin (SAB) 108*

In response to the release of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* UBS elected to adopt a modified quantitative framework for assessing whether the financial statement effect of a misstatement is material because it renders a better evaluation of those effects. This method, which UBS adopted in December 2006, uses a dual approach for quantifying the effect of a misstatement. Prior to 2006, UBS applied only one of those methods, the "roll-over" method, which focused on the current year income-statement impact of a misstatement. Under this policy, UBS applies a dual approach that considers both the carryover and reversing effects of prior year misstatements. As a result of this policy, the opening balance of Accrued expenses and deferred income at 1 January 2002 was increased by CHF 399 million, Retained earnings were reduced by CHF 309 million and Deferred taxes of CHF 90 million were recognized on the balance sheet. The adjustments relate to the under-accrual of unused vacation, sabbatical leave and service anniversary awards. The restatement impact of adopting this policy was immaterial to all quarterly and annual income statements, earnings per share amounts, and balance sheets since 1 January 2002.

*Private equity investments*

On 1 January 2005, UBS adopted revised IAS 27 *Consolidated and Separate Financial Statements* and revised IAS 28 *Investments in Associates*. IAS 27 was amended to eliminate the exemption from consolidating a subsidiary where control is exercised temporarily. UBS has several private equity investments where it owns a controlling interest that used to be classified and accounted for as Financial investments available-for-sale.

IAS 28 was likewise amended to eliminate the exemption from equity method accounting for investments that are held exclusively for disposal. Private equity investments where UBS has significant influence are now accounted for using the equity method whereas they were previously classified as Financial investments available-for-sale.

*IFRS 2 Share-based Payment*

UBS adopted IFRS 2 *Share-based Payment* on 1 January 2005 and fully restated the two comparative prior years. IFRS 2 requires share-based payments made to employees and non-employees to be recognized in the financial statements based on the fair value of these awards measured at the date of grant.

UBS introduced a new valuation model to determine the fair value of share options granted in 2005 and later. Share options granted in 2004 and earlier were not affected by this change in valuation model. As part of the implementation of IFRS 2, UBS thoroughly reviewed the option valuation model employed in the past by comparing it with alternative models. As a result of this review, a valuation model was identified that better reflects the exercise behavior of employees and the specific terms and conditions under which the share options are granted. Concurrent with the introduction of the new model, UBS is using implied and historical volatility as inputs.

UBS also has employee benefit trusts that are used in connection with share-based payment arrangements and deferred compensation schemes. In connection with the issuance of IFRS 2, the IFRIC amended SIC 12 *Consolidation – Special Purpose Entities,* an interpretation of IAS 27, to eliminate the scope exclusion for equity compensation plans. Therefore, pursuant to the criteria set out in SIC 12, an entity that controls an employee benefit trust (or similar entity) set up for the purpose of a share-based payment arrangement is required to consolidate that trust.

*Goodwill and Intangible Assets*
On 31 March 2004, the IASB issued IFRS 3 *Business Combinations,* revised IAS 36 *Impairment of Assets* and revised IAS 38 *Intangible Assets.* UBS prospectively adopted the standards for goodwill and intangible assets existing at 31 March 2004 on 1 January 2005, whereas goodwill and intangible assets recognized from business combinations entered into after 31 March 2004 were accounted for immediately in accordance with IFRS 3. Refer to a18) for details.

*Non-current Assets Held for Sale and Discontinued Operations*
UBS adopted IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* on 1 January 2005. Refer to a26) for details.

*Presentation of minority interests and earnings per share*
With the adoption of revised IAS 1 *Presentation of Financial Statements* on 1 January 2005, Net profit and Equity were presented including minority interests. Refer to a3) and a25) for details.

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

*IFRS 2 Share-based Payment*
In January 2008, the International Accounting Standards Board (IASB) issued an amendment to IFRS 2 *Share-based Payment.* The amended standard, entitled IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations,* is effective 1 January 2009 (early adoption permitted). The new standard clarifies the definition of vesting conditions and the accounting treatment of cancellations. UBS has early adopted this amended standard as of 1 January 2008. Under the amended standard, UBS is required to distinguish between vesting conditions (such as service and performance conditions) and non-vesting conditions. The amended standard no longer considers vesting conditions to include certain non-compete provisions and transfer restrictions. Prior to adopting this amendment, UBS treated non-compete provisions as vesting conditions. The impact of this change will be that, from 1 January 2008, most of UBS's share and certain option awards will be expensed in the performance year rather than over the period through which the non-compete conditions are applicable. Restrictions remaining effective after the employee becomes entitled to the share-based award will be considered when determining grant date fair value. Following adoption of this amendment, UBS will fully restate the two comparative prior years (2006 and 2007).

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

*IFRS 8 Operating Segments*
The new standard on segment reporting, IFRS 8 *Operating Segments,* comes into force on 1 January 2009, replacing IAS 14 *Segment Reporting.* It sets out requirements for disclosure of information about a firm's operating segments, its products and services, the geographical areas in which it operates, and its major customers. The new standard introduces changes to previous requirements for identification of segments, measurement of segment information and disclosures. Specifically, it requires a firm to provide financial and descriptive information about its reportable segments – the operating segments or aggregations of operating segments based on which the senior management of the firm (the "chief operating decision maker") regularly evaluates separate financial information in deciding how to allocate resources and how to assess performance. Generally, under IFRS 8, the information to be reported will be the same information that is used internally, which might differ from amounts reported in the financial statements. The new standard therefore requires an explanation of the basis on which the segment information is prepared, and recon-

ciliations to the amounts presented in the income statement and the balance sheet. UBS is currently assessing the impact of IFRS 8 on the structure and content of the segment reporting in its Financial Statements.

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

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

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

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

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

- Contingent consideration will be recognized at fair value as part of the consideration transferred at the acquisition date. Currently contingent consideration is only recognized once it meets the probability and reliably measurable criteria.
- Non-controlling interests in an acquiree will either be measured at fair value or as the non-controlling interest's proportionate share of the fair value of net identifiable assets of the entity acquired. The option is available on a transaction-by-transaction basis.
- Transaction costs incurred by the acquirer will no longer be part of the acquisition cost but have to be expensed as incurred.

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

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

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

*IFRIC 13 Customer Loyalty Programmes*

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

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

IFRIC 14 was issued on 5 July 2007 and is effective for annual periods beginning on or after 1 January 2008. IFRIC 14 provides guidance regarding the circumstances under which refunds and future reductions in contributions from a defined benefit plan can be regarded as available to an entity for the purpose recognizing a net defined benefit asset. Additionally, in jurisdictions where there is both a minimum funding requirement and restrictions over the amounts that companies can recover from the plan, either as refunds or reductions in contributions, additional liabilities may need to be recognized. UBS is currently assessing the impact of this interpretation on its Financial Statements.

## Note 2a Segment Reporting by Business Group

UBS's financial businesses are organized on a worldwide basis into three Business Groups and the Corporate Center. Global Wealth Management & Business Banking consists of three segments: Wealth Management International & Switzerland, Wealth Management US and Business Banking Switzerland. The Business Groups Investment Bank and Global Asset Management constitute one segment each. In addition, the Industrial Holdings segment holds all industrial operations controlled by the Group. In total, UBS now reports six business segments and Corporate Center. Corporate Center includes all corporate functions and elimination items and is not considered a business segment.

### Global Wealth Management & Business Banking

Global Wealth Management & Business Banking comprises three segments. Wealth Management International & Switzerland offers a comprehensive range of products and services individually tailored to affluent international and Swiss clients and operates from offices around the world. Wealth Management US is a US financial services firm providing sophisticated wealth management services to affluent US clients through a highly trained financial advisor network. Business Banking Switzerland provides individual and corporate clients in Switzerland with a complete portfolio of banking and securities services, focused on customer service excellence, profitability and growth, using a multi-channel distribution. The segments share technological and physical infrastructure, and have joint departments supporting major functions such as e-commerce, financial planning and wealth management, investment policy and strategy.

### Global Asset Management

Global Asset Management provides investment products and services to institutional investors and wholesale intermediaries around the globe. Clients include corporate and public pension plans, financial institutions and advisors, central banks, charities, foundations and individual investors.

### Investment Bank

The Investment Bank operates globally as a client-driven investment banking and securities firm providing innovative products, research, advice and complete access to the world's capital markets for intermediaries, governments, corporate and institutional clients and other parts of UBS. In addition, UBS is active in market-making and proprietary trading.

### Industrial Holdings

The Industrial Holdings segment comprises the non-financial businesses of UBS, including the private equity business which primarily invests UBS and third-party funds in unlisted companies. The most significant business in this segment, Motor-Columbus, was sold on 23 March 2006 and is presented as discontinued operations. Additionally, certain private equity investments sold in 2007 and prior years are presented as discontinued operations.

### Corporate Center

Corporate Center ensures that the Business Groups operate as a coherent and effective whole with a common set of values and principles in such areas as risk management and control, financial reporting, marketing and communications, funding, capital and balance sheet management, management of foreign currency earnings, information technology infrastructure and service centers. Private Banks & GAM, which was shown as a separate segment within Corporate Center prior to 2006, was sold on 2 December 2005 and is presented as discontinued operations.

### DRCM closure

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

## Note 2a Reporting by Business Group (continued)

**For the year ended 31 December 2007**

Internal charges and transfer pricing adjustments are reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a Business Group on a reasonable basis. Transactions between Business Groups are conducted at internally agreed transfer prices or at arm's length.

| *CHF million* |
|---|
| Income [1] |
| Credit loss (expense) / recovery |
| Total operating income |
| Personnel expenses |
| General and administrative expenses |
| Services (to) / from other business units |
| Depreciation of property and equipment |
| Amortization of intangible assets [3] |
| Goods and materials purchased |
| Total operating expenses |
| **Business Group performance from continuing operations before tax** |
| **Business Group performance from discontinued operations before tax** |
| **Business Group performance before tax** |
| Tax expense on continuing operations |
| Tax expense on discontinued operations |
| **Net profit** |
| **Additional information** [4] |
| Total assets |
| Total liabilities |
| Capital expenditure |

**Management reporting based on expected credit loss**

For internal management reporting purposes, credit loss is measured using an expected loss concept. This table shows Business Group performance consistent with the way in which the businesses are managed and the way Business Group performance is measured. Expected credit loss reflects the average annual costs that are expected to arise from positions in the current portfolio that become impaired. The adjusted expected credit loss reported for each Business Group is the expected credit loss on its portfolio plus the difference between credit loss expense and expected credit loss, amortized over a three-year period. The difference between these adjusted expected credit loss figures and the credit loss expense recorded at Group level for reporting purposes is reported in Corporate Center as adjusted expected credit loss.

| |
|---|
| Income [1] |
| Adjusted expected credit loss |
| Total operating income |
| Personnel expenses |
| General and administrative expenses |
| Services (to) / from other business units |
| Depreciation of property and equipment |
| Amortization of intangible assets [3] |
| Goods and materials purchased |
| Total operating expenses |
| **Business Group performance from continuing operations before tax** |
| **Business Group performance from discontinued operations before tax** |
| **Business Group performance before tax** |
| Tax expense on continuing operations |
| Tax expense on discontinued operations |
| **Net profit** |

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 12,893 | 6,662 | 5,286 | 4,094 | (538) | 2,873 | 948 | 32,218 |
| | (27) | (3) | 203 | 0 | (19) | (392) | 0 | (238) |
| | 12,866 | 6,659 | 5,489 | 4,094 | (557) | 2,481 | 948 | 31,980 |
| | 3,851 | 4,506 | 2,535 | 1,995 | 10,417 | 1,383 | 111 | 24,798 |
| | 1,064 | 976 | 1,101 | 559 | 3,423 | 1,298 | 44 | 8,465 |
| | 1,531 | 314 | (674) | 153 | 746 | (2,194) | 124 | 0 |
| | 95 | 79 | 67 | 53 | 210[2] | 739 | 8 | 1,251 |
| | 19 | 66 | 0 | 19 | 172 | 0 | 6 | 282 |
| | | | | | | | 119 | 119 |
| | 6,560 | 5,941 | 3,029 | 2,779 | 14,968 | 1,226 | 412 | 34,915 |
| | **6,306** | **718** | **2,460** | **1,315** | **(15,525)** | **1,255** | **536** | **(2,935)** |
| | | | | | | 7 | 128 | 135 |
| | **6,306** | **718** | **2,460** | **1,315** | **(15,525)** | **1,262** | **664** | **(2,800)** |
| | | | | | | | | 1,311 |
| | | | | | | | | (266) |
| | | | | | | | | **(3,845)** |

1 Impairments of financial investments available-for-sale for the year ended 31 December 2007 were as follows: Global Wealth Management & Business Banking CHF 11 million; Global Asset Management CHF 39 million; Investment Bank CHF 22 million; Corporate Center CHF (1) million and Industrial Holdings CHF 3 million. 2 Includes CHF 34 million for impairments of leasehold improvements and other machines and equipment. 3 For further information regarding goodwill and intangible assets by Business Group, please see Note 16: Goodwill and Intangible Assets. 4 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

## Note 2a Reporting by Business Group (continued)

**For the year ended 31 December 2006**

Internal charges and transfer pricing adjustments are reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a Business Group on a reasonable basis. Transactions between Business Groups are conducted at internally agreed transfer prices or at arm's length.

| *CHF million* |
|---|
| Income[1] |
| Credit loss (expense) / recovery |
| Total operating income |
| Personnel expenses |
| General and administrative expenses |
| Services (to) / from other business units |
| Depreciation of property and equipment |
| Amortization of intangible assets[3] |
| Goods and materials purchased |
| Total operating expenses |
| **Business Group performance from continuing operations before tax** |
| **Business Group performance from discontinued operations before tax** |
| **Business Group performance before tax** |
| Tax expense on continuing operations |
| Tax expense on discontinued operations |
| **Net profit** |
| **Additional information[4]** |
| Total assets |
| Total liabilities |
| Capital expenditure |

**Management reporting based on expected credit loss**

For internal management reporting purposes, credit loss is measured using an expected loss concept. This table shows Business Group performance consistent with the way in which the businesses are managed and the way Business Group performance is measured. Expected credit loss reflects the average annual costs that are expected to arise from positions in the current portfolio that become impaired. The adjusted expected credit loss reported for each Business Group is the expected credit loss on its portfolio plus the difference between credit loss expense and expected credit loss, amortized over a three-year period. The difference between these adjusted expected credit loss figures and the credit loss expense recorded at Group level for reporting purposes is reported in Corporate Center as adjusted expected credit loss.

| |
|---|
| Income[1] |
| Adjusted expected credit loss |
| Total operating income |
| Personnel expenses |
| General and administrative expenses |
| Services (to) / from other business units |
| Depreciation of property and equipment |
| Amortization of intangible assets[3] |
| Goods and materials purchased |
| Total operating expenses |
| **Business Group performance from continuing operations before tax** |
| **Business Group performance from discontinued operations before tax** |
| **Business Group performance before tax** |
| Tax expense on continuing operations |
| Tax expense on discontinued operations |
| **Net profit** |

| | Financial Businesses | | | | | | Industrial Holdings | UBS |
|---|---|---|---|---|---|---|---|---|
| | Global Wealth Management & Business Banking | | | Global Asset Management | Investment Bank | Corporate Center | | |
| | Wealth Management International & Switzerland | Wealth Management US | Business Banking Switzerland | | | | | |
| | 10,827 | 5,863 | 5,085 | 3,220 | 21,726 | 294 | 565 | 47,580 |
| | 1 | (1) | 109 | 0 | 47 | 0 | 0 | 156 |
| | 10,828 | 5,862 | 5,194 | 3,220 | 21,773 | 294 | 565 | 47,736 |
| | 3,137 | 3,800 | 2,412 | 1,503 | 11,353 | 1,264 | 122 | 23,591 |
| | 885 | 1,073 | 1,070 | 399 | 3,260 | 1,242 | 51 | 7,980 |
| | 1,479 | 281 | (642) | (105) | 956 | (1,978) | 9 | 0 |
| | 84 | 74 | 74 | 27 | 203[2] | 783 | 7 | 1,252 |
| | 10 | 53 | 0 | 4 | 72 | 9 | 5 | 153 |
| | | | | | | | 116 | 116 |
| | 5,595 | 5,281 | 2,914 | 1,828 | 15,844 | 1,320 | 310 | 33,092 |
| | **5,233** | **581** | **2,280** | **1,392** | **5,929** | **(1,026)** | **255** | **14,644** |
| | | | | | | 4 | 875 | 879 |
| | **5,233** | **581** | **2,280** | **1,392** | **5,929** | **(1,022)** | **1,130** | **15,523** |
| | | | | | | | | 2,785 |
| | | | | | | | | (12) |
| | | | | | | | | **12,750** |
| | | | | | | | | |
| | 286,241 | 63,249 | 211,123 | 48,616 | 2,058,679 | (323,434) | 1,888 | **2,346,362** |
| | 281,327 | 57,681 | 205,747 | 46,589 | 2,038,991 | (343,152) | 3,404 | **2,290,587** |
| | 257 | 273 | 14 | 498 | 593 | 1,385 | 97 | **3,117** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 10,827 | 5,863 | 5,085 | 3,220 | 21,726 | 294 | 565 | 47,580 |
| | (29) | 0 | 185 | 0 | 61 | (61) | 0 | 156 |
| | 10,798 | 5,863 | 5,270 | 3,220 | 21,787 | 233 | 565 | 47,736 |
| | 3,137 | 3,800 | 2,412 | 1,503 | 11,353 | 1,264 | 122 | 23,591 |
| | 885 | 1,073 | 1,070 | 399 | 3,260 | 1,242 | 51 | 7,980 |
| | 1,479 | 281 | (642) | (105) | 956 | (1,978) | 9 | 0 |
| | 84 | 74 | 74 | 27 | 203[2] | 783 | 7 | 1,252 |
| | 10 | 53 | 0 | 4 | 72 | 9 | 5 | 153 |
| | | | | | | | 116 | 116 |
| | 5,595 | 5,281 | 2,914 | 1,828 | 15,844 | 1,320 | 310 | 33,092 |
| | **5,203** | **582** | **2,356** | **1,392** | **5,943** | **(1,087)** | **255** | **14,644** |
| | | | | | | 4 | 875 | 879 |
| | **5,203** | **582** | **2,356** | **1,392** | **5,943** | **(1,083)** | **1,130** | **15,523** |
| | | | | | | | | 2,785 |
| | | | | | | | | (12) |
| | | | | | | | | **12,750** |

1 Impairments of financial investments available-for-sale for the year ended 31 December 2006 were as follows: Global Wealth Management & Business Banking CHF 8 million; Global Asset Management CHF 1 million; Investment Bank CHF 5 million; Corporate Center CHF (2) million and Industrial Holdings CHF 23 million. 2 Includes a CHF 34 million software impairment. 3 For further information regarding goodwill and intangible assets by Business Group, please see Note 16: Goodwill and Intangible Assets. 4 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

## Note 2a Reporting by Business Group (continued)

**For the year ended 31 December 2005**

Internal charges and transfer pricing adjustments are reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a Business Group on a reasonable basis. Transactions between Business Groups are conducted at internally agreed transfer prices or at arm's length.

| *CHF million* |
|---|
| Income [1] |
| Credit loss (expense) / recovery |
| Total operating income |
| Personnel expenses |
| General and administrative expenses |
| Services (to) / from other business units |
| Depreciation of property and equipment |
| Amortization of intangible assets [2] |
| Goods and materials purchased |
| Total operating expenses |
| **Business Group performance from continuing operations before tax** |
| **Business Group performance from discontinued operations before tax** |
| **Business Group performance before tax** |
| Tax expense on continuing operations |
| Tax expense on discontinued operations |
| **Net profit** |
| **Additional information [3]** |
| Total assets |
| Total liabilities |
| Capital expenditure |

**Management reporting based on expected credit loss**

For internal management reporting purposes, credit loss is measured using an expected loss concept. This table shows Business Group performance consistent with the way in which the businesses are managed and the way Business Group performance is measured. Expected credit loss reflects the average annual costs that are expected to arise from positions in the current portfolio that become impaired. The adjusted expected credit loss reported for each Business Group is the expected credit loss on its portfolio plus the difference between credit loss expense and expected credit loss, amortized over a three-year period. The difference between these adjusted expected credit loss figures and the credit loss expense recorded at Group level for reporting purposes is reported in Corporate Functions as adjusted expected credit loss.

| |
|---|
| Income [1] |
| Adjusted expected credit loss |
| Total operating income |
| Personnel expenses |
| General and administrative expenses |
| Services (to) / from other business units |
| Depreciation of property and equipment |
| Amortization of intangible assets [2] |
| Goods and materials purchased |
| Total operating expenses |
| **Business Group performance from continuing operations before tax** |
| **Business Group performance from discontinued operations before tax** |
| **Business Group performance before tax** |
| Tax expense on continuing operations |
| Tax expense on discontinued operations |
| **Net profit** |

| Financial Businesses | | | | | | | Industrial Holdings | UBS |
|---|---|---|---|---|---|---|---|---|
| Global Wealth Management & Business Banking | | | Global Asset Management | Investment Bank | Corporate Center | | | |
| Wealth Management International & Switzerland | Wealth Management US | Business Banking Switzerland | | | Private Banks & GAM | Corporate Functions | | |
| 9,024 | 5,158 | 4,949 | 2,487 | 17,448 | | 455 | 795 | 40,316 |
| (8) | 0 | 231 | 0 | 152 | | 0 | 0 | 375 |
| 9,016 | 5,158 | 5,180 | 2,487 | 17,600 | | 455 | 795 | 40,691 |
| 2,579 | 3,460 | 2,450 | 988 | 9,259 | | 1,167 | 164 | 20,067 |
| 804 | 1,047 | 994 | 304 | 2,215 | | 1,084 | 56 | 6,504 |
| 1,371 | 223 | (634) | 116 | 640 | | (1,730) | 14 | 0 |
| 89 | 65 | 72 | 21 | 136 | | 857 | 7 | 1,247 |
| 7 | 49 | 0 | 1 | 53 | | 17 | 6 | 133 |
| | | | | | | | 97 | 97 |
| 4,850 | 4,844 | 2,882 | 1,430 | 12,303 | | 1,395 | 344 | 28,048 |
| **4,166** | **314** | **2,298** | **1,057** | **5,297** | | **(940)** | **451** | **12,643** |
| | | | | | 4,556 | 8 | 530 | 5,094 |
| **4,166** | **314** | **2,298** | **1,057** | **5,297** | **4,556** | **(932)** | **981** | **17,737** |
| | | | | | | | | 2,465 |
| | | | | | | | | 582 |
| | | | | | | | | **14,690** |
| | | | | | | | | |
| 223,790 | 64,896 | 176,837 | 40,782 | 1,706,670 | | (226,069) | 11,549 | **1,998,455** |
| 219,140 | 59,567 | 170,668 | 39,191 | 1,689,041 | | (242,600) | 11,814 | **1,946,821** |
| 81 | 84 | 58 | 16 | 138 | 25 | 1,264 | 299 | **1,965** |
| | | | | | | | | |
| 9,024 | 5,158 | 4,949 | 2,487 | 17,448 | | 455 | 795 | 40,316 |
| (13) | (2) | 122 | 0 | 36 | | 232 | 0 | 375 |
| 9,011 | 5,156 | 5,071 | 2,487 | 17,484 | | 687 | 795 | 40,691 |
| 2,579 | 3,460 | 2,450 | 988 | 9,259 | | 1,167 | 164 | 20,067 |
| 804 | 1,047 | 994 | 304 | 2,215 | | 1,084 | 56 | 6,504 |
| 1,371 | 223 | (634) | 116 | 640 | | (1,730) | 14 | 0 |
| 89 | 65 | 72 | 21 | 136 | | 857 | 7 | 1,247 |
| 7 | 49 | 0 | 1 | 53 | | 17 | 6 | 133 |
| | | | | | | | 97 | 97 |
| 4,850 | 4,844 | 2,882 | 1,430 | 12,303 | | 1,395 | 344 | 28,048 |
| **4,161** | **312** | **2,189** | **1,057** | **5,181** | | **(708)** | **451** | **12,643** |
| | | | | | 4,508 | 56 | 530 | 5,094 |
| **4,161** | **312** | **2,189** | **1,057** | **5,181** | **4,508** | **(652)** | **981** | **17,737** |
| | | | | | | | | 2,465 |
| | | | | | | | | 582 |
| | | | | | | | | **14,690** |

1 Impairments of financial investments available-for-sale for the year ended 31 December 2005 were as follows: Global Wealth Management & Business Banking CHF 10 million; Global Asset Management CHF 0 million; Investment Bank CHF 0 million; Corporate Center CHF 16 million and Industrial Holdings CHF 81 million. 2 For further information regarding goodwill and intangible assets by Business Group, please see Note 16: Goodwill and Intangible Assets. 3 The funding surplus or requirement is reflected in each Business Group and adjusted in Corporate Center.

## Note 2b Segment Reporting by Geographic Location

The geographic analysis of total assets is based on customer domicile, whereas operating income and capital expenditure are based on the location of the office in which the transactions and assets are recorded. Because of the global nature of financial markets, the Group's business is managed on an integrated basis worldwide, with a view to profitability by product line. The geographical analysis of operating income, total assets and capital expenditure is provided in order to comply with IFRS and does not reflect the way the Group is managed. Management believes that analysis by Business Group, as shown in Note 2a, is a more meaningful representation of the way in which the Group is managed.

**For the year ended 31 December 2007**

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

**For the year ended 31 December 2006**

| | Total operating income | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | CHF million | Share % | CHF million | Share % | CHF million | Share % |
| Switzerland | 12,964 | 27 | 211,565 | 9 | 650 | 21 |
| Rest of Europe / Middle East / Africa | 12,512 | 26 | 699,516 | 30 | 385 | 12 |
| Americas | 17,272 | 36 | 1,229,254 | 52 | 1,754 | 56 |
| Asia Pacific | 4,988 | 11 | 206,027 | 9 | 328 | 11 |
| **Total** | **47,736** | **100** | **2,346,362** | **100** | **3,117** | **100** |

**For the year ended 31 December 2005**

| | Total operating income | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | CHF million | Share % | CHF million | Share % | CHF million | Share % |
| Switzerland | 13,798 | 34 | 203,907 | 10 | 973 | 49 |
| Rest of Europe / Middle East / Africa | 8,976 | 22 | 628,070 | 32 | 467 | 24 |
| Americas | 14,284 | 35 | 1,004,230 | 50 | 386 | 20 |
| Asia Pacific | 3,633 | 9 | 162,248 | 8 | 139 | 7 |
| **Total** | **40,691** | **100** | **1,998,455** | **100** | **1,965** | **100** |

# Income Statement

### Note 3 Net Interest and Trading Income

Accounting standards require separate disclosure of net interest income and net trading income (see the tables on this and the next page). This required disclosure, however, does not take into account that net interest and trading income are generated by a range of different businesses. In many cases, a particular business can generate both net interest and trading income. Fixed income trading activity, for example, generates both trading profits and coupon income. UBS management therefore analyzes net interest and trading income according to the businesses that drive it. The second table below (labeled Breakdown by businesses) provides information that corresponds to this management view. Net income from trading businesses includes both interest and trading income generated by the Group's trading businesses and the Investment Bank's lending activities. Net income from interest margin businesses comprises interest income from the Group's loan portfolio. Net income from treasury and other activities reflects all income from the Group's centralized treasury function.

**Net interest and trading income**

| | 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**

| | For the year ended | | | % change from |
|---|---|---|---|---|
| *CHF million* | **31.12.07** | 31.12.06 | 31.12.05 | 31.12.06 |
| **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.

**Net interest income[1]**

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

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

## Note 3 Net Interest and Trading Income (continued)

**Net trading income[1]**

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

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

For the year ended 31 December 2007, the Group recorded a gain of CHF 659 million in Net trading income from changes in the fair value of financial liabilities designated at fair value attributable to changes in the Group's own credit risk. The change applies to those financial liabilities designated at fair value where the Group's own credit risk would be considered by market participants and excludes fully collateralized transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. It was calculated based on a yield curve generated from observed external pricing for funding associated with new senior debt issued by the Group.

### Positions with significant impact on net trading income[1,2]

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

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

### Note 4 Net Fee and Commission Income

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

### Note 5 Other Income

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

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

Additional information about Net gains from disposals on Financial investments available-for-sale

In late June 2007, UBS disposed of its 20.7% stake in Julius Baer for a total consideration of CHF 3,951 million. UBS received the Julius Baer shares as part of the consideration in connection with the sale of Private Banks & GAM to Julius Baer in December 2005. UBS had agreed to certain lock-up obligations which expired on 25 May 2007. The interest in Julius Baer was accounted for as a Financial investment available-for-sale, and the sale resulted in a realized gain, which was previously deferred in Equity, of CHF 1,950 million pre-tax in 2007. On a post-tax basis, the gain on sale was CHF 1,926 million.

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

## Note 6 Personnel Expenses

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

## Note 7 General and Administrative Expenses

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

## Note 8 Earnings per Share (EPS) and Shares Outstanding

| | For the year ended | | | % change from |
|---|---|---|---|---|
| | **31.12.07** | 31.12.06 | 31.12.05 | 31.12.06 |
| **Basic earnings (CHF million)** | | | | |
| **Net profit attributable to UBS shareholders** | **(4,384)** | 12,257 | 14,029 | |
| from continuing operations | **(4,785)** | 11,469 | 9,748 | |
| from discontinued operations | **401** | 788 | 4,281 | (49) |
| **Diluted earnings (CHF million)** | | | | |
| Net profit attributable to UBS shareholders | **(4,384)** | 12,257 | 14,029 | |
| Less: (Profit)/loss on equity derivative contracts | **(16)** | (8) | (22) | (100) |
| Net profit attributable to UBS shareholders for diluted EPS | **(4,400)** | 12,249 | 14,007 | |
| from continuing operations | **(4,801)** | 11,461 | 9,749 | |
| from discontinued operations | **401** | 788 | 4,258 | (49) |
| **Weighted average shares outstanding** | | | | |
| Weighted average shares outstanding[1] | **1,926,328,078** | 1,976,405,800 | 2,013,987,754 | (3) |
| Potentially dilutive ordinary shares resulting from unvested exchangeable shares, options and warrants outstanding[2] | **1,370,654** | 82,429,012 | 83,203,786 | (98) |
| Weighted average shares outstanding for diluted EPS | **1,927,698,732** | 2,058,834,812 | 2,097,191,540 | (6) |
| **Earnings per share (CHF)** | | | | |
| Basic | **(2.28)** | 6.20 | 6.97 | |
| from continuing operations | **(2.49)** | 5.80 | 4.84 | |
| from discontinued operations | **0.21** | 0.40 | 2.13 | (48) |
| Diluted | **(2.28)** | 5.95 | 6.68 | |
| from continuing operations | **(2.49)** | 5.57 | 4.65 | |
| from discontinued operations | **0.21** | 0.38 | 2.03 | (45) |

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

### Shares outstanding

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

# Balance Sheet: Assets

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

### By type of exposure

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

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

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

| *CHF million* | 31.12.07 | 31.12.06 |
|---|---|---|
| Net due from banks and loans (held at amortized cost) | 396,771 | 348,268 |
| Loans designated at fair value[2] | 4,116 | 2,252 |
| **Total** | 400,887 | 350,520 |

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

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

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

### By type of collateral

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

## Note 9b Allowances and Provisions for Credit Losses

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

1 During 2006, all country provisions were released.

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

## Note 9c Impaired Due from Banks and Loans

| CHF million | 31.12.07 | 31.12.06 |
|---|---|---|
| Total gross impaired due from banks and loans[1] | **2,392** | 2,628 |
| Allowance for impaired due from banks | **28** | 30 |
| Allowance for impaired loans | **969** | 1,188 |
| Total allowances for credit losses related to impaired due from banks and loans | **997** | 1,218 |
| Average total gross impaired due from banks and loans[2] | **2,483** | 3,003 |

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

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

## Note 9d Non-Performing Due from Banks and Loans

A loan (included in Due from banks or Loans) is classified as non-performing: 1) when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that it will be made good by later payments or the liquidation of collateral; or 2) when insolvency proceedings have commenced; or 3) when obligations have been restructured on concessionary terms.

| *CHF million* | **31.12.07** | 31.12.06 |
|---|---|---|
| Total gross non-performing due from banks and loans | **1,481** | 1,918 |
| Total allowances for credit losses related to non-performing due from banks and loans | **873** | 1,112 |
| Average total gross non-performing due from banks and loans[1] | **1,820** | 2,135 |

1 Average balances are calculated from quarterly data.

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

**By type of exposure**

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

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

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

## Note 10 Securities Borrowing, Securities Lending, Repurchase and Reverse Repurchase Agreements

The Group enters into collateralized reverse repurchase and repurchase agreements and securities borrowing and securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

**Balance sheet assets**

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

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

**Balance sheet liabilities**

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

## Note 11 Trading Portfolio

The Group trades in debt instruments (including money market paper and tradable loans), equity instruments, precious metals, other commodities and derivatives to meet the financial needs of its customers and to generate revenue. Note 23 provides a description of the various classes of derivative instruments.

| *CHF million* | **31.12.07** | 31.12.06 |
|---|---|---|
| **Trading portfolio assets** | | |
| **Money market paper** | **76,866** | 86,790 |
| *thereof pledged as collateral with central banks* | ***198*** | *20,053* |
| *thereof pledged as collateral (excluding central banks)* | ***35,604*** | *45,356* |
| *thereof pledged as collateral and can be repledged or resold by counterparty* | ***32,239*** | *38,173* |
| **Debt instruments** | | |
| Swiss government and government agencies | **304** | 340 |
| US Treasury and government agencies | **75,137** | 114,714 |
| Other government agencies | **57,864** | 71,170 |
| Corporate listed | **127,990** | 214,129 |
| Other – unlisted | **152,669** | 111,001 |
| **Total** | **413,964** | 511,354 |
| *thereof pledged as collateral* | ***170,276*** | *244,697* |
| *thereof can be repledged or resold by counterparty* | ***106,747*** | *158,549* |
| **Equity instruments** | | |
| Listed | **181,034** | 183,731 |
| Unlisted | **25,968** | 27,938 |
| **Total** | **207,002** | 211,669 |
| *thereof pledged as collateral* | ***26,870*** | *56,760* |
| *thereof can be repledged or resold by counterparty* | ***25,325*** | *54,756* |
| **Traded loans** | **47,122** | 47,630 |
| **Precious metals and other commodities**[1] | **29,418** | 21,071 |
| **Total trading portfolio assets** | **774,372** | 878,514 |
| **Trading portfolio liabilities** | | |
| **Debt instruments** | | |
| Swiss government and government agencies | **85** | 129 |
| US Treasury and government agencies | **50,187** | 81,385 |
| Other government agencies | **40,610** | 58,538 |
| Corporate listed | **24,722** | 21,788 |
| Other – unlisted | **4,822** | 2,101 |
| **Total** | **120,426** | 163,941 |
| **Equity instruments** | **44,362** | 40,832 |
| **Total trading portfolio liabilities** | **164,788** | 204,773 |

1 Other commodities predominantly consist of energy.

## Note 12 Financial Assets Designated at Fair Value

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

The maximum exposure to credit loss of all items in the above table except for Other financial assets is equal to the fair value (CHF 9,637 million at 31 December 2007 and CHF 5,501 million at 31 December 2006). Other financial assets are generally comprised of equity investments and are not directly exposed to credit risk. The maximum exposure to credit loss at 31 December 2007 and 31 December 2006 is mitigated by collateral of CHF 5,830 million and CHF 3,712 million, respectively.

The amount by which credit derivatives or similar instruments mitigate the maximum exposure to credit loss of loans and structured loans designated at fair value is as follows:

| *CHF million* | **31.12.07** | 31.12.06 |
|---|---|---|
| Notional amount of loans and structured loans | **4,166** | 2,348 |
| Credit derivatives related to loans and structured loans – notional amounts[1] | **3,351** | 663 |
| Credit derivatives related to loans and structured loans – fair value[1] | **59** | 2 |

**Additional Information**

| | For the year ended | | Cumulative from inception until the year ended |
|---|---|---|---|
| *CHF million* | **31.12.07** | 31.12.06[2] | **31.12.07** |
| Change in fair value of loans and structured loans designated at fair value, attributable to changes in credit risk[3] | **(87)** | (8) | **(98)** |
| Change in fair value of credit derivatives and similar instruments which mitigate the maximum exposure to credit loss of loans and structured loans designated at fair value[3] | **58** | 2 | **59** |

1 Credit derivatives and similar instruments include credit default swaps, credit-linked notes, total return swaps, put options, and similar instruments. These are generally used to manage credit risk when UBS has a direct credit exposure to the counterparty, which has not otherwise been collateralized. 2 Also equals the cumulative amount from inception for the year ended 31 December 2006. 3 Current and cumulative changes in the fair value of loans attributable to changes in their credit risk are only calculated for those loans outstanding at the balance sheet date. Current and cumulative changes in the fair value of credit derivatives hedging such loans include all the derivatives which have been used to mitigate credit risk of these loans since designation at fair value. For loans reported under the fair value option, changes in fair value due to changes in the credit standing of the borrower are calculated using counterparty credit information obtained from independent market sources.

## Note 13 Financial Investments Available-for-Sale

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

## Note 14 Investments in Associates

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

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

Significant associated companies of the Group had the following balance sheet and income statement totals on an aggregated basis, not adjusted for the Group's proportionate interest. See Note 33 for a list of significant associates.

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

## Note 15 Property and Equipment

### At historical cost less accumulated depreciation

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

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

### Note 15 Property and Equipment (continued)

**At fair value**

| *CHF million* | **31.12.07** | 31.12.06 |
|---|---|---|
| Balance at the beginning of the year | **14** | 28 |
| Additions | **182** | 0 |
| Sales | **0** | (14) |
| Revaluations | **7** | 0 |
| Foreign currency translation | **(14)** | 0 |
| **Balance at the end of the year** | **189** | 14 |

### Note 16 Goodwill and Intangible Assets

At year-end 2007, five out of six segments carry goodwill, of which Industrial Holdings has less than 1% of the total balance. Business Banking Switzerland carries no goodwill. For the purpose of testing goodwill for impairment, UBS determines the recoverable amount of its segments on the basis of value in use.

The recoverable amount is determined using a proprietary model based on the discounted cash flow method, which has been adapted to give effect to the special features of the banking business and its regulatory environment. The recoverable amount is determined by estimating streams of earnings available to shareholders in the next four quarters based on a rolling forecast process, discounted to their present values. The terminal value reflecting all periods beyond the first year is calculated on the basis of the estimated individual return on equity for each segment, which is derived from the forecast first-year profit, the underlying equity, the cost of equity and the long-term growth rate. The recoverable amount of the segments is the sum of earnings available to shareholders from the first year and the terminal value. The model is most sensitive to changes in the forecast earnings available to shareholders in year one, the estimated return on equity, the underlying equity, the cost of equity and to changes in the long-term growth rate. The applied long-term growth rate is based on long-term risk-free interest rates. Earnings available to shareholders are estimated based on forecast results, business initiatives and planned capital investments and returns to shareholders. Valuation parameters used within the Group's impairment test model are linked to external market information, where applicable. Discount rates applied are 9% for Wealth Management International & Switzerland and for Business Banking Switzerland, 10.5% for Wealth Management US and Global Asset Management and 11.5% for Investment Bank.

Management believes that reasonable changes in key assumptions used to determine the recoverable amounts of segments will not result in an impairment situation. Due to the significant losses incurred by the Investment Bank, the fair value obtained from the model calculation was subject to a stress test by decreasing forecast cash flows by one third and at the same time increasing the discount rate by 3.5% to 15%. The stress value obtained was still significantly above the book value of the Investment Bank which decreased substantially as a result of the losses incurred in 2007.

## Note 16 Goodwill and Intangible Assets (continued)

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

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

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

| *CHF million* | Balance at the beginning of the year | Additions and reallocations | Disposals | Amortization | Foreign currency translation | Balance at the end of the year |
|---|---|---|---|---|---|---|
| **Goodwill** | | | | | | |
| Wealth Management International & Switzerland | 1,645 | 125 | 0 | | (73) | 1,697 |
| Wealth Management US | 4,006 | 193 | 0 | | (292) | 3,907 |
| Business Banking Switzerland | 0 | 0 | 0 | | 0 | 0 |
| Global Asset Management | 1,531 | 495 | 0 | | (26) | 2,000 |
| Investment Bank | 5,262 | 127 | 0 | | (182) | 5,207 |
| Corporate Center | 0 | 0 | 0 | | 0 | 0 |
| Industrial Holdings | 20 | 0 | 0 | | (2) | 18 |
| **UBS** | **12,464** | **940** | **0** | | **(575)** | **12,829** |
| **Intangible assets** | | | | | | |
| Wealth Management International & Switzerland | 325 | (22) | 0 | (19) | 4 | 288 |
| Wealth Management US | 793 | 58 | 0 | (66) | (56) | 729 |
| Business Banking Switzerland | 0 | 0 | 0 | 0 | 0 | 0 |
| Global Asset Management | 498 | (262) | 0 | (19) | 47 | 264 |
| Investment Bank | 688 | (110) | 0 | (172) | 16 | 422 |
| Corporate Center | 0 | 0 | 0 | 0 | 0 | 0 |
| Industrial Holdings | 5 | 8 | 0 | (6) | (1) | 6 |
| **UBS** | **2,309** | **(328)** | **0** | **(282)** | **10** | **1,709** |

## Note 16 Goodwill and Intangible Assets (continued)

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

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

## Note 17 Other Assets

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

# Balance Sheet: Liabilities

## Note 18 Due to Banks and Customers

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

## Note 19 Financial Liabilities Designated at Fair Value and Debt Issued

### Financial liabilities designated at fair value

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

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

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

### Debt issued (held at amortized cost)

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

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

The Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt issues (held at amortized cost). In the case of interest rate risk management, the Group applies hedge accounting as discussed in Note 1 a14) and Note 23 – Derivative Instruments and Hedge Accounting. As a result of applying hedge accounting, at 31 December 2007 and 31 December 2006, the carrying value of debt issued was CHF 138 million higher and CHF 256 million higher, respectively, reflecting changes in fair value due to interest rate movements.

The Group issues both CHF and non-CHF denominated fixed-rate and floating-rate debt.

Subordinated debt securities are unsecured obligations of the Group that are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. At 31 December 2007 and 31 December 2006, the Group had CHF 14,129 million and CHF 14,774 million, respectively, in subordinated debt. Subordinated debt usually pays fixed interest annually or floating-rate interest based on the three-month or six-month London Interbank Offered Rate (LIBOR) and provides for single principal payments upon maturity.

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

The following table shows the split between fixed-rate and floating-rate debt issues based on the contractual terms. However, it should be noted that the Group uses interest rate swaps to hedge many of the fixed-rate debt issues, which changes their repricing characteristics into those of floating-rate debt.

**Contractual maturity dates**

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

The table above indicates fixed interest rate coupons ranging from 0 up to 36.5% on the Group's bonds. The high or low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate on such debt issues generally does not reflect the effective interest rate the Group is paying to service its debt after the embedded derivative has been separated and, where applicable, the application of hedge accounting.

## Note 20 Other Liabilities

| CHF million | Note | 31.12.07 | 31.12.06 |
|---|---|---|---|
| Provisions | 21 | **1,673** | 1,672 |
| Provisions for contingent claims | 9b | **63** | 76 |
| Current tax liabilities | | **2,000** | 4,258 |
| Deferred tax liabilities | 22 | **2,069** | 2,674 |
| VAT and other tax payables | | **1,079** | 931 |
| Settlement and clearing accounts | | **7,476** | 3,715 |
| Amounts due under unit-linked investment contracts | | **27,455** | 33,645 |
| Accounts payable | | **15** | 91 |
| Other payables | | **18,946** | 16,189 |
| **Total other liabilities** | | **60,776** | 63,251 |

## Note 21 Provisions

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

1 Includes provisions for litigation resulting from security risks and transaction processing risks. 2 Includes litigation resulting from legal, liability and compliance risks. 3 Other amounts include: In 2006, in connection with a strategy review of its business and a review of its office space planning, Wealth Management US decided not to use office space rented by UBS under a long-term contract in a new building in New Jersey. Senior management approved a proposal to enter into a 10-year sublease contract with an external party for the unused office space. Under the terms of this contract, the sublease income is not sufficient to cover the rent UBS pays under its original contract and costs incurred for arranging the sublease. UBS recorded a provision to cover the shortfall of this onerous lease contract which amounted to CHF 105 million on 31 December 2007 and CHF 185 million on 31 December 2006.

### Litigation

UBS Group operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, UBS is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, particularly in the earlier stages of a case. In certain circumstances, to avoid the expense and distraction of legal proceedings, UBS may, based on a cost-benefit analysis, enter a settlement even though UBS denies any wrongdoing. The Group makes provisions for cases brought against it only when after seeking legal advice, in the opinion of management, it is probable that a liability exists, and the amount can be reasonably estimated (see table above). No provision is made for claims asserted against the Group that in the opinion of management are without merit and where it is not likely that UBS will be found liable.

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

**Note 21 Provisions (continued)**

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

a) Tax Shelter: In connection with a criminal investigation of tax shelters, the United States Attorney's Office for the Southern District of New York ("US Attorney's Office") is examining UBS's conduct in relation to certain tax-oriented transactions in which UBS and others engaged during the years 1996–2000. Some of these transactions were the subject of the Deferred Prosecution Agreement which the accounting firm KPMG LLP entered into with the US Attorney's Office in August 2005, and are at issue in *United States v. Stein, S1 05 Cr. 888 (LAK).* UBS is cooperating in the government's investigation.
b) Municipal Bonds: In November 2006, UBS and others received subpoenas from the US Department of Justice, Antitrust Division, and the SEC relating to derivative transactions entered into with municipal bond issuers and to the investment of proceeds of municipal bond issuances. Both investigations are ongoing, and UBS is cooperating. In the SEC investigation, on 4 February 2008, UBS received a "Wells notice" advising that the SEC staff is considering recommending that the SEC bring a civil action against UBS AG in connection with the bidding of various financial instruments associated with municipal securities. Under the SEC's Wells process, UBS will have the opportunity to set forth reasons of law, policy or fact why such an action should not be brought.
c) HealthSouth: UBS is defending itself in two purported securities class actions brought in the US District Court of the Northern District of Alabama by holders of stock and bonds in HealthSouth Corp. UBS also is a defendant in HealthSouth derivative litigation in Alabama State Court and has responded to an SEC investigation relating to UBS's role as a banker for HealthSouth.
d) Parmalat: UBS is involved in a number of proceedings in Italy related to the bankruptcy of Parmalat. These proceedings include, inter alia, clawback proceedings against UBS Limited in connection with a structured finance transaction. Further, UBS is a defendant in two civil damages claims brought by Parmalat, one of which relates to the same structured finance transaction against UBS Limited, while the other against UBS AG relates to certain derivative transactions. In addition, UBS Limited and one current and one former UBS employee are the subject of criminal proceedings in Milan. UBS AG and UBS Limited are defendants in civil actions brought by Parmalat investors in parallel with the criminal proceedings in Milan. Furthermore, four current or former UBS employees are defendants in relation to criminal proceedings in Parma. Civil claims have also been recently filed in parallel with the criminal proceedings by Parmalat against the individuals and UBS Limited and also by Parmalat investors against the individuals, UBS AG and UBS Limited. UBS AG and UBS Limited deny the allegations made against them and against the individuals in these matters and are vigorously defending themselves in these proceedings.
e) Insight One: In early July 2007, UBS agreed to a settlement of the InsightOne case after the New York State Attorney General filed a civil complaint regarding UBS's fee-based brokerage program for private clients in the United States in December 2006. UBS denied that the program was part of a scheme to disadvantage clients, but chose to settle to bring the proceedings to an end. Under the settlement, UBS paid a total of USD 23.3 million, of which USD 21.3 million was paid to certain current and former InsightOne customers pursuant to an agreed-upon remediation plan, and USD 2 million was paid in penalties. In 2006, UBS established provisions sufficient to cover the settlement, and therefore the settlement did not impact UBS's Net profit in 2007.
f) Bankruptcy Estate of Enron: In June 2007, UBS and Enron settled adversarial proceedings in the US Bankruptcy Court for the Southern District of New York brought by Enron to avoid and recover payments made prior to filing for bankruptcy in connection with equity forward and swap transactions. UBS believed it had valid defences to all of Enron's claims, but chose to settle to eliminate the uncertainty created by the proceeding. Under the terms of the settlement, UBS paid Enron USD 115 million and waived a proof of claim for approximately USD 5.5 million that UBS filed in Enron's bankruptcy case. In 2006, UBS recognized a provision for more than half of the settlement amount, with the difference recognized in 2007. Therefore, the settlement did not materially impact UBS's Net profit in 2007.

## Note 22 Income Taxes

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

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

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

The components of operating profit before tax, and the differences between income tax expense reflected in the Financial Statements and the amounts calculated at the Swiss statutory rate, are as follows:

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

## Note 22 Income Taxes (continued)

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

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

The change in the balance of net deferred tax assets and deferred tax liabilities does not equal the deferred tax expense in those years. This is mainly due to the effects of exchange rate changes on tax assets and liabilities denominated in currencies other than CHF and the booking of some of the tax benefits related to deferred compensation through Equity. For the above purposes, the valuation allowance represents amounts that are not expected to provide future benefits, either because they are offset against potential tax adjustments or due to insufficiency of future taxable income. The deferred tax assets recognized at 31 December 2007 were as follows: Compensation and benefits: CHF 385 million, Net operating loss carry-forwards: CHF 2,419 million, Trading assets: CHF 77 million and Other: CHF 150 million.

Certain foreign branches and subsidiaries of the Group have deferred tax assets related to net operating loss carry-forwards and other items. Because realization of these assets is uncertain, the Group has established valuation allowances of CHF 10,599 million (CHF 1,799 million at 31 December 2006). For companies that suffered tax losses in either the current or preceding year, an amount of CHF 2,363 million (CHF 212 million at 31 December 2006) has been recognized as deferred tax assets based on expectations from profit forecasts and historical performance that sufficient taxable income will be generated in future years to utilize the tax loss carry-forwards.

The Group provides deferred income taxes on undistributed earnings of subsidiaries except to the extent that such earnings are indefinitely invested. At 31 December 2007, no such earnings were treated as indefinitely invested.

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

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

A derivative is a financial instrument, the value of which is derived from the value of another ("underlying") financial instrument, an index or some other variable. Typically, the underlying is a share, commodity or bond price, an index value or an exchange or interest rate.

The majority of derivative contracts are negotiated as to amount ("notional"), tenor and price between UBS and its counterparties, whether other professionals or customers (over-the-counter or OTC contracts).

The rest are standardized in terms of their amounts and settlement dates and are bought and sold on organized markets (exchange-traded contracts).

The notional amount of a derivative is generally the quantity of the underlying instrument on which the derivative contract is based and is the basis upon which changes in the value of the contract are measured. It provides an indication of the underlying volume of business transacted by the Group but does not provide any measure of risk.

Derivative instruments are carried at fair value, shown in the balance sheet as separate totals of Positive replacement values (assets) and Negative replacement values (liabilities), except for futures and exchange-traded options with daily margining, which are presented as receivables and payables. Positive replacement values represent the cost to the Group of replacing all transactions with a fair value in the Group's favor if all the relevant counterparties of the Group were to default at the same time, assuming transactions could be replaced instantaneously. Negative replacement values represent the cost to the Group's counterparties of replacing all their transactions with the Group with a fair value in their favor if the Group were to default. Positive and negative replacement values on different transactions are only netted if the transactions are with the same counterparty, are denominated in the same currency, and the cash flows will be settled on a net basis. Changes in replacement values of derivative instruments are recognized in the income statement unless they meet the criteria for certain hedge accounting relationships, as explained in Note 1a14) Derivative instruments and hedge accounting.

### Types of derivative instruments

The Group uses the following derivative financial instruments for both trading and hedging purposes.

Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties on the OTC market, whereas futures are standardized contracts transacted on regulated exchanges.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC. The major types of swap transactions undertaken by the Group are as follows:

– Interest rate swap contracts generally entail the contractual exchange of fixed-rate and floating-rate interest payments in a single currency, based on a notional amount and a reference interest rate, e. g. LIBOR.
– Cross-currency swaps involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start and/or end of the contract.
– Credit default swaps (CDSs) are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third-party credit entity (as defined in the contract). Settlement following a credit event may be a net cash amount or cash in return for physical delivery of one or more obligations of the credit entity and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated.
– Total rate of return swaps give the total return receiver exposure to all of the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, e. g. LIBOR. The total return payer has an equal and opposite position.
– Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded OTC or on a regulated exchange and may be traded in the form of a security (warrant).

**Note 23 Derivative Instruments and Hedge Accounting (continued)**

Derivatives transacted for trading purposes
Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading includes market making, positioning and arbitrage activities. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning means managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between the same product in different markets or the same economic factor in different products.

Derivatives transacted for hedging purposes
The Group enters into derivative transactions for the purposes of hedging assets, liabilities, forecast transactions, cash flows and credit exposures. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies as such for accounting purposes.

Derivative transactions may qualify as hedges for accounting purposes. These are described under the corresponding headings in this note. The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1a14) Derivative instruments and hedge accounting, where terms used in the following sections are explained.

The Group has also entered into CDSs that provide economic hedges for credit risk exposures in the loan and traded product portfolios but do not meet the requirements for hedge accounting treatment.

The Group has also entered into a limited volume of interest rate swaps and other interest rate derivatives (e.g. futures) for day-to-day economic interest rate risk management purposes, but without applying hedge accounting. The fair value changes of such swaps are booked to Net trading income.

Fair value hedges
The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. The fair values of outstanding interest rate derivatives designated as fair value hedges were a CHF 125 million net positive replacement value at 31 December 2007 and a CHF 222 million net positive replacement value at 31 December 2006.

**Fair value hedges of interest rate risk**

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

In addition, the Group has entered into a fair value hedge accounting relationship using foreign exchange derivatives to protect a certain portion of equity investments available-for-sale from foreign currency exposure. The time value associated with the FX derivatives is excluded from the evaluation of hedge ineffectiveness. The fair value of outstanding FX derivatives designated as fair value hedges was a CHF 0 million at 31 December 2007 and CHF 1 million net positive replacement value at 31 December 2006.

**Fair value hedges of foreign exchange risk**

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

### Fair value hedges of portfolio interest rate risk

The Group also applies fair value hedge accounting of portfolio interest rate risk. The change in fair value of the hedged items is recorded separately from the hedged item on the balance sheet. The fair value of derivatives designated for this hedge method at 31 December 2007 was a CHF 58 million net positive replacement value and at 31 December 2006 was a CHF 21 million net positive replacement value.

**Fair value hedges of portfolio interest rate risk**

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

### Cash flow hedges of forecast transactions

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, the maximum maturity of which is 22 years.

The schedule of forecast principal balances on which the expected interest cash flows arise as of 31 December 2007 is shown below.

**Forecast cash flows**

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

Gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions are initially recorded in Equity as Net income recognized directly in equity and are transferred to current period earnings when the forecast cash flows affect net profit or loss. The gains and losses on ineffective portions of such derivatives are recognized immediately in the income statement. A CHF 443 million gain, a CHF 36 million loss and a CHF 35 million gain were recognized in 2007, 2006 and 2005, respectively, due to hedge ineffectiveness.

As of 31 December 2007 and 2006, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were a CHF 99 million net positive replacement value and a CHF 462 million net negative replacement value, respectively. No Swiss franc hedging interest rate swaps were terminated during 2007 or 2006. At the end of 2007 and 2006, unrecognized income of CHF 135 million and CHF 214 million associated with terminated swaps remained deferred in Equity. It will be removed from Equity when the hedged cash flows have an impact on net profit or loss. Amounts reclassified from Net income recognized directly in Equity to current period earnings due to discontinuation of hedge accounting were a CHF 79 million net gain in 2007, a CHF 132 million net gain in 2006 and a CHF 243 million net gain in 2005. These amounts were recorded in Net interest income.

**Note 23 Derivative Instruments and Hedge Accounting (continued)**

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in the audited "Market risk" section in *Risk, Treasury and Capital Management 2007.*

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in the audited "Credit risk" section in *Risk, Treasury and Capital Management 2007.* It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Group's credit exposure, the positive replacement values for a counterparty are rarely an adequate reflection of the Group's credit exposure on its derivatives business with that counterparty. This is because, on the one hand, replacement values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with counterparties. Both the exposure measures used by the Group internally to control credit risk and the capital requirements imposed by regulators reflect these additional factors. There are additional capital requirements shown in the in the Risk-weighted assets (BIS) table in the "Capital management" section in *Risk, Treasury and Capital Management 2007* under Off-balance sheet exposures as Forward and swap contracts and Purchased options, which reflect the additional potential future exposure.

In the audited Exposure to credit risk table in the "Credit risk" section in *Risk, Treasury and Capital Management 2007,* and in the Risk-weighted assets (BIS) table in the "Capital management" section in *Risk, Treasury and Capital Management 2007,* the Positive replacement values are lower than those shown in the balance sheet because they reflect close-out netting arrangements accepted by the Swiss Federal Banking Commission (SFBC) as being enforceable in insolvency. The impact of such netting agreements on the gross replacement values shown in the tables on the next two pages is to reduce both positive and negative replacement values by CHF 292,371 million and CHF 219,820 million at 31 December 2007 and 2006 respectively. As a result, positive replacement values after netting for UBS Group were CHF 135,846 million at 31 December 2007 and CHF 73,155 million at 31 December 2006. These figures differ from those shown in the sections mentioned above in *Risk, Treasury and Capital Management 2007* because they cover the whole UBS Group, whereas the relevant tables in *Risk, Treasury and Capital Management 2007* cover only those entities which are subject to consolidation for regulatory capital purposes.

## Note 23 Derivative Instruments and Hedge Accounting[1] (continued)

| As of 31 December 2007 | Term to maturity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | within 3 months | | 3–12 months | | 1–5 years | | over 5 years | | Total | Total | Total notional |
| *CHF million* | PRV[2] | NRV[3] | PRV | NRV | PRV | NRV | PRV | NRV | **PRV** | **NRV** | CHF bn |
| **Interest rate contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 686 | 760 | 129 | 131 | 31 | 48 | | | **846** | **939** | 1,534.8 |
| Swaps | 4,852 | 5,351 | 7,864 | 8,137 | 52,447 | 55,061 | 77,270 | 69,027 | **142,433** | **137,576** | 28,363.5 |
| Options | 410 | 289 | 204 | 622 | 3,416 | 4,753 | 15,770 | 17,280 | **19,800** | **22,944** | 1,405.0 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 2,072.7 |
| Options | 568 | 622 | 265 | 263 | 28 | 27 | | | **861** | **912** | 89.9 |
| **Total** | **6,516** | **7,022** | **8,462** | **9,153** | **55,922** | **59,889** | **93,040** | **86,307** | **163,940** | **162,371** | **33,465.9** |
| **Credit derivative contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Credit default swaps | 207 | 248 | 6,471 | 5,951 | 60,864 | 62,495 | 26,822 | 30,905 | **94,364** | **99,599** | 5,172.3 |
| Total rate of return swaps | 412 | 313 | 143 | 243 | 2,457 | 2,814 | 7,922 | 3,235 | **10,934** | **6,605** | 188.3 |
| **Total** | **619** | **561** | **6,614** | **6,194** | **63,321** | **65,309** | **34,744** | **34,140** | **105,298** | **106,204** | **5,360.6** |
| **Foreign exchange contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 8,248 | 8,792 | 2,554 | 2,867 | 888 | 623 | 14 | 33 | **11,704** | **12,315** | 1,322.2 |
| Interest and currency swaps | 26,887 | 28,169 | 15,780 | 13,616 | 19,412 | 21,934 | 12,467 | 11,605 | **74,546** | **75,324** | 4,871.9 |
| Options | 4,807 | 4,396 | 5,887 | 5,519 | 1,316 | 1,313 | 52 | 76 | **12,062** | **11,304** | 1,506.9 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 12.0 |
| Options | 66 | 57 | 9 | 9 | | | | | **75** | **66** | 4.5 |
| **Total** | **40,008** | **41,414** | **24,230** | **22,011** | **21,616** | **23,870** | **12,533** | **11,714** | **98,387** | **99,009** | **7,717.5** |
| **Equity / index contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 2,384 | 2,006 | 1,736 | 1,047 | 550 | 738 | 87 | 63 | **4,757** | **3,854** | 175.8 |
| Options | 3,134 | 4,163 | 4,689 | 9,103 | 5,412 | 12,054 | 1,216 | 3,548 | **14,451** | **28,868** | 291.4 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 55.6 |
| Options | 6,114 | 6,193 | 7,909 | 8,727 | 6,520 | 7,173 | 221 | 315 | **20,764** | **22,408** | 325.5 |
| **Total** | **11,632** | **12,362** | **14,334** | **18,877** | **12,482** | **19,965** | **1,524** | **3,926** | **39,972** | **55,130** | **848.3** |
| **Precious metals contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 463 | 993 | 864 | 659 | 1,007 | 489 | 47 | 71 | **2,381** | **2,212** | 39.9 |
| Options | 488 | 1,020 | 1,107 | 1,116 | 1,842 | 1,691 | 170 | 130 | **3,607** | **3,957** | 79.1 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 0.2 |
| Options | 145 | 127 | 226 | 233 | 43 | 41 | | | **414** | **401** | 28.0 |
| **Total** | **1,096** | **2,140** | **2,197** | **2,008** | **2,892** | **2,221** | **217** | **201** | **6,402** | **6,570** | **147.2** |
| **Commodities contracts, excluding precious metals contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 2,421 | 2,425 | 1,580 | 1,567 | 1,886 | 1,751 | 1,065 | 1,157 | **6,952** | **6,900** | 111.5 |
| Options | 469 | 459 | 896 | 1,187 | 878 | 1,048 | 117 | 134 | **2,360** | **2,828** | 24.9 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 170.3 |
| Options | 1,606 | 1,453 | 2,284 | 2,342 | 1,016 | 732 | | | **4,906** | **4,527** | 181.3 |
| **Total** | **4,496** | **4,337** | **4,760** | **5,096** | **3,780** | **3,531** | **1,182** | **1,291** | **14,218** | **14,255** | **488.0** |
| **Total derivative instruments** | **64,367** | **67,836** | **60,597** | **63,339** | **160,013** | **174,785** | **143,240** | **137,579** | **428,217**[5] | **443,539**[6] | |

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

## Note 23 Derivative Instruments and Hedge Accounting[1] (continued)

| As of 31 December 2006 | Term to maturity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | within 3 months | | 3–12 months | | 1–5 years | | over 5 years | | | | |
| CHF million | PRV[2] | NRV[3] | PRV | NRV | PRV | NRV | PRV | NRV | **Total PRV** | **Total NRV** | Total notional CHF bn |
| **Interest rate contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 1,001 | 764 | 172 | 177 | 38 | 34 | | | **1,211** | **975** | 1,848.0 |
| Swaps | 5,629 | 4,784 | 9,891 | 10,134 | 46,690 | 47,128 | 51,609 | 46,249 | **113,819** | **108,295** | 22,643.4 |
| Options | 273 | 308 | 127 | 440 | 2,252 | 3,563 | 13,529 | 15,148 | **16,181** | **19,459** | 1,432.5 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 2,904.4 |
| Options | 406 | 438 | 474 | 485 | 96 | 96 | | | **976** | **1,019** | 34.7 |
| **Total** | **7,309** | **6,294** | **10,664** | **11,236** | **49,076** | **50,821** | **65,138** | **61,397** | **132,187** | **129,748** | **28,863.0** |
| **Credit derivative contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Credit default swaps | 35 | 54 | 363 | 673 | 12,874 | 14,035 | 7,425 | 7,953 | **20,697** | **22,715** | 2,536.6 |
| Total rate of return swaps | 54 | 63 | 100 | 74 | 583 | 1,606 | 4,284 | 3,512 | **5,021** | **5,255** | 103.0 |
| **Total** | **89** | **117** | **463** | **747** | **13,457** | **15,641** | **11,709** | **11,465** | **25,718** | **27,970** | **2,639.6** |
| **Foreign exchange contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 4,565 | 4,322 | 1,765 | 1,968 | 827 | 531 | 17 | 103 | **7,174** | **6,924** | 784.0 |
| Interest and currency swaps | 24,724 | 22,977 | 10,363 | 10,599 | 14,641 | 12,366 | 12,821 | 11,831 | **62,549** | **57,773** | 4,064.6 |
| Options | 2,877 | 2,624 | 2,987 | 3,042 | 828 | 1,041 | 51 | 49 | **6,743** | **6,756** | 1,276.2 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 20.8 |
| Options | 12 | 16 | 2 | 2 | | | | | **14** | **18** | 0.1 |
| **Total** | **32,178** | **29,939** | **15,117** | **15,611** | **16,296** | **13,938** | **12,889** | **11,983** | **76,480** | **71,471** | **6,145.7** |
| **Equity / index contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 1,179 | 1,464 | 386 | 1,217 | 506 | 8 | 14 | 103 | **2,085** | **2,792** | 107.8 |
| Options | 1,073 | 3,485 | 3,702 | 5,655 | 6,121 | 8,821 | 1,605 | 2,795 | **12,501** | **20,756** | 258.0 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 72.4 |
| Options | 4,277 | 4,602 | 8,238 | 8,396 | 9,978 | 10,458 | | | **22,946** | **23,889** | 270.7 |
| **Total** | **6,529** | **9,551** | **12,326** | **15,268** | **16,605** | **19,287** | **2,072** | **3,331** | **37,532** | **47,437** | **708.9** |
| **Precious metals contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 348 | 339 | 573 | 355 | 757 | 371 | 37 | 48 | **1,715** | **1,113** | 25.6 |
| Options | 293 | 580 | 676 | 784 | 1,554 | 1,281 | 118 | 68 | **2,641** | **2,713** | 70.6 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 1.0 |
| Options | 75 | 142 | 242 | 196 | 332 | 369 | | | **649** | **707** | 23.9 |
| **Total** | **716** | **1,061** | **1,491** | **1,335** | **2,643** | **2,021** | **155** | **116** | **5,005** | **4,533** | **121.1** |
| **Commodities contracts, excluding precious metals contracts** | | | | | | | | | | | |
| Over-the-counter (OTC) contracts | | | | | | | | | | | |
| Forward contracts | 3,254 | 3,223 | 2,894 | 3,155 | 1,724 | 1,579 | 766 | 840 | **8,638** | **8,797** | 86.3 |
| Options | 221 | 236 | 447 | 368 | 595 | 654 | 1 | 27 | **1,264** | **1,285** | 13.0 |
| Exchange-traded contracts[4] | | | | | | | | | | | |
| Futures | | | | | | | | | | | 236.7 |
| Options | 1,884 | 1,895 | 2,349 | 2,152 | 1,918 | 1,775 | | | **6,151** | **5,822** | 67.1 |
| **Total** | **5,359** | **5,354** | **5,690** | **5,675** | **4,237** | **4,008** | **767** | **867** | **16,053** | **15,904** | **403.1** |
| **Total derivative instruments** | **52,180** | **52,316** | **45,751** | **49,872** | **102,314** | **105,716** | **92,730** | **89,159** | **292,975**[5] | **297,063**[6] | |

1 Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from the table. Payables and receivables resulting from the valuation of regular way purchases and sales of financial assets between trade and settlement date are recognized as replacement values and therefore included in the table. 2 PRV: Positive replacement value. 3 NRV: Negative replacement value. 4 Exchange-traded products include own account trades only. 5 The impact of netting agreements accepted by the Swiss Federal Banking Commission (SFBC) for capital adequacy calculations is to reduce positive replacement values to CHF 73,155 million. 6 The impact of netting agreements accepted by the SFBC for capital adequacy calculations is to reduce negative replacement values to CHF 77,243 million.

# Off-Balance Sheet Information

## Note 24 Pledgeable Off-Balance Sheet Securities

The Group obtains securities which are not recorded on the balance sheet with the right to sell or repledge them as shown in the table below.

| *CHF million* | **31.12.07** | 31.12.06 |
|---|---|---|
| Fair value of securities received which can be sold or repledged | **1,491,567** | 1,436,827 |
| *as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions* | ***1,396,768*** | *1,342,733* |
| *in unsecured borrowings* | ***94,799*** | *94,094* |
| thereof sold or repledged | **1,011,090** | 1,069,795 |
| *in connection with financing activities* | ***924,329*** | *969,608* |
| *to satisfy commitments under short sale transactions* | ***58,039*** | *87,288* |
| *in connection with derivative and other transactions* | ***28,722*** | *12,899* |

## Note 25 Operating Lease Commitments

At 31 December 2007, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options. The leases also do not impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The minimum commitments for non-cancellable leases of premises and equipment are presented as follows:

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

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

Operating lease contracts include non-cancellable long-term leases of office buildings in most UBS locations. At 31 December 2007, the minimum lease commitments for 17 office locations each exceeded CHF 100 million. Non-cancellable minimum lease commitments for three office locations in New Jersey, London and Zurich each exceeded CHF 500 million.

# Additional Information

**Note 26 Fair Value of Financial Instruments**
**a) Fair Value of Financial Instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (such as a recognized stock exchange), as it is the best evidence of the fair value of a financial instrument (level 1). Refer to Note 1a5) for an overview on the determination of fair value.

Market prices and rates are not, however, available for certain financial assets and liabilities held and issued by UBS. In these cases, fair values are estimated using present value or other valuation techniques, using inputs existing at the balance sheet dates. If available, market observable inputs are applied to valuation models. Fair value measurements are considered level 2 if all significant inputs are market observable. Where one or more significant input is not market observable, valuations are considered level 3, and the non-market observable valuation parameters are estimated based on appropriate assumptions.

Valuation techniques are generally applied to OTC derivatives and financial assets and liabilities held for trading and designated at fair value. The most frequently applied pricing models and valuation techniques include forward pricing and swap models using present value calculations, option models such as the Black-Scholes model or generalizations of it, and credit models such as default rate models or credit spread models.

The values derived from applying these techniques are significantly affected by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility, and credit risk.

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

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

a) Trading portfolio assets and liabilities, trading portfolio assets pledged as collateral, financial assets and liabilities designated at fair value through profit or loss, derivatives, credit commitments held for trading and designated at fair value, and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or other recognized valuation techniques. Accrued interest is recognized as part of the fair value of such instruments.
   The Group's own credit risk is included in the determination of fair value of financial liabilities accounted for at fair value, including derivative liabilities, in cases where market participants would consider it relevant to pricing. It was calculated based on a yield curve generated from observed external pricing for funding associated with new senior debt issued by the Group. For fully collateralized transactions and other instruments for which market participants do not include an entity-specific adjustment for own credit, no adjustment for own credit changes is made. For the deferral and recognition of day 1 profit or loss, refer to Note 26e.
   Fair value is equal to the carrying amount for these items. For financial instruments linked to the US residential mortgage market, refer to the section on the next page.
b) Financial investments available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognized valuation techniques. Lock-in periods for equity investments are considered when determining fair value. Fair value is equal to the carrying amount for these items, and unrealized gains and losses, excluding impairment write-downs, are recorded in Equity until an asset is sold, collected or otherwise disposed of.
c) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date.
d) The fair value of variable-rate financial instruments accounted for at amortized cost is assumed to be approximated by their carrying amounts and, in the case of loans, does not reflect changes in their credit quality, as the impact of impairment is recognized separately by deducting any allowances for credit losses from the carrying values.
e) The fair value of fixed-rate loans and mortgages carried at amortized cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit

quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of impairment is recognized separately by deducting any allowances for credit losses from the carrying values.

These valuation techniques and assumptions provide a measurement of fair value for UBS's assets and liabilities. However, because other institutions may use different methods and assumptions when estimating fair value using a valuation technique, and when estimating the fair value of financial instruments not carried at fair value, such fair value disclosures cannot necessarily be compared from one financial institution to another.

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

The fair values of UBS's fixed-rate loans, long- and medium-term notes and bonds issued are predominantly hedged by derivative instruments, mainly interest rate swaps, as explained in Note 23. The interest rate risk inherent in balance sheet positions with no specific maturity may also be hedged with derivative instruments based on management's view of their average cash flow and repricing behavior.

Derivative instruments used for hedging are carried on the balance sheet at fair values, which are included in the Positive or Negative replacement values. When the interest rate risk on a fixed-rate financial instrument is hedged with a derivative in a fair value hedge, the fixed-rate financial instrument (or hedged portion thereof) is measured at fair value only in relation to the interest rate risk, not the credit risk, as explained in e). Fair value changes are recorded in Net profit. The treatment of derivatives designated as cash flow hedges is explained in Note 1a14). The amount shown in the table as Derivative instruments designated as cash flow hedges is the net change in fair values on such derivatives that is recorded in Equity and not yet transferred to income or expense.

### Positions related to the US residential mortgage market

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

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

## Note 26 Fair Value of Financial Instruments (continued)
### a) Fair Value of Financial Instruments (continued)

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

Adverse fair value changes of instruments related to the US residential mortgage market are reflected in Net trading income. The related trading positions are recognized on UBS's balance sheet as Trading portfolio instruments or Positive and Negative replacement values. Financial instruments related to the US sub-prime and Alt-A market include collateralized debt obligations (CDOs), mortgage-backed securities, mortgage loans and derivatives linked to the US mortgage market. Such instruments were either purchased in transactions with third parties or retained in structures such as securitizations originated by UBS. The parameters to measure such instruments generally include expected credit default rates, weighted average life, prepayment speed and discount rates. Information about the risks and exposures of such items is included in the "Risk concentrations" section in *Risk, Treasury and Capital Management 2007.*

### b) Determination of Fair Values from Quoted Market Prices or Valuation Techniques

For trading portfolio assets and liabilities, financial assets and liabilities designated at fair value and financial investments available-for-sale which are listed or otherwise traded in an active market, for exchange-traded derivatives, and for other financial instruments for which quoted prices in an active market are available, fair value is determined directly from those quoted market prices (level 1).

For financial instruments which do not have quoted market prices directly available from an active market, fair values are estimated using valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the balance sheet date (level 2). This is the case for the majority of OTC derivatives, and for many unlisted instruments and other items which are not traded in active markets.

For some types of financial instruments, fair values cannot be obtained directly from quoted market prices, or indirectly using valuation techniques or models supported by observable market prices or rates. This is generally the case for private equity investments in unlisted securities, and for certain complex or structured financial instruments. In these cases, fair value is estimated indirectly using valuation techniques or models for which the inputs are reasonable assumptions, based on market conditions (level 3). The illiquidity of a broad range of financial instruments linked to the US residential mortgage market required an extended use of valuations based on partially or fully non-market observable market inputs in the second half of 2007.

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

**Determination of fair values from quoted market prices or valuation techniques**

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

## Note 26 Fair Value of Financial Instruments (continued)

### c) Sensitivity of Fair Values to Changing Significant Assumptions to Reasonably Possible Alternatives

Included in the fair value of financial instruments carried at fair value on the balance sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices or rates (level 3).

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

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

Based on UBS's established fair value and model governance policies and the related controls and procedural safeguards the Group employs, management believes the resulting estimated fair values recorded in the balance sheet and the changes in fair values recorded in the income statement are reasonable and are the most appropriate at the balance sheet date.

Uncertainties associated with the use of model-based valuations (both level 2 and level 3) are predominantly addressed through the use of model reserves. These reserves reflect the amounts that UBS estimates are appropriate to deduct from the valuations produced directly by the models to reflect uncertainties in the relevant modeling assumptions and inputs used. In arriving at these estimates, UBS considers the range of market practice and how it believes other market participants would assess these uncertainties. Model reserves are periodically reassessed in light of information from market transactions, pricing utilities, and other relevant sources. The level of these model reserves is, nevertheless, to a large extent judgmental.

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

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

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

**Note 26 Fair Value of Financial Instruments (continued)**
**d) Changes in Fair Value Recognized in Profit or Loss during the Period which were Estimated using Valuation Techniques with Non-market Observable Inputs**

Total Net trading income / (loss) for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 was CHF (8,353) million, CHF 13,743 million and CHF 8,248 million, respectively, which represents the net result from a range of products traded across different business activities, including the effect of the foreign currency translation of monetary assets and liabilities and including both realized and unrealized income. Unrealized income is determined from changes in fair values, using quoted prices in active markets when available, and otherwise estimated using valuation techniques with market observable and / or non-market observable inputs.

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

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

Net trading income is often generated from transactions involving several financial instruments or subject to hedging or other risk management techniques. This may result in different portions of the transaction being priced using different methods. In many cases, the amounts estimated using valuation techniques with non-market observable inputs were offset or partially offset by changes in fair value of other financial instruments or transactions, for which quoted market prices or rates were available, or on which the gain or loss has been realized. Consequently, the changes in fair value which were estimated using valuation techniques with non-market observable inputs and have been recognized in profit or loss during the period represent only a portion of Net trading income.

**e) Deferred Day 1 Profit or Loss**

The table reflects financial instruments for which fair value is determined using valuation models where not all inputs are market observable. Such financial instruments are initially recognized at their transaction price although the values obtained from the relevant valuation model on day 1 may differ. The table shows the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference (movement of deferred day 1 profit or loss).

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

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

Financial assets are mainly pledged in securities borrowing and lending transactions, in repurchase and reverse repurchase transactions, under collateralized credit lines with central banks, against loans from mortgage institutions and for security deposits relating to stock exchange and clearinghouse memberships.

### Pledged assets

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

The following table presents details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition. Criteria for derecognition are discussed in Note 1a4).

### Transfer of financial assets which do not qualify for derecognition

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

The transactions are mostly conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. The resulting credit exposures are controlled by daily monitoring and collateralization of the positions. The financial assets which continue to be recognized are typically transferred in exchange for cash or other financial assets. The associated liabilities can therefore be assumed to be approximately the carrying amount of the transferred financial assets.

UBS retains substantially all risks and rewards of the transferred assets in each situation of continued recognition in full. These include credit risk, settlement risk, country risk and market risk.

Repurchase agreements and securities lending agreements are discussed in Notes 1a12) and 1a13). Other financial asset transfers include sales of financial assets while concurrently entering into a total rate of return swap with the same counterparty and sales of financial assets involving guarantees.

Transferred financial assets which are subject to partial continued recognition were immaterial in 2007 and 2006. The carrying amounts of the partially recognized transferred financial assets are included in the table.

## Note 28 Measurement Categories of Financial Assets and Financial Liabilities

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

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

## Note 29 Pension and Other Post-Retirement Benefit Plans

a) Defined benefit plans

The Group has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations are performed for the plans in these locations. The measurement date of these plans is 31 December for each year presented.

The pension funds of Atel Ltd. and some of its group companies in Switzerland and Germany are included in the disclosure up to 31 December 2005 but are not included in the 31 December 2007 and the 31 December 2006 disclosure since these companies were sold on 23 March 2006.

The overall investment policy and strategy for the Group's defined benefit pension plans is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. The investment advisors appointed by plan trustees are responsible for determining the mix of asset types and target allocations which are reviewed by the plan trustees on an ongoing basis. Actual asset allocation is determined by a variety of current economic and market conditions and in consideration of specific asset class risk.

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset class allocations. These estimates take into consideration historical asset class returns and are determined together with the plans' investment and actuarial advisors.

Swiss pension plans

The pension plan of UBS covers practically all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. The Swiss plan was amended on 1 January 2007 to change the definition of retirement benefits from a final covered salary to a retirement savings approach. The pension plan provides benefits which are based on annual contributions as a percentage of salary and accrue at an interest rate that is defined annually by the plan trustees.

Contributions to the pension plan of UBS are paid by employees and the employer. The employee contributions are calculated as a percentage of covered salary and are deducted monthly. The percentages deducted from salary for full benefit coverage (including risk benefits) depend on age and vary between 1% and 10% of covered base salary and 3% and 8% of covered bonus. The employer pays a contribution that ranges between 100% and 350%, or approximately 230%, on average, of the sum of employees' contributions. The benefits covered include retirement benefits, disability, death and survivor pensions, and employment termination benefits.

The employer contributions expected to be made in 2008 to the Swiss pension plan are CHF 580 million.

Foreign pension plans

The foreign locations of UBS operate various pension plans in accordance with local regulations and practices. Among these plans are defined contribution plans as well as defined benefit plans. The locations with defined benefit plans of a material nature are in the UK, the US and Germany. The UK and the US defined benefit plans are closed to new entrants who are covered by defined contribution plans. The amounts shown for foreign plans reflect the net funded positions of the major foreign plans.

The retirement plans provide benefits in the event of retirement, death, disability or employment termination. The plans' retirement benefits depend on age, contributions and level of compensation. The principal plans are financed in full by the Group. The employer contributions expected to be made in 2008 to these pension plans are CHF 76 million. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in foreign plans take into account local economic conditions.

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

**a) Defined benefit plans**

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

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

### a) Defined benefit plans (continued)

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

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

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

| | Swiss | | | Foreign | | |
|---|---|---|---|---|---|---|
| | **31.12.07** | 31.12.06 | 31.12.05 | **31.12.07** | 31.12.06 | 31.12.05 |
| **Principal weighted average actuarial assumptions used (%)** | | | | | | |
| **Assumptions used to determine defined benefit obligations at the end of the year** | | | | | | |
| Discount rate | **3.5** | 3.0 | 3.0 | **5.8** | 5.2 | 5.0 |
| Expected rate of salary increase | **2.5** | 2.5 | 2.5 | **4.8** | 4.6 | 4.4 |
| Rate of pension increase | **0.8** | 0.8 | 0.8 | **2.4** | 2.1 | 1.9 |
| **Assumptions used to determine net periodic pension cost for the year ended** | | | | | | |
| Discount rate | **3.0** | 3.0 | 3.3 | **5.2** | 5.0 | 5.5 |
| Expected rate of return on plan assets | **5.0** | 5.0 | 5.0 | **7.0** | 6.7 | 7.0 |
| Expected rate of salary increase | **2.5** | 2.5 | 2.5 | **4.6** | 4.4 | 4.4 |
| Rate of pension increase | **0.8** | 0.8 | 1.0 | **2.1** | 1.9 | 1.9 |

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

### a) Defined benefit plans (continued)

**Mortality tables and life expectancies for major plans**

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

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

| | Swiss | | | Foreign | | |
|---|---|---|---|---|---|---|
| For the year ended | **31.12.07** | 31.12.06 | 31.12.05 | **31.12.07** | 31.12.06 | 31.12.05 |
| **Plan assets (weighted average)** | | | | | | |
| **Actual plan asset allocation (%)** | | | | | | |
| Equity instruments | **38** | 41 | 43 | **50** | 53 | 52 |
| Debt instruments | **47** | 45 | 43 | **38** | 38 | 39 |
| Real estate | **11** | 11 | 12 | **4** | 4 | 4 |
| Other | **4** | 3 | 2 | **8** | 5 | 5 |
| **Total** | **100** | 100 | 100 | **100** | 100 | 100 |
| **Long-term target plan asset allocation (%)** | | | | | | |
| Equity instruments | **33–51** | 33–51 | 34–46 | **49–52** | 49–53 | 52–55 |
| Debt instruments | **31–50** | 31–50 | 30–53 | **38–44** | 37–44 | 44–45 |
| Real estate | **10–19** | 10–19 | 11–19 | **4–6** | 4–6 | 0–3 |
| Other | **0** | 0 | 0 | **1–3** | 1–5 | 1–2 |
| **Actual return on plan assets (%)** | **3.9** | 7.2 | 12.0 | **4.8** | 7.8 | 13.6 |
| **Additional details to fair value of plan assets** | | | | | | |
| *CHF million* | | | | | | |
| UBS financial instruments and UBS bank accounts | **336** | 684 | 613 | | | |
| UBS AG shares [1] | **128** | 193 | 225 | | | |
| Securities lent to UBS included in plan assets | **9,379** | 7,169 | 2,222 | | | |
| Other assets used by UBS included in plan assets | **111** | 69 | 69 | | | |

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

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

b) Post-retirement medical and life plans

In the US and the UK, the Group offers retiree medical benefits that contribute to the health care coverage of employees and beneficiaries after retirement. In addition to retiree medical benefits, the Group in the US also provides retiree life insurance benefits. The UK plan is closed to new entrants. The benefit obligation in excess of fair value of plan assets for those plans amounts to CHF 190 million as of 31 December 2007 (2006: CHF 219 million, 2005: CHF 216 million) and the total accrued post-retirement cost amounts to CHF 181 million as of 31 December 2007 (2006: CHF 176 million, 2005: CHF 168 million). The net periodic post-retirement costs for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 were CHF 26 million, CHF 24 million and CHF 21 million, respectively.

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

**b) Post-retirement medical and life plans**

| *CHF million* | **31.12.07** | 31.12.06 | 31.12.05 |
|---|---|---|---|
| Post-retirement benefit obligation at the beginning of the year | **(219)** | (216) | (166) |
| Service cost | **(12)** | (10) | (8) |
| Interest cost | **(11)** | (11) | (11) |
| Plan participant contributions | **(1)** | (1) | 0 |
| Actuarial gain / (loss) | **39** | 1 | (17) |
| Foreign currency translation | **14** | 10 | (22) |
| Amendments | **(8)** | (1) | 0 |
| Benefits paid | **8** | 9 | 8 |
| **Post-retirement benefit obligation at the end of the year** | **(190)** | (219) | (216) |
| Fair value of plan assets at the beginning of the year | **0** | 0 | 0 |
| Employer contributions | **7** | 8 | 8 |
| Plan participant contributions | **1** | 1 | 0 |
| Benefits paid | **(8)** | (9) | (8) |
| **Fair value of plan assets at the end of the year** | **0** | 0 | 0 |

| | **31.12.07** | 31.12.06 | 31.12.05 | 31.12.04 | 31.12.03 |
|---|---|---|---|---|---|
| Defined benefit obligation | **(190)** | (219) | (216) | (166) | (179) |
| Plan asset | **0** | 0 | 0 | 0 | 0 |
| **Surplus / (deficit)** | **(190)** | (219) | (216) | (166) | (179) |
| Experience gains / (losses) on plan liabilities | **8** | 1 | (3) | 0 | 0 |

The assumed average health care cost trend rate used in determining post-retirement benefit expense is assumed to be 11% for 2007 and to decrease to an ultimate trend rate of 5% in 2013. On a country-by-country basis, the same discount rate is used for the calculation of the post-retirement benefit obligation from medical and life plans as for the defined benefit obligations arising from pension plans.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in the assumed health care cost trend rates would change the US post-retirement benefit obligation and the service and interest cost components of the net periodic post-retirement benefit costs as follows:

| *CHF million* | **1% increase** | **1% decrease** |
|---|---|---|
| Effect on total service and interest cost | **4** | **(3)** |
| Effect on the post-retirement benefit obligation | **25** | **(20)** |

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

c) Defined contribution plans

The Group also sponsors a number of defined contribution plans primarily in the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from the Group. The contributions to these plans recognized as expense for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 were CHF 285 million, CHF 229 million and CHF 184 million, respectively.

d) Related party disclosure

UBS is the principal bank for the pension fund of UBS in Switzerland. In this function, UBS is engaged to execute most of the pension fund's banking activities. These activities also include, but are not limited to, trading and securities lending and borrowing. All transactions have been executed at arm's length conditions.

The foreign UBS pension funds do not have a similar banking relationship with UBS, but they may hold and trade UBS shares and/or securities.

The following fees and interest have been received or paid by UBS:

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

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

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

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

There were no financial instruments due from UBS pension plans outstanding as of 31 December 2007 (2006: CHF 120 million, 2005: CHF 163 million). The amounts due to UBS defined benefit pension plans are contained in the additional details to the fair value of plan assets. Furthermore, UBS defined contribution plans hold 14,121,239 UBS shares with a market value of CHF 736 million as of 31 December 2007 (2006: 14,158,961 shares with a market value of CHF 1,043 million, 2005: 14,128,558 shares with a market value of CHF 885 million).

**Note 30 Equity Participation and Other Compensation Plans**
**a) Plans Offered**

UBS has established several equity participation plans to further align the long-term interests of executives, managers and staff with the interests of shareholders. The plans are offered to eligible employees in approximately 50 countries and are designed to meet the complex legal, tax and regulatory requirements of each country in which they are offered. The explanations below describe the most significant plans in general, but specific plan rules may vary by country.

Equity Plus Plan (Equity Plus): This voluntary plan gives eligible employees the opportunity to purchase UBS shares at fair market value and generally receive at no additional cost two UBS options for each share purchased, up to a maximum annual limit. Share purchases can be made annually from bonus compensation and/or quarterly based on regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for two years from the time of purchase. The options have a strike price equal to the fair market value of a UBS share on the date the option is granted, a two-year vesting period and generally expire ten years from the date of grant. The options are forfeitable in certain circumstances and are settled in equity, except in countries where this is not permitted for legal reasons.

Discounted purchase plan: Up to and including 2005, selected employees in Switzerland were entitled to purchase a specified number of UBS shares, which must be held for a specified period of time, at a predetermined discounted price each year. No new awards are made under this plan.

Equity Ownership Plan (EOP): Selected employees receive between 10% and 45% of their annual performance-related compensation in UBS shares or notional UBS shares instead of cash, on a mandatory basis (on-cycle awards). Up to and including 2004, certain employees were eligible to receive a portion of their EOP award in Alternative Investment Vehicles (AIVs) or UBS options. Since 2005, options are not granted as part of EOP and awards are generally made in UBS shares, with less than 7% being made in AIVs to selected employee groups. The awards granted in UBS shares or notional shares are settled in equity, except in countries where this is not permitted for legal reasons. Awards granted in the form of AIVs are settled in cash. EOP awards generally vest in one-third increments over a three-year vesting period. In certain circumstances, these awards are forfeitable. EOP awards are also granted to selected employees when joining UBS or in other special circumstances (off-cycle awards). Off-cycle awards have the same terms and conditions as on-cycle awards, except that the forfeiture conditions are more stringent.

Senior Executive Equity Ownership Plan (SEEOP): Senior Executives receive between 25% and 50% of their performance-related compensation in UBS shares or notional UBS shares instead of cash, on a mandatory basis. The awards granted in UBS shares or notional shares are settled in equity. SEEOP awards generally vest in one-fifth increments over a five-year vesting period. These awards are forfeitable if certain conditions are not met.

Key Employee Stock Option Plan (KESOP): Key and high potential employees are granted UBS options with a strike price not less than the fair market value of a UBS share on the date the option is granted. One option gives the right to acquire one registered UBS share at the option's strike price. The awards are settled in equity, except in countries where this is not permitted for legal reasons. Options generally vest in one-third increments over a three-year vesting period and generally expire ten years from the grant date. These awards are generally forfeitable upon termination of employment with UBS.

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

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

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

UBS satisfies share delivery obligations under its option-based participation plans either by purchasing UBS shares in the market or through the issuance of new shares. At exercise, shares held in treasury or newly issued shares are delivered to the employee against receipt of the strike price. As of 31 December 2007, UBS was holding approximately 141 million shares in treasury and an additional 150 million unissued shares in conditional share capital which are available and can be used for future employee option exercises. The shares available cover all vested (i.e. exercisable) employee options.

**Note 30 Equity Participation and Other Compensation Plans (continued)**
**b) UBS Share Awards**

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

| | Number of shares 31.12.07 | Weighted average grant date fair value CHF | Number of shares 31.12.06 | Weighted average grant date fair value CHF | Number of shares 31.12.05 | Weighted average grant date fair value CHF |
|---|---|---|---|---|---|---|
| Unvested, at the beginning of the year | **56,141,102** | **58** | 53,725,186 | 46 | 49,273,638 | 40 |
| Shares awarded during the year | **30,271,820** | **70** | 26,652,070 | 69 | 27,252,100 | 51 |
| Vested during the year | **(25,031,819)** | **55** | (22,712,566) | 43 | (21,991,760) | 39 |
| Forfeited during the year | **(2,278,523)** | **66** | (1,523,588) | 56 | (808,792) | 45 |
| Unvested, at the end of the year | **59,102,580** | **66** | 56,141,102 | 58 | 53,725,186 | 46 |

UBS estimates the grant date fair value of shares awarded during the year by using the average UBS share price on the grant date as quoted on the virtX. The market value of shares vested was CHF 1,737 million, CHF 1,587 million and CHF 1,083 million for the years ended 31 December 2007, 31 December 2006 and 31 December 2005, respectively.

**c) UBS Option Awards**

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

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

1 Some of the options in this table have exercise prices denominated in USD which have been converted into CHF at the year-end spot exchange rate for the purposes of this table.

The weighted average share price at the time when the options were exercised during the year was CHF 72, CHF 71 and CHF 53 for the years ended 31 December 2007, 31 December 2006 and 31 December 2005, respectively. The following table provides additional information about option awards:

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

**Note 30 Equity Participation and Other Compensation Plans (continued)**
**c) UBS Option Awards (continued)**

The following table summarizes additional information about options outstanding and options exercisable at 31 December 2007:

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

**d) Valuation**

The fair value of options is determined by means of a Monte Carlo simulation. The simulation technique uses a mix of implied and historic volatility and specific employee exercise behavior patterns based on statistical data, taking into account the specific terms and conditions under which the options are granted, such as the vesting period, forced exercises during the lifetime, and gain- and time-dependent exercise behavior. The expected term of each option is calculated as the probability-weighted average period of the time between grant and exercise. The term structure of volatility is derived from the implied volatilities of traded UBS options in combination with the observed long-term historic share price volatility. Dividends are assumed to grow at a fixed rate over the term of the option.

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

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

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

| | 31.12.06 | | |
|---|---|---|---|
| | CHF awards[1] | range low | range high |
| Expected volatility (%) | 25.38 | 22.51 | 27.18 |
| Risk-free interest rate (%) | 2.15 | 1.96 | 2.68 |
| Expected dividend (CHF) | 2.26 | 1.76 | 2.83 |
| Strike price (CHF) | 71.19 | 65.13 | 77.33 |
| Share price (CHF) | 70.16 | 65.13 | 76.25 |

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

| | 31.12.05 | | | | | |
|---|---|---|---|---|---|---|
| | CHF awards | range low | range high | USD awards | range low | range high |
| Expected volatility (%) | 23.20 | 12.39 | 27.03 | 23.36 | 15.21 | 27.21 |
| Risk-free interest rate (%) | 2.00 | 0.62 | 2.34 | 4.11 | 1.91 | 4.63 |
| Expected dividend (CHF / USD) | 2.30 | 1.50 | 3.89 | 1.89 | 1.22 | 4.12 |
| Strike price (CHF / USD) | 52.08 | 48.23 | 63.23 | 44.11 | 39.25 | 48.26 |
| Share price (CHF / USD) | 51.33 | 48.23 | 63.23 | 43.40 | 39.25 | 48.26 |

**e) Effect on income statement and balance sheet**

Generally, under IFRS, for all employee share and option awards as well as certain AIV awards, UBS recognizes compensation expense over the service period which is generally equal to the vesting period. Share and option awards typically have a three-year tiered vesting structure which means awards vest in one-third increments over that period.

The total share-based compensation expense recognized for the years ended 31 December 2007, 31 December 2006 and 31 December 2005 was CHF 2,389 million, CHF 2,188 million and CHF 1,662 million, respectively. For the years ended 31 December 2007, 31 December 2006 and 31 December 2005, the compensation expense recognized for share-based payments was primarily related to equity settled plans. At 31 December 2007, total compensation expense related to non-vested awards not yet recognized in the income statement is CHF 1,904 million, which is expected to be recognized in Personnel expenses over a weighted average period of 2.1 years.

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

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

## Note 31 Related Parties

The Group defines related parties as associated companies, post-employment benefit plans for the benefit of UBS employees, key management personnel, close family members of key management personnel and enterprises which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by or in which significant voting power resides with key management personnel or their close family members. Key management personnel is defined as members of the Board of Directors (BoD) and Group Executive Board (GEB). This definition is based on the requirements of IAS 24 *Related Party Disclosures*.

### a) Remuneration of key management personnel

The executive members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the executive members of the BoD and GEB including those who stepped down during 2007 is as follows:

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

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

Peter Wuffli relinquished his position as Group CEO on 6 July 2007, Clive Standish retired on 30 September 2007 and Huw Jenkins stepped down from the GEB on 30 September 2007: all three executives are contractually entitled to receive base salary, pro rata incentive and certain employment-benefits until the expiry of their 12-month notice period. Huw Jenkins is retained in a consultancy position with UBS until 30 September 2008. The total amount due under all three contacts – CHF 15.3 million payable in 2008 and CHF 45.3 million payable in 2009 – has been fully accrued in 2007 and reflected in the 2007 income statement.

The non-executive members of the BoD do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the BoD. Payments to these individuals for their services as external board members amounted to CHF 5.7 million in 2007, CHF 5.9 million in 2006 and CHF 6.1 million in 2005

### b) Equity holdings

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

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

Of the share totals above, at 31 December 2007, 31 December 2006 and 31 December 2005, 4,852 shares, 7,146 shares and 6,538 shares, respectively, were held by close family members of key management personnel and 2,200,000 shares, 2,200,000 shares and 2,486,060 shares, respectively, were held by enterprises which are directly or indirectly controlled by, jointly controlled by or significantly influenced by or in which significant voting power resides with key management personnel or their close family members. Further information about UBS's equity participation plans can be found in Note 30. No member of the BoD or GEB is the beneficial owner of more than 1% of the Group's shares at 31 December 2007.

**Note 31 Related Parties (continued)**

c) Loans, advances and mortgages to key management personnel

Executive members of the BoD and GEB members have been granted loans, fixed advances and mortgages on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for reduced credit risk. Non-executive BoD members are granted loans and mortgages at general market conditions.

Movements in the loan, advance and mortgage balances are as follows:

| *CHF million* | **31.12.07** | 31.12.06 |
|---|---|---|
| Balance at the beginning of the year | **19** | 21 |
| Additions | **0** | 1 |
| Reductions | **(4)** | (3) |
| Balance at the end of the year | **15** | 19 |

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

d) Associated companies

Movements in loans to associated companies are as follows:

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

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

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

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

Note 33 provides a list of significant associates.

e) Other related party transactions

During 2007 and 2006, UBS entered into transactions at arm's length with enterprises which are directly or indirectly controlled by, jointly controlled by or significantly influenced by or in which significant voting power resides with key management personnel or their close family members. In 2007 and 2006, these companies included Aebi + Co. AG (Switzerland), Bertarelli Family (Switzerland), BMW Group (Germany), DKSH Holding AG (Switzerland), Kedge Capital Funds Ltd. (Jersey), Kedge Capital Selected Funds Ltd. (Jersey), Lista AG (Switzerland), Löwenfeld AG (Switzerland), Martown Trading Ltd. (Isle of Man), Royal Dutch Shell plc (UK), Seromer Biotech SA (Switzerland, previously Bertarelli Biotech SA), Serono Group (Switzerland), Stadler Rail Group (Switzerland), Team Alinghi (Switzerland), Team Alinghi (Spain), and Unisys Corporation (USA). Related parties in 2007 also included Bertarelli Investment Ltd (Jersey), Fiat Group (Italy), Lévy Kaufmann-Kohler (Switzerland), Limonares Ltd (Jersey), Omega Fund I Ltd (Jersey), Omega Fund II Ltd (Jersey), Omega Fund III Ltd (Jersey), Omega Fund IV Ltd (Jersey) SGS Société Générale de Surveillance SA (Switzerland) and Walo Group (Switzerland).

## Note 31 Related Parties (continued)

e) Other related party transactions (continued)

Movements in loans to other related parties are as follows:

| CHF million | 31.12.07 | 31.12.06 |
|---|---|---|
| Balance at the beginning of the year | **872** | 919 |
| Additions | **301** | 34 |
| Reductions | **485** | 81 |
| Balance at the end of the year[1] | **688** | 872 |

1 In 2007 includes loans, guarantees and contingent liabilities of CHF 270 million and unused committed facilities of CHF 418 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 205 million. In 2006 includes loans, guarantees and contingent liabilities of CHF 128 million and unused committed facilities of CHF 744 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 173 million.

Other transactions with these related parties include:

| | For the year ended | | |
|---|---|---|---|
| CHF million | 31.12.07 | 31.12.06 | 31.12.05 |
| Goods sold and services provided to UBS | **8** | 8 | 15 |
| Fees received for services provided by UBS | **16** | 8 | 1 |

As part of its sponsorship of Team Alinghi, defender for the "America's Cup 2007", UBS paid CHF 8.9 million (EUR 5.4 million) in sponsoring fees for 2007. Team Alinghi's controlling shareholder is UBS board member Ernesto Bertarelli.

f) Additional information

UBS also engages in trading and risk management activities (e.g. swaps, options, forwards) with various related parties mentioned in previous sections. These transactions may give rise to credit risk either for UBS or for a related party towards UBS. As part of its normal course of business, UBS is also a market maker in equity and debt instruments and at times may hold positions in instruments of related parties.

## Note 32 Post-Balance Sheet Events

Mandatory Convertible Notes

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

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

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

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

On 6 March 2008, the Board of Directors reviewed the Financial Statements and authorized them for issue. These Financial Statements will be submitted to the Annual General Meeting of Shareholders to be held on 23 April 2008 for approval.

## Note 33 Significant Subsidiaries and Associates

The legal entity group structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the Business Groups of UBS (namely Investment Bank, Global Wealth Management & Business Banking and Global Asset Management) nor Corporate Center are replicated in their own individual legal entities, but rather they generally operate out of UBS AG (Parent Bank) through its Swiss and foreign branches.

The parent bank structure allows UBS to capitalize on the advantages offered by the use of one legal platform by all the Business Groups. It provides for the most cost-efficient and flexible structure and facilitates efficient allocation and use of capital, comprehensive risk management and control and straightforward funding processes.

Where, usually due to local legal, tax or regulatory rules or due to additional legal entities joining the UBS Group via acquisition, it is either not possible or not efficient to operate out of the Parent Bank, then local subsidiary companies host the businesses. The significant operating subsidiary companies in the Group are listed below:

**Significant subsidiaries**

| Company | Jurisdiction of incorporation | Business Group[1] | | Share capital in millions | Equity interest accumulated in % |
|---|---|---|---|---|---|
| Banco UBS Pactual S.A. | Rio de Janeiro, Brazil | IB | BRL | 349.6 | 100.0 |
| Crédit Industriel Société Anonyme in Liquidation | Zurich, Switzerland | Global WM&BB | CHF | 0.1 | 100.0 |
| Dillon Read U.S. Finance L.P. | Delaware, USA | IB | USD | 548.0 | 100.0 |
| Fondcenter AG | Zurich, Switzerland | Global AM | CHF | 0.1 | 100.0 |
| OOO UBS Bank | Moscow, Russia | IB | RUB | 1 250.0 | 100.0 |
| PT UBS Securities Indonesia | Jakarta, Indonesia | IB | IDR | 118 000.0 | 98.4 |
| Thesaurus Continentale Effekten-Gesellschaft in Zürich in Liquidation | Zurich, Switzerland | Global WM&BB | CHF | 0.1 | 100.0 |
| UBS (Bahamas) Ltd. | Nassau, Bahamas | Global WM&BB | USD | 4.0 | 100.0 |
| UBS (France) S.A. | Paris, France | Global WM&BB | EUR | 25.7 | 100.0 |
| UBS (Grand Cayman) Limited | George Town, Cayman Islands | IB | USD | 25.0 | 100.0 |
| UBS (Italia) S.p.A. | Milan, Italy | Global WM&BB | EUR | 60.0 | 100.0 |
| UBS (Luxembourg) S.A. | Luxembourg, Luxembourg | Global WM&BB | CHF | 150.0 | 100.0 |
| UBS (Monaco) S.A. | Monte Carlo, Monaco | Global WM&BB | EUR | 9.2 | 100.0 |
| UBS Alternative and Quantitative Investments Limited | London, Great Britain | Global AM | GBP | 0.3 | 100.0 |
| UBS Alternative and Quantitative Investments LLC | Delaware, USA | Global AM | USD | 0.1 | 100.0 |
| UBS Americas Inc. | Delaware, USA | IB | USD | 0.0 | 100.0 |
| UBS Asesores SA | Panama, Panama | Global WM&BB | USD | 0.0 | 100.0 |
| UBS Bank (Canada) | Toronto, Canada | Global WM&BB | CAD | 8.5 | 100.0 |
| UBS Bank Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero | Mexico City, Mexico | IB | MXN | 409.4 | 100.0 |
| UBS Bank USA | Utah, USA | Global WM&BB | USD | 1 700.0 | 100.0 |
| UBS Bank, S.A. | Madrid, Spain | Global WM&BB | EUR | 72.2 | 100.0 |
| UBS Belgium SA/NV | Brussels, Belgium | Global WM&BB | EUR | 23.0 | 100.0 |
| UBS Capital (Jersey) Ltd. | St. Helier, Jersey | IB | GBP | 130.0 | 100.0 |
| UBS Capital B.V. | Amsterdam, the Netherlands | IB | EUR | 29.8[2] | 100.0 |
| UBS Card Center AG | Glattbrugg, Switzerland | Global WM&BB | CHF | 0.1 | 100.0 |
| UBS Clearing and Execution Services Limited | London, Great Britain | IB | USD | 50.0 | 100.0 |
| UBS Commodities Canada Ltd. | Toronto, Canada | IB | USD | 11.3 | 100.0 |
| UBS Derivatives Hong Kong Limited | Hong Kong, China | IB | HKD | 500.0 | 100.0 |
| UBS Deutschland AG | Frankfurt am Main, Germany | Global WM&BB | EUR | 176.0 | 100.0 |
| UBS Employee Benefits Trust Limited | St. Helier, Jersey | CC | GBP | 0.0 | 100.0 |
| UBS Energy LLC | Delaware, USA | IB | USD | 0.0 | 100.0 |
| UBS Factoring AG | Zurich, Switzerland | Global WM&BB | CHF | 5.0 | 100.0 |
| UBS Fiduciaria S.p.A. | Milan, Italy | Global WM&BB | EUR | 0.2 | 100.0 |
| UBS Fiduciary Trust Company | New Jersey, USA | Global WM&BB | USD | 4.4[2] | 100.0 |
| UBS Finance (Cayman Islands) Ltd. | George Town, Cayman Islands | CC | USD | 0.5 | 100.0 |
| UBS Finance (Curaçao) N.V. | Willemstad, Netherlands Antilles | CC | USD | 0.1 | 100.0 |
| UBS Finance (Delaware) LLC | Delaware, USA | IB | USD | 37.3[2] | 100.0 |

1 Global WM&BB: Global Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

## Note 33 Significant Subsidiaries and Associates (continued)

### Significant subsidiaries (continued)

| Company | Jurisdiction of incorporation | Business Group[1] | | Share capital in millions | Equity interest accumulated in % |
|---|---|---|---|---|---|
| UBS Financial Services Inc. | Delaware, USA | Global WM&BB | USD | 2 005.8[2] | 100.0 |
| UBS Financial Services Incorporated of Puerto Rico | Hato Rey, Puerto Rico | Global WM&BB | USD | 31.0[2] | 100.0 |
| UBS Fund Advisor, L.L.C. | Delaware, USA | Global WM&BB | USD | 0.0 | 100.0 |
| UBS Fund Holding (Luxembourg) S.A. | Luxembourg, Luxembourg | Global AM | CHF | 42.0 | 100.0 |
| UBS Fund Holding (Switzerland) AG | Basel, Switzerland | Global AM | CHF | 18.0 | 100.0 |
| UBS Fund Management (Switzerland) AG | Basel, Switzerland | Global AM | CHF | 1.0 | 100.0 |
| UBS Fund Services (Cayman) Ltd. | George Town, Cayman Islands | Global AM | USD | 5.6 | 100.0 |
| UBS Fund Services (Ireland) Limited | Dublin, Ireland | Global AM | EUR | 1.3 | 100.0 |
| UBS Fund Services (Luxembourg) S.A. | Luxembourg, Luxembourg | Global AM | CHF | 2.5 | 100.0 |
| UBS Fund Services (Luxembourg) S.A. Poland Branch | Zabierzow, Poland | CC | PLN | 0.1 | 100.0 |
| UBS Futures Singapore Ltd. | Singapore, Singapore | IB | USD | 39.8[2] | 100.0 |
| UBS Global Asset Management (Americas) Inc. | Delaware, USA | Global AM | USD | 0.0 | 100.0 |
| UBS Global Asset Management (Australia) Ltd. | Sydney, Australia | Global AM | AUD | 8.0 | 100.0 |
| UBS Global Asset Management (Canada) Co. | Toronto, Canada | Global AM | CAD | 117.0 | 100.0 |
| UBS Global Asset Management (Deutschland) GmbH | Frankfurt am Main, Germany | Global AM | EUR | 7.7 | 100.0 |
| UBS Global Asset Management (France) S.A. | Paris, France | Global WM&BB | EUR | 2.1 | 100.0 |
| UBS Global Asset Management (Hong Kong) Limited | Hong Kong, China | Global AM | HKD | 25.0 | 100.0 |
| UBS Global Asset Management (Italia) SGR SpA | Milan, Italy | Global AM | EUR | 3.1 | 100.0 |
| UBS Global Asset Management (Japan) Ltd. | Tokyo, Japan | Global AM | JPY | 2 200.0 | 100.0 |
| UBS Global Asset Management (Singapore) Ltd. | Singapore, Singapore | Global AM | SGD | 4.0 | 100.0 |
| UBS Global Asset Management (Taiwan) Ltd. | Taipei, Taiwan | Global AM | TWD | 340.0 | 100.0 |
| UBS Global Asset Management (UK) Ltd. | London, Great Britain | Global AM | GBP | 56.0 | 100.0 |
| UBS Global Asset Management (US) Inc. | Delaware, USA | Global AM | USD | 23.2[2] | 100.0 |
| UBS Global Asset Management Funds Ltd. | London, Great Britain | Global AM | GBP | 11.0 | 100.0 |
| UBS Global Asset Management Holding Ltd. | London, Great Britain | Global AM | GBP | 78.0 | 100.0 |
| UBS Global Asset Management Life Ltd. | London, Great Britain | Global AM | GBP | 5.0 | 100.0 |
| UBS Global Life AG | Vaduz, Liechtenstein | Global WM&BB | CHF | 5.0 | 100.0 |
| UBS Global Trust Corporation | St. John, Canada | Global WM&BB | CAD | 0.1 | 100.0 |
| UBS Grupo Financiero, S.A. de C.V. | Mexico City, Mexico | IB | MXN | 548.8 | 100.0 |
| UBS Hana Asset Management Company Ltd. | Seoul, South Korea | Global AM | KRW | 45 000.0 | 51.0 |
| UBS International Holdings B.V. | Amsterdam, the Netherlands | CC | EUR | 6.8 | 100.0 |
| UBS International Inc. | New York, USA | Global WM&BB | USD | 44.3[2] | 100.0 |
| UBS International Life Limited | Dublin, Ireland | Global WM&BB | EUR | 1.0 | 100.0 |
| UBS Investment Management Canada Inc. | Toronto, Canada | Global WM&BB | CAD | 0.0 | 100.0 |
| UBS Investments Philippines, Inc. | Makati City, Philippines | IB | PHP | 360.0 | 99.4 |
| UBS Italia SIM SpA | Milan, Italy | IB | EUR | 15.1 | 100.0 |
| UBS Leasing AG | Zurich, Switzerland | Global WM&BB | CHF | 10.0 | 100.0 |
| UBS Life AG | Zurich, Switzerland | Global WM&BB | CHF | 25.0 | 100.0 |
| UBS Life Insurance Company USA | California, USA | Global WM&BB | USD | 39.3[2] | 100.0 |
| UBS Limited | London, Great Britain | IB | GBP | 29.4 | 100.0 |
| UBS Loan Finance LLC | Delaware, USA | IB | USD | 16.7 | 100.0 |
| UBS Menkul Degerler AS | Istanbul, Turkey | IB | TRY | 0.4 | 100.0 |
| UBS New Zealand Limited | Auckland, New Zealand | IB | NZD | 7.5 | 100.0 |
| UBS O'Connor Limited | London, Great Britain | Global AM | GBP | 8.8 | 100.0 |
| UBS O'Connor LLC | Delaware, USA | Global AM | USD | 1.0 | 100.0 |
| UBS Pactual Asset Management S.A. DTVM | Rio de Janeiro, Brazil | Global AM | BRL | 73.2 | 100.0 |
| UBS Preferred Funding Company LLC I | Delaware, USA | CC | USD | 0.0 | 100.0 |
| UBS Preferred Funding Company LLC II | Delaware, USA | CC | USD | 0.0 | 100.0 |
| UBS Preferred Funding Company LLC IV | Delaware, USA | CC | USD | 0.0 | 100.0 |

1 Global WM&BB: Global Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

## Note 33 Significant Subsidiaries and Associates (continued)

**Significant subsidiaries (continued)**

| Company | Jurisdiction of incorporation | Business Group[1] | | Share capital in millions | Equity interest accumulated in % |
|---|---|---|---|---|---|
| UBS Real Estate Investments Inc. | Delaware, USA | IB | USD | 0.0 | 100.0 |
| UBS Real Estate Kapitalanlagegesellschaft mbH | Munich, Germany | Global AM | EUR | 7.5 | 51.0 |
| UBS Real Estate Securities Inc. | Delaware, USA | IB | USD | 300.4[2] | 100.0 |
| UBS Realty Investors LLC | Massachusetts, USA | Global AM | USD | 9.3 | 100.0 |
| UBS Sauerborn Private Equity Komplementär GmbH | Bad Homburg, Germany | Global WM&BB | EUR | 0.0 | 100.0 |
| UBS Securities (Thailand) Ltd | Bangkok, Thailand | IB | THB | 400.0 | 100.0 |
| UBS Securities Asia Limited | Hong Kong, China | IB | HKD | 20.0 | 100.0 |
| UBS Securities Australia Ltd | Sydney, Australia | IB | AUD | 209.8[2] | 100.0 |
| UBS Securities Canada Inc. | Toronto, Canada | IB | CAD | 10.0 | 100.0 |
| UBS Securities España Sociedad de Valores SA | Madrid, Spain | IB | EUR | 15.0 | 100.0 |
| UBS Securities France S.A. | Paris, France | IB | EUR | 22.9 | 100.0 |
| UBS Securities Hong Kong Limited | Hong Kong, China | IB | HKD | 430.0 | 100.0 |
| UBS Securities India Private Limited | Mumbai, India | IB | INR | 668.3 | 100.0 |
| UBS Securities International Limited | London, Great Britain | IB | GBP | 18.0 | 100.0 |
| UBS Securities Japan Ltd | George Town, Cayman Islands | IB | JPY | 60 000.0 | 100.0 |
| UBS Securities Limited | London, Great Britain | IB | GBP | 140.0 | 100.0 |
| UBS Securities LLC | Delaware, USA | IB | USD | 2 455.6[2] | 100.0 |
| UBS Securities Malaysia Sdn. Bhd. | Kuala Lumpur, Malaysia | IB | MYR | 75.0 | 100.0 |
| UBS Securities Philippines Inc. | Makati City, Philippines | IB | PHP | 190.0 | 100.0 |
| UBS Securities Pte. Ltd. | Singapore, Singapore | IB | SGD | 311.5 | 100.0 |
| UBS Securities Pte. Ltd. Seoul Branch | Seoul, South Korea | IB | KRW | 150 000.0 | 100.0 |
| UBS Service Centre (Poland) Sp. z o.o. | Krakow, Poland | CC | PLN | 0.1 | 100.0 |
| UBS Services USA LLC | Delaware, USA | Global WM&BB | USD | 0.1 | 100.0 |
| UBS South Africa (Proprietary) Limited | Sandton, South Africa | IB | ZAR | 87.1[2] | 100.0 |
| UBS Swiss Financial Advisers AG | Zurich, Switzerland | Global WM&BB | CHF | 1.5 | 100.0 |
| UBS Trust Company National Association | New York, USA | Global WM&BB | USD | 105.0[2] | 100.0 |
| UBS Trustees (Bahamas) Ltd | Nassau, Bahamas | Global WM&BB | USD | 2.0 | 100.0 |
| UBS Trustees (Cayman) Ltd | George Town, Cayman Islands | Global WM&BB | USD | 2.0 | 100.0 |
| UBS Trustees (Jersey) Ltd. | St. Helier, Jersey | Global WM&BB | GBP | 0.0 | 100.0 |
| UBS Trustees (Singapore) Ltd | Singapore, Singapore | Global WM&BB | SGD | 3.3 | 100.0 |
| UBS UK Holding Limited | London, Great Britain | IB | GBP | 5.0 | 100.0 |
| UBS UK Properties Limited | London, Great Britain | IB | GBP | 100.0 | 100.0 |
| UBS Wealth Management (UK) Ltd | London, Great Britain | Global WM&BB | GBP | 2.5 | 100.0 |
| UBS Wealth Management Australia Ltd | Melbourne, Australia | Global WM&BB | AUD | 53.9 | 100.0 |

1 Global WM&BB: Global Wealth Management & Business Banking, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

## Note 33 Significant Subsidiaries and Associates (continued)

### Consolidated companies: changes in 2007

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

### Deconsolidated companies

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

### Significant associates

| Company | Industry | Equity interest in % | Share capital in millions | |
|---|---|---|---|---|
| SIS Swiss Financial Services Group AG – Zurich, Switzerland | Financial | 32.9 | CHF | 26 |
| Telekurs Holding AG – Zurich, Switzerland | Financial | 33.3 | CHF | 45 |
| UBS Securities Co. Limited, Beijing – China | Financial | 20.0 | CNY | 1,490 |
| UBS Alpha Select – George Town, Cayman Islands | Private Investment Company | 20.7 | USD | 2,323[1] |
| UBS Global Alpha Strategies XL (Multi Currency) Limited – George Town, Cayman Islands | Private Investment Company | 23.2 | USD | 164[1] |
| Williamsburg Edge LLC – Delaware, USA | Real Estate | 50.0 | USD | 72 |
| 219 West 81st LLC – Wilmington – USA | Real Estate | 50.0 | USD | 56 |
| Greensands Holding Limited – St. Helier, Jersey | Water Supply | 15.6[2] | GBP | 1,282 |

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

## Note 34 Invested Assets and Net New Money

Invested assets include all client assets managed by or deposited with UBS for investment purposes. Invested assets include, for example, managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. All assets held for purely transactional purposes and custody-only assets, including corporate client assets held for cash management and transactional purposes, are excluded from invested assets as the Group only administers the assets and does not offer advice on how the assets should be invested. Also excluded are non-bankable assets (e. g. art collections) and deposits from third-party banks for funding or trading purposes.

Discretionary assets are defined as those where UBS decides how a client's assets are invested. Other invested assets are those where the client ultimately decides how the assets are invested. When a single product is created in one Business Group and sold in another, it is counted in both the Business Group that manages the investment and the one that distributes it. This results in double counting within UBS total invested assets, as both Business Groups are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money in a period is the net amount of invested assets that are entrusted to UBS by new and existing clients less those withdrawn by existing clients and clients who terminate their relationship with UBS. Net new money is calculated using the direct method, by which inflows and outflows to/from invested assets are determined at the client level based on transactions. Interest payments by clients on their loans are treated as net new money outflows. Interest and dividend income from invested assets is not counted as net new money inflow. Market and currency movements as well as fees and commissions are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and client assets as a result of a change in the service level delivered are treated as net new money flows.

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

## Note 35 Business Combinations

Business combinations completed in 2007

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

*McDonald Investments' branch network*

In February 2007, UBS completed the acquisition of the branch network of McDonald Investments, a unit of KeyCorp. The cost of the business combination consisted of CHF 269 million (USD 220 million) for the business operations including directly attributable transaction costs, and of CHF 70 million (USD 58 million) for the net loans to customer portfolios of McDonald Investments, resulting in a total cash consideration paid of CHF 339 million (USD 278 million). The cost of the business combination was allocated to an intangible asset reflecting customer relationships of CHF 57 million (USD 47 million), remaining net assets of CHF 77 million (USD 63 million) including the net loans to customer portfolios, and goodwill of CHF 205 million (USD 168 million). The unit provides comprehensive wealth management services to affluent and high net worth individuals, including estate planning, retirement planning and asset management, and has been integrated into Wealth Management US.

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

## Note 35 Business Combinations (continued)

*Daehan Investment Trust Management Company*

In July 2007, UBS completed the acquisition of 51% of Daehan Investment Trust Management Company Ltd. (DIMCO) from Hana Daetoo Securities (formerly Daehan Investment & Securities Company Ltd.), a wholly owned subsidiary of Hana Financial Group. DIMCO was integrated into UBS's Global Asset Management business and renamed as UBS Hana Asset Management Company Ltd. internationally, and as Hana UBS Asset Management in Korea. The estimated cost of the business combination amounts to approximately CHF 238 million (KRW 180 billion) in total and was paid in cash. The purchase price is subject to an earn-out clawback of up to CHF 40 million (KRW 30 billion) over the next three to five years. The acquisition costs have been allocated to intangible assets reflecting customer relationships of CHF 54 million, net assets of CHF 74 million and goodwill of CHF 170 million. On acquisition date, equity attributable to minority interests was CHF 60 million. The allocation of the cost of the business combination to assets acquired and liabilities assumed is still being finalized. At closing, DIMCO managed around CHF 26.4 billion of assets (KRW 19.9 trillion).

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

## Note 35 Business Combinations (continued)

Business combinations announced in 2007

*Standard Chartered's mutual funds management business in India*

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

Acquisition of significant associates in 2007

*UBS Securities*

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

Business combinations completed in 2006

During 2006, UBS completed several acquisitions that were accounted for as business combinations. The acquisition of Banco Pactual S.A. was individually significant to the Financial Statements and is therefore presented separately in this note. The other acquisitions are presented in aggregate per business group.

Banco Pactual S.A.

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

In December 2006, UBS completed the acquisition of Brazilian bank Banco Pactual S.A. The bank was merged with UBS's Brazilian business, and both are now operating under the name UBS Pactual. The cost of the business combination was CHF 2,827 million (USD 2,319 million) and includes acquisition costs for client assets transferred to UBS in 2007. Of the total consideration, CHF 1,184 million (USD 971 million) was paid on 1 December 2006 and CHF 70 million (USD 59 million) in 2007 in cash. These amounts include transaction costs. The residual payment of up to CHF 1.9 billion (USD 1.6 billion) is subject to certain performance conditions and is due on 30 June 2011. It was included in the acquisition cost at its net present value of CHF 1,573 million (USD 1,289 million).The acquisition cost was allocated to net assets of CHF 494 million (USD 405 million), intangible assets of CHF 610 million (USD 501 million) and goodwill of CHF 1,723 million (USD 1,413 million). Identified intangible assets include client relationships, non-compete agreements, favorable contracts, investment banking pipeline, proprietary software, trademarks and trade names, with an economic useful life from 1 to 20 years. UBS Pactual offers a broad range of services in investment banking, asset management and wealth management. It has offices in São Paolo, Rio de Janeiro, Belo Horizonte and Recife.

The residual payment obligation is reflected on UBS's balance sheet in Other liabilities and is measured at its amortized cost. It had no effect on the Statement of Cash Flows for the years ended 31 December 2007 and 2006.

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

**Note 35 Business Combinations (continued)**

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

| *CHF million* | Global Wealth Management & Business Banking | Investment Bank | Global Asset Management | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | 160 | 252 | 198 | 610 |
| Goodwill | 174 | 1,066 | 483 | 1,723 |

Investment Bank

*ABN AMRO's Global Futures and Options Business*

In September 2006, UBS acquired the global futures and options business of ABN AMRO and paid CHF 880 million (USD 704 million) in cash. In 2007, the purchase price was reduced by CHF 21 million (USD 17 million) to CHF 859 million (USD 687 million). The ABN AMRO futures and options business provides clearing and execution services on a global basis. The acquired business has been integrated into the Prime Services business within the Equities business of the Investment Bank. The purchase price was allocated to net assets of CHF 429 million (USD 344 million) and intangible assets of CHF 132 million (USD 106 million). The difference of CHF 298 million (USD 237 million) from the purchase price was recognized as goodwill.

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

## Note 35 Business Combinations (continued)

Global Wealth Management & Business Banking

*Piper Jaffray Companies' Private Client Services Branch Network*

In August 2006, UBS completed the acquisition of Piper Jaffray Companies' Private Client Services branch network. The cost of the business combination consisted of CHF 616 million (USD 500 million) for the business operations and of CHF 280 million (USD 227 million) for the net loans to customer portfolios, resulting in a total cash consideration paid of CHF 896 million (USD 727 million). The purchase price was allocated to net assets of CHF 291 million (USD 236 million) and intangible assets of CHF 148 million (USD 120 million) representing client relationships. The difference of CHF 457 million (USD 371 million) from the purchase price was recognized as goodwill. Approximately 90 Piper Jaffray wealth management offices, mainly located in the Midwest and Western United States, serving 190,000 households, have been renamed and integrated into Wealth Management US.

*Dolfi*

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

| *CHF million* | Book value | Step-up to fair value | Fair value |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 0 | 158 | 158 |
| Property and equipment | 16 | (4) | 12 |
| Financial investments available-for-sale | 1 | 0 | 1 |
| Goodwill | 0 | 479 | 479 |
| All other assets | 291 | 0 | 291 |
| **Total assets** | **308** | **633** | **941** |
| **Liabilities** | | | |
| Provisions | 0 | 8 | 8 |
| Deferred tax liabilities | 0 | 3 | 3 |
| All other liabilities | 2 | 4 | 6 |
| Total liabilities | 2 | 15 | 17 |
| Net assets | 306 | 618 | 924 |
| **Total liabilities and equity** | **308** | **633** | **941** |

**Note 35 Business Combinations (continued)**

Acquisitions of minority interests of subsidiaries in 2006

*UBS Bunting Limited*

In March 2006, UBS acquired the 50% minority interest in its Canadian institutional securities subsidiary, UBS Bunting Limited. The purchase price consists of a combination of cash and UBS shares and has been estimated at CHF 182 million (CAD 163 million). Approximately CHF 26 million (CAD 23 million) of the consideration is linked to the performance of the acquired business in 2006 and 2007 and may be reduced if agreed revenue targets are not achieved. The difference between the purchase price and the carrying value of the acquired minority interest of CHF 116 million (CAD 104 million) was reflected in Equity.

Acquisition completed after the balance sheet date

*Caisse Centrale de Réescompte Group*

In February 2008, UBS completed the acquisition in France of Caisse Centrale de Réescompte Group (CCR) from Commerzbank for a total consideration of approximately EUR 387 million, paid at the closing date. The purchase price includes EUR 247 million for a 100% interest in CCR, as well as approximately EUR 140 million for the excess capital of CCR at closing, reflecting provisional adjustments made during the closing process. Under the terms of the transaction, the final price for the acquisition will be determined after the closing, following determination of the actual adjustments. The business of CCR, which includes EUR 13.3 billion of invested assets as of 31 December 2007 and approximately 190 employees, will be integrated into the asset management and wealth management businesses of UBS in France.

Pro-forma information (unaudited)

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

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

## 2007

### Industrial Holdings

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

### Private Banks & GAM

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

## 2006

### Motor-Columbus

On 23 March 2006, UBS sold its 55.6% stake in Motor-Columbus to a consortium representing Atel's Swiss minority shareholders (EBM, EBL, the Canton of Solothurn, IB Aarau, AIL Lugano and WWZ Zug), EOS Holding and Atel, as well as to the French utility Electricité de France (EDF) following the receipt of relevant regulatory approvals by the Swiss and international authorities. Motor-Columbus is presented as a discontinued operation in these Financial Statements. The income statements for the comparative prior periods have been restated to reflect that presentation. In total, UBS sold 281,535 Motor-Columbus shares, at a price of CHF 4,600 per share, resulting in a sale price of approximately CHF 1,295 million, which was fully paid in cash. A pre-tax gain on sale of CHF 364 million is reported in the Industrial Holdings segment. From 1 January to 23 March 2006, Motor-Columbus had a Net profit from operations of CHF 71 million. Together with the after-tax gain on sale of CHF 387 million, the Net profit from discontinued operations is CHF 458 million in 2006. For the year ended 31 December 2005, Motor-Columbus had a Net profit from operations of CHF 323 million.

### Other Industrial Holdings

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

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

**Note 36 Discontinued Operations (continued)**

# 2005

## Private Banks & GAM

On 2 December 2005, UBS sold its Private Banks & GAM unit to Julius Baer for an aggregate consideration of CHF 5,683 million, of which CHF 3,375 million was received in cash, CHF 225 million in the form of hybrid Tier 1 instruments, and the remaining CHF 2,083 million representing a 21.5% stake in the enlarged Julius Baer. As part of the sales agreement, CHF 200 million of cash was retained within UBS. The gain on sale after taxes from this transaction amounted to CHF 3,705 million on 31 December 2005. In 2006, UBS reported an additional after-tax gain on sale of CHF 4 million due to an adjustment to the purchase price.

As part of the agreement, UBS agreed to a lock-up period of 18 months for 19.9% of the stake and of three months for the remaining 1.6%. The value of the Julius Baer stake is based on a price of CHF 86.20 per share at the date of closing, which is a discount of 8.4% to the market price to take into account the 18-month lock-up period to which 19.9% of the stake is subject. Shortly after closing, UBS reduced its 21.5% stake to approximately 20.7% by settling call options that were outstanding on the shares of the former holding company of the Private Banks & GAM businesses. UBS classified the stake as a financial investment available-for-sale until its sale in 2007 (refer to Note 5 and to the year 2007 section of Private Banks & GAM in this Note). Private Banks & GAM is presented as a discontinued operation in these Financial Statements.

Private Banks & GAM comprised the three private banks Banco di Lugano, Ehinger & Armand von Ernst and Ferrier Lullin as well as specialist asset manager GAM and was presented as a separate business segment.

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

1 Included in Corporate Center in Note 2a.

## Note 36 Discontinued Operations (continued)

| CHF million | For the year ended 31.12.06<br>Motor-Columbus | Other Industrial Holdings[1] |
|---|---|---|
| Operating income | 2,494 | 741 |
| Operating expenses | 2,412 | 736 |
| Operating profit from discontinued operations before tax | 82 | 5 |
| Pre-tax gain on sale | 364 | 428 |
| **Profit from discontinued operations before tax** | 446 | 433 |
| Tax expense on operating profit from discontinued operations before tax | 11 | 0 |
| Tax expense on gain on sale | (23) | 0 |
| **Tax expense from discontinued operations** | (12) | 0 |
| **Net profit from discontinued operations** | 458 | 433 |
| **Net cash flows from** | | |
| operating activities | 1 | 14 |
| investing activities | (52) | 78 |
| financing activities | (22) | (88) |

1 Pre-tax gain on sale includes CHF 4 million related to Private Banks & GAM, which is included in Corporate Center in Note 2a.

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

## Note 37 Currency Translation Rates

The following table shows the principal rates used to translate the financial statements of foreign entities into Swiss francs:

| | **Spot rate** As of | | **Average rate** Year ended | | |
|---|---|---|---|---|---|
| | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | 31.12.05 |
| 1 USD | **1.13** | 1.22 | **1.22** | 1.25 | 1.25 |
| 1 EUR | **1.65** | 1.61 | **1.65** | 1.58 | 1.55 |
| 1 GBP | **2.25** | 2.39 | **2.31** | 2.31 | 2.27 |
| 100 JPY | **1.02** | 1.02 | **1.02** | 1.08 | 1.13 |

## Note 38 Swiss Banking Law Requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards. Included in this note are the significant differences in regard to recognition and measurement between IFRS and the provisions of the Banking Ordinance and the Guidelines of the Swiss Banking Commission governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance.

### 1. Consolidation

Under IFRS, all entities which are controlled by the Group are consolidated.

Under Swiss law, only entities that are active in the field of banking and finance and real estate entities are subject to consolidation. Entities which are held temporarily are generally recorded as Financial investments available-for-sale.

### 2. Financial investments available-for-sale

Under IFRS, Financial investments available-for-sale are carried at fair value. Changes in fair value are recorded directly in Equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in Equity is included in net profit or loss for the period. On disposal of a financial investment available-for-sale, the cumulative gain or loss previously recognized in Equity is recognized in the income statement.

Under Swiss law, financial investments are carried at the lower of cost or market value. Reductions to market value below cost and reversals of such reductions up to original cost as well as gains and losses on disposal are included in Other income.

### 3. Cash flow hedges

The Group uses derivative instruments to hedge the exposure from varying cash flows. Under IFRS, when hedge accounting is applied the unrealized gain or loss on the effective portion of the derivatives is recorded in Equity until the hedged cash flows occur, at which time the accumulated gain or loss is realized and released to income.

Under Swiss law, the unrealized gains or losses on the effective portion of the derivative instruments used to hedge cash flow exposures are deferred on the balance sheet as assets or liabilities. The deferred amounts are released to income when the hedged cash flows occur.

### 4. Investment property

Under IFRS, investment properties are carried at fair value, with fair value changes reflected in profit or loss.

Under Swiss law, investment properties are carried at amortized cost less impairment unless the investment properties are held for sale. Investment properties held for sale are recorded at the lower of cost or market value.

### 5. Fair value option

Under IFRS, the Group applies the fair value option to certain financial assets and financial liabilities, mainly to hybrid debt instruments. As a result the entire hybrid instrument is accounted for at fair value with changes in fair value reflected in net trading income. Furthermore, UBS designated certain loans, loan commitments and fund investments as financial assets designated at fair value through profit and loss.

Under Swiss accounting rules, the fair value option is not available. Hybrid instruments are bifurcated: while the embedded derivative is marked to market through net trading income, the host contract is accounted for on an accrued cost basis. Generally, loans are accounted for at amortized cost less impairment, loan commitments stay off-balance sheet and fund investments are accounted for as financial investments.

### 6. Goodwill and intangible assets

Under IFRS, goodwill acquired in business combinations is not amortized, but tested annually for impairment. Intangible assets acquired in business combinations with an indefinite useful life are also not amortized but tested annually for impairment.

Under Swiss law, goodwill and intangible assets with indefinite useful lives must be amortized over a period not exceeding five years, unless a longer useful life, which may not exceed twenty years, can be justified.

### 7. Discontinued operations

Under certain conditions, IFRS requires that non-current assets or disposal groups are classified as held for sale. Disposal groups that meet the criteria of discontinued operations are presented in the income statement in a single line as net income from discontinued operations.

Under Swiss law, no such reclassifications take place.

## Note 39 Additional Disclosures Required under SEC Rules
## Note 39.1 Industrial Holdings' Income Statement

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

The following table provides information required by Regulation S-X for commercial and industrial companies, including a condensed income statement and certain additional balance sheet information.

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

**Note 39 Additional Disclosures Required under SEC Rules (continued)**
**Note 39.2 Supplemental Guarantor Information**

**Guarantee of PaineWebber securities**

Following the acquisition of Paine Webber Group Inc., UBS AG made a full and unconditional guarantee of the senior and subordinated notes and trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was an SEC Registrant. Upon the acquisition, PaineWebber was merged into UBS Americas Inc., a wholly owned subsidiary of UBS.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS without first proceeding against UBS Americas Inc. UBS's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2007, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 2,215 billion.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the Consolidated Financial Statements of UBS of which this information is part.

**Supplemental Guarantor Consolidating Income Statement**

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

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

## Note 39 Additional Disclosures Required under SEC Rules (continued)
## Note 39.2 Supplemental Guarantor Consolidating Balance Sheet

| *CHF million*<br>As of 31 December 2007 | UBS AG Parent Bank[1] | UBS Americas Inc. | Subsidiaries | Consolidating Entries | UBS Group |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 8,530 | 109 | 10,154 | 0 | 18,793 |
| Due from banks | 154,138 | 16,530 | 200,488 | (310,249) | 60,907 |
| Cash collateral on securities borrowed | 117,312 | 166,479 | 53,672 | (130,400) | 207,063 |
| Reverse repurchase agreements | 292,839 | 106,775 | 266,470 | (289,156) | 376,928 |
| Trading portfolio assets | 354,200 | 170,977 | 84,884 | 0 | 610,061 |
| Trading portfolio assets pledged as collateral | 103,971 | 55,842 | 4,498 | 0 | 164,311 |
| Positive replacement values | 436,271 | 16,770 | 192,144 | (216,968) | 428,217 |
| Financial assets designated at fair value | 5,510 | 7,149 | 8,421 | (9,315) | 11,765 |
| Loans | 370,274 | 41,398 | 43,584 | (119,392) | 335,864 |
| Financial investments available-for-sale | 2,611 | 980 | 1,375 | 0 | 4,966 |
| Accrued income and prepaid expenses | 7,379 | 4,369 | 4,883 | (4,678) | 11,953 |
| Investments in associates | 28,049 | 139 | 150 | (26,359) | 1,979 |
| Property and equipment | 5,352 | 959 | 923 | 0 | 7,234 |
| Goodwill and intangible assets | 276 | 10,516 | 3,746 | 0 | 14,538 |
| Other assets | 13,606 | 5,135 | 4,881 | (5,622) | 18,000 |
| **Total assets** | 1,900,318 | 604,127 | 880,273 | (1,112,139) | 2,272,579 |
| **Liabilities** | | | | | |
| Due to banks | 246,977 | 114,066 | 94,968 | (310,249) | 145,762 |
| Cash collateral on securities lent | 45,055 | 64,281 | 52,685 | (130,400) | 31,621 |
| Repurchase agreements | 105,750 | 238,880 | 250,413 | (289,156) | 305,887 |
| Trading portfolio liabilities | 111,955 | 51,904 | 929 | 0 | 164,788 |
| Negative replacement values | 456,631 | 16,333 | 187,543 | (216,968) | 443,539 |
| Financial liabilities designated at fair value | 146,701 | 14,947 | 39,520 | (9,315) | 191,853 |
| Due to customers | 555,694 | 87,534 | 118,056 | (119,392) | 641,892 |
| Accrued expenses and deferred income | 13,276 | 7,940 | 5,310 | (4,678) | 21,848 |
| Debt issued | 168,266 | 3,478 | 50,333 | 0 | 222,077 |
| Other liabilities | 19,011 | 5,356 | 42,031 | (5,622) | 60,776 |
| **Total liabilities** | 1,869,316 | 604,719 | 841,788 | (1,085,780) | 2,230,043 |
| **Equity attributable to UBS shareholders** | 31,002 | (2,916) | 33,858 | (26,359) | 35,585 |
| Minority interests | 0 | 2,324 | 4,627 | 0 | 6,951 |
| **Total equity** | 31,002 | (592) | 38,485 | (26,359) | 42,536 |
| **Total liabilities and equity** | 1,900,318 | 604,127 | 880,273 | (1,112,139) | 2,272,579 |

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

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

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

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. 2 Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments available-for-sale. CHF 3,364 million was pledged at 31 December 2007.

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

| *CHF million*<br>For the year ended 31 December 2006 | UBS AG Parent Bank[1] | UBS Americas Inc. | Subsidiaries | Consolidating Entries | UBS Group |
|---|---|---|---|---|---|
| **Operating income** | | | | | |
| Interest income | 60,057 | 42,667 | 39,269 | (54,592) | 87,401 |
| Interest expense | (56,020) | (41,049) | (38,403) | 54,592 | (80,880) |
| Net interest income | 4,037 | 1,618 | 866 | 0 | 6,521 |
| Credit loss (expense) / recovery | 167 | (6) | (5) | 0 | 156 |
| Net interest income after credit loss expense | 4,204 | 1,612 | 861 | 0 | 6,677 |
| Net fee and commission income | 11,646 | 8,590 | 5,220 | 0 | 25,456 |
| Net trading income | 10,306 | 1,634 | 1,803 | 0 | 13,743 |
| Income from subsidiaries | 3,760 | 0 | 0 | (3,760) | 0 |
| Other income | (450) | 1,637 | 411 | 0 | 1,598 |
| Revenues from industrial holdings | 0 | 0 | 262 | 0 | 262 |
| **Total operating income** | 29,466 | 13,473 | 8,557 | (3,760) | 47,736 |
| **Operating expenses** | | | | | |
| Personnel expenses | 12,208 | 8,040 | 3,343 | 0 | 23,591 |
| General and administrative expenses | 2,805 | 3,362 | 1,813 | 0 | 7,980 |
| Depreciation of property and equipment | 979 | 133 | 140 | 0 | 1,252 |
| Amortization of intangible assets | 14 | 83 | 56 | 0 | 153 |
| Goods and materials purchased | 0 | 0 | 116 | 0 | 116 |
| **Total operating expenses** | 16,006 | 11,618 | 5,468 | 0 | 33,092 |
| **Operating profit from continuing operations before tax** | 13,460 | 1,855 | 3,089 | (3,760) | 14,644 |
| Tax expense / (benefit) | 1,715 | 585 | 485 | 0 | 2,785 |
| **Net profit / (loss) from continuing operations** | 11,745 | 1,270 | 2,604 | (3,760) | 11,859 |
| Net profit / (loss) from discontinued operations | 512 | 0 | 379 | 0 | 891 |
| Net profit / (loss) | 12,257 | 1,270 | 2,983 | (3,760) | 12,750 |
| Net profit / (loss) attributable to minority interests | 0 | 527 | (34) | 0 | 493 |
| **Net profit / (loss) attributable to UBS shareholders** | 12,257 | 743 | 3,017 | (3,760) | 12,257 |

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

## Note 39 Additional Disclosures Required under SEC Rules (continued)
## Note 39.2 Supplemental Guarantor Consolidating Balance Sheet

| *CHF million*<br>As of 31 December 2006 | UBS AG Parent Bank[1] | UBS Americas Inc. | Subsidiaries | Consolidating Entries | UBS Group |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 2,660 | 78 | 757 | 0 | 3,495 |
| Due from banks | 121,404 | 16,884 | 182,850 | (270,712) | 50,426 |
| Cash collateral on securities borrowed | 99,829 | 303,607 | 156,083 | (207,929) | 351,590 |
| Reverse repurchase agreements | 270,814 | 167,222 | 300,862 | (333,064) | 405,834 |
| Trading portfolio assets | 294,590 | 188,710 | 143,736 | 0 | 627,036 |
| Trading portfolio assets pledged as collateral | 162,722 | 51,834 | 36,922 | 0 | 251,478 |
| Positive replacement values | 283,466 | 13,168 | 173,243 | (176,902) | 292,975 |
| Financial assets designated at fair value | 2,902 | 4,147 | 7,146 | (8,265) | 5,930 |
| Loans | 399,352 | 40,279 | 38,644 | (180,433) | 297,842 |
| Financial investments available-for-sale | 5,843 | 862 | 2,232 | 0 | 8,937 |
| Accrued income and prepaid expenses | 6,598 | 4,029 | 4,809 | (5,075) | 10,361 |
| Investments in associates | 34,887 | 179 | 237 | (33,780) | 1,523 |
| Property and equipment | 5,432 | 637 | 844 | 0 | 6,913 |
| Goodwill and intangible assets | 258 | 11,128 | 3,387 | 0 | 14,773 |
| Other assets | 10,709 | 5,524 | 5,587 | (4,571) | 17,249 |
| **Total assets** | 1,701,466 | 808,288 | 1,057,339 | (1,220,731) | 2,346,362 |
| **Liabilities** | | | | | |
| Due to banks | 228,992 | 114,782 | 130,627 | (270,712) | 203,689 |
| Cash collateral on securities lent | 106,019 | 57,937 | 107,061 | (207,929) | 63,088 |
| Repurchase agreements | 167,166 | 419,427 | 291,951 | (333,064) | 545,480 |
| Trading portfolio liabilities | 107,747 | 71,165 | 25,861 | 0 | 204,773 |
| Negative replacement values | 290,746 | 13,629 | 169,590 | (176,902) | 297,063 |
| Financial liabilities designated at fair value | 121,074 | 49 | 32,829 | (8,265) | 145,687 |
| Due to customers | 489,823 | 80,936 | 165,560 | (180,433) | 555,886 |
| Accrued expenses and deferred income | 12,336 | 8,406 | 5,860 | (5,075) | 21,527 |
| Debt issued | 110,020 | 29,149 | 50,974 | 0 | 190,143 |
| Other liabilities | 16,488 | 4,284 | 47,050 | (4,571) | 63,251 |
| **Total liabilities** | 1,650,411 | 799,764 | 1,027,363 | (1,186,951) | 2,290,587 |
| **Equity attributable to UBS shareholders** | 51,055 | 5,539 | 26,872 | (33,780) | 49,686 |
| Minority interests | 0 | 2,985 | 3,104 | 0 | 6,089 |
| **Total equity** | 51,055 | 8,524 | 29,976 | (33,780) | 55,775 |
| **Total liabilities and equity** | 1,701,466 | 808,288 | 1,057,339 | (1,220,731) | 2,346,362 |

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

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

| *CHF million*<br>For the year ended 31 December 2006 | UBS AG Parent Bank[1] | UBS Americas Inc. | Subsidiaries | UBS Group |
|---|---|---|---|---|
| **Net cash flow from / (used in) operating activities** | (1,916) | (14,810) | 11,805 | (4,921) |
| Cash flow from / (used in) investing activities | | | | |
| Investments in subsidiaries and associates | 2,856 | 0 | 0 | 2,856 |
| Disposal of subsidiaries and associates | 1,154 | 0 | 0 | 1,154 |
| Purchase of property and equipment | (1,292) | (255) | (246) | (1,793) |
| Disposal of property and equipment | 298 | 47 | 154 | 499 |
| Net (investment in) / divestment of financial investments available-for-sale | 90 | 433 | 1,200 | 1,723 |
| **Net cash flow from / (used in) investing activities** | 3,106 | 225 | 1,108 | 4,439 |
| Cash flow from / (used in) financing activities | | | | |
| Net money market paper issued / (repaid) | 17,526 | 1,039 | (1,644) | 16,921 |
| Net movements in treasury shares and own equity derivative activity | (3,624) | 0 | 0 | (3,624) |
| Capital issuance | 1 | 0 | 0 | 1 |
| Capital repayment by par value reduction | (631) | 0 | 0 | (631) |
| Dividends paid | (3,214) | 0 | 0 | (3,214) |
| Issuance of long-term debt, including financial liabilities designated at fair value | 79,358 | 10,881 | 7,436 | 97,675 |
| Repayment of long-term debt, including financial liabilities designated at fair value | (48,748) | (447) | (10,545) | (59,740) |
| Increase in minority interests | 0 | 85 | 1,246 | 1,331 |
| Dividend payments to / purchase from minority interests | 0 | 2,441 | (3,513) | (1,072) |
| Net activity in investments in subsidiaries | (8,246) | 3,055 | 5,191 | 0 |
| **Net cash flow from / (used in) financing activities** | 32,422 | 17,054 | (1,829) | 47,647 |
| Effects of exchange rate differences | 388 | (1,871) | (634) | (2,117) |
| **Net increase / (decrease) in cash equivalents** | 34,000 | 598 | 10,450 | 45,048 |
| Cash and cash equivalents, beginning of the year | 68,548 | 13,531 | 8,963 | 91,042 |
| **Cash and cash equivalents, end of the year** | 102,548 | 14,129 | 19,413 | 136,090 |
| Cash and cash equivalents comprise: | | | | |
| Cash and balances with central banks | 2,660 | 78 | 757 | 3,495 |
| Money market paper[2] | 73,431 | 11,488 | 2,225 | 87,144 |
| Due from banks with original maturity of less than three months | 26,457 | 2,563 | 16,431 | 45,451 |
| **Total** | 102,548 | 14,129 | 19,413 | 136,090 |

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. 2 Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments available-for-sale. CHF 7,183 million was pledged at 31 December 2006.

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

| *CHF million*<br>For the year ended 31 December 2005 | UBS AG Parent Bank[1] | UBS Americas Inc. | Subsidiaries | Consolidating Entries | UBS Group |
|---|---|---|---|---|---|
| **Operating income** | | | | | |
| Interest income | 39,779 | 27,782 | 20,729 | (29,004) | 59,286 |
| Interest expense | (33,892) | (24,803) | (20,067) | 29,004 | (49,758) |
| Net interest income | 5,887 | 2,979 | 662 | 0 | 9,528 |
| Credit loss (expense) / recovery | 370 | (3) | 8 | 0 | 375 |
| Net interest income after credit loss expense | 6,257 | 2,976 | 670 | 0 | 9,903 |
| Net fee and commission income | 9,670 | 7,420 | 4,094 | 0 | 21,184 |
| Net trading income | 7,453 | (123) | 918 | 0 | 8,248 |
| Income from subsidiaries | (675) | 0 | 0 | 675 | 0 |
| Other income | 2,635 | 476 | (1,984) | 0 | 1,127 |
| Revenues from industrial holdings | 0 | 0 | 229 | 0 | 229 |
| **Total operating income** | 25,340 | 10,749 | 3,927 | 675 | 40,691 |
| **Operating expenses** | | | | | |
| Personnel expenses | 9,962 | 6,587 | 3,518 | 0 | 20,067 |
| General and administrative expenses | 2,330 | 2,667 | 1,507 | 0 | 6,504 |
| Depreciation of property and equipment | 988 | 140 | 119 | 0 | 1,247 |
| Amortization of intangible assets | 24 | 70 | 39 | 0 | 133 |
| Goods and materials purchased | 0 | 0 | 97 | 0 | 97 |
| **Total operating expenses** | 13,304 | 9,464 | 5,280 | 0 | 28,048 |
| **Operating profit from continuing operations before tax** | 12,036 | 1,285 | (1,353) | 675 | 12,643 |
| Tax expense / (benefit) | 1,712 | 1,079 | (326) | 0 | 2,465 |
| **Net profit / (loss) from continuing operations** | 10,324 | 206 | (1,027) | 675 | 10,178 |
| Net profit / (loss) from discontinued operations | 3,705 | 0 | 807 | 0 | 4,512 |
| Net profit / (loss) | 14,029 | 206 | (220) | 675 | 14,690 |
| Net profit / (loss) attributable to minority interests | 0 | 122 | 539 | 0 | 661 |
| **Net profit / (loss) attributable to UBS shareholders** | 14,029 | 84 | (759) | 675 | 14,029 |

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

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

| *CHF million*<br>For the year ended 31 December 2005 | UBS AG<br>Parent Bank[1] | UBS<br>Americas Inc. | Subsidiaries | UBS Group |
|---|---|---|---|---|
| **Net cash flow from / (used in) operating activities** | (29,118) | (15,771) | (18,318) | (63,207) |
| Cash flow from / (used in) investing activities | | | | |
| Investments in subsidiaries and associates | (1,540) | 0 | 0 | (1,540) |
| Disposal of subsidiaries and associates | 3,240 | 0 | 0 | 3,240 |
| Purchase of property and equipment | (1,153) | (155) | (584) | (1,892) |
| Disposal of property and equipment | 71 | 6 | 193 | 270 |
| Net (investment in) / divestment of financial investments available-for-sale | (4,667) | (40) | 2,220 | (2,487) |
| **Net cash flow from / (used in) investing activities** | (4,049) | (189) | 1,829 | (2,409) |
| Cash flow from / (used in) financing activities | | | | |
| Net money market paper issued / (repaid) | 22,698 | 615 | (92) | 23,221 |
| Net movements in treasury shares and own equity derivative activity | (2,416) | 0 | 0 | (2,416) |
| Capital issuance | 2 | 0 | 0 | 2 |
| Dividends paid | (3,105) | 0 | 0 | (3,105) |
| Issuance of long-term debt, including financial liabilities designated at fair value | 50,587 | 14,635 | 11,085 | 76,307 |
| Repayment of long-term debt, including financial liabilities designated at fair value | (17,780) | (753) | (11,924) | (30,457) |
| Increase in minority interests | 0 | 8 | 1,564 | 1,572 |
| Dividend payments to / purchase from minority interests | 0 | (175) | (400) | (575) |
| Net activity in investments in subsidiaries | (1,591) | (214) | 1,805 | 0 |
| **Net cash flow from / (used in) financing activities** | 48,395 | 14,116 | 2,038 | 64,549 |
| Effects of exchange rate differences | 3,283 | (720) | 2,455 | 5,018 |
| **Net increase / (decrease) in cash equivalents** | 18,511 | (2,564) | (11,996) | 3,951 |
| Cash and cash equivalents, beginning of the year | 50,037 | 16,095 | 20,959 | 87,091 |
| **Cash and cash equivalents, end of the year** | 68,548 | 13,531 | 8,963 | 91,042 |
| Cash and cash equivalents comprise: | | | | |
| Cash and balances with central banks | 2,712 | 5 | 2,642 | 5,359 |
| Money market paper[2] | 47,838 | 8,991 | 997 | 57,826 |
| Due from banks with original maturity of less than three months | 17,998 | 4,535 | 5,324 | 27,857 |
| **Total** | 68,548 | 13,531 | 8,963 | 91,042 |

1 UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS. 2 Money market paper is included in the Balance sheet under Trading portfolio assets and Financial investments available-for-sale. CHF 4,744 million was pledged at 31 December 2005.

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

**Guarantee of other securities**

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

| *USD billion, unless otherwise indicated* | | Outstanding as of 31.12.07 | | |
|---|---|---|---|---|
| **Issuing Entity** | **Type of security** | **Date issued** | **Interest (%)** | **Amount** |
| UBS Preferred Funding Trust I | Trust preferred securities | October 2000 | 8.622 | 1.5 |
| UBS Preferred Funding Trust II | Trust preferred securities[1] | June 2001 | 7.247 | 0.5 |
| UBS Preferred Funding Trust IV | Floating rate noncumulative trust preferred securities | May 2003 | one-month LIBOR +0.7% | 0.3 |
| UBS Preferred Funding Trust V | Trust preferred securities | May 2006 | 6.243 | 1.0 |

1 In June 2006, USD 300 million (at 7.25%) of Trust preferred securities also issued in June 2001 were redeemed.

UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2007, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 2,215 billion.

# APPENDIX 4 — RISK MANAGEMENT AND CONTROL

The information in this Appendix 4 describes the risk management and control process of UBS AG and references herein to "**UBS**" or the "**Group**" are to UBS AG and its subsidiaries.

The information in this Appendix 4 has been extracted from our Annual Report 2007 as at and for the year ended 31 December 2007. Reference to page numbers in this Appendix 4 are to pages of such document. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 4.

# Risk management and control

– Taking, managing and controlling risk is core to UBS's businesses. The aim is to achieve an appropriate balance between risk and return

– UBS's risk management and control frameworks are based on business management accountability and independent risk control for credit, market, liquidity, funding and operational risks

– After its substantial losses in 2007, UBS is taking steps to ensure that the lessons learnt are embedded in its risk management and control framework

## Developments in 2007

**Many parts of UBS's risk management and control framework were resilient** in the face of 2007's stressful market conditions

**Credit risk:**

– the quality of Global Wealth Management & Business Banking's lending portfolio remains high

– the Investment Bank actively reduced credit risk where possible, in light of its exposure to the US residential mortgage market and in conjunction with its management of balance sheet and risk-weighted assets usage

**Market risk:**

– neither trading management nor market risk controllers foresaw the extreme developments in the previously deep and liquid US residential mortgage market, which revealed the tail risks in UBS's portfolio

– with the accompanying drying up of liquidity in parts of the market, the size of UBS's positions has proved excessive relative to the market

## Recent enhancements to market risk management and control

**Risk management:**
Repositioning of the Investment Bank's fixed income, currencies and commodities (FICC) business:

– creation of a workout group to ensure robust risk management of segregated legacy portfolios and develop orderly exit strategies

– refocusing remaining real estate-related activities towards intermediation of client flows and alignment to needs of investment banking and wealth management clients

– consolidation of flow credit trading management to improve risk aggregation and communication

Risk management and valuation models for products related to US residential mortgages have been refined and recalibrated to reflect current projections and market prices

**Risk control:**

– improvement of measurement of basis risk by increasing granularity of risk representation

– protection against extreme market moves through more extensive use of limits by asset class, based on gross values as well as risk sensitivities

– additional controls to highlight positions which are large relative to market depth

– revision of global stress testing approach to deliver a more diverse range of scenarios, which better differentiate between the source of a stress event and its contagion effect. Stress testing to consider liquidity as well as price sensitivity

## Disclosed risk concentrations

**US sub-prime residential mortgages:**
– residential mortgage-backed securities (RMBS)
– super senior RMBS collateralized debt obligations (CDOs)
– warehouse and retained RMBS CDOs

**US Alt-A residential mortgages:**
– AAA-rated RMBS backed by first lien mortgages
– other

**US commercial real estate exposures:**
– trading assets
– real estate loans

**US reference-linked note program**

**Monoline insurers**

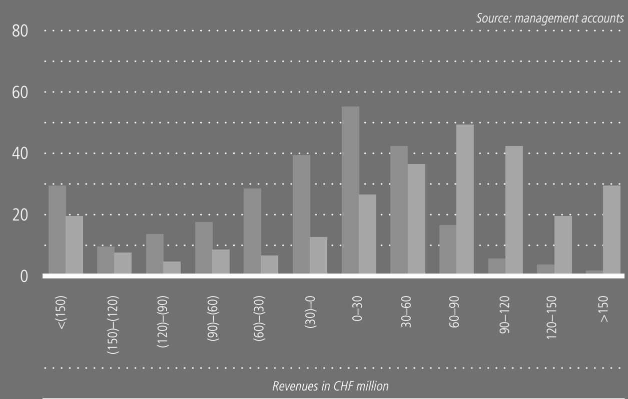
**Auction rate certificates**

**Leveraged finance deals**

*Disclosure is detailed on pages 11-14 of this report*

## Investment Bank: revenue distribution

*Frequency in number of days* *1 January 2007 – 31 December 2007*

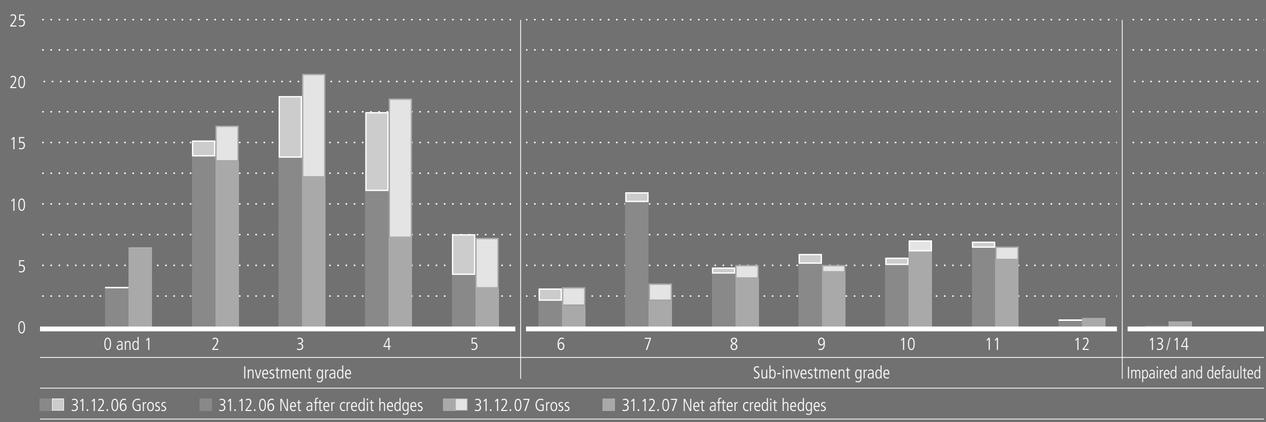



Backtesting revenues[1] All revenues[2]

1 Excludes non-trading revenues, such as commissions and fees, and revenues from intraday trading. 2 Includes all revenues from business areas which have trading activities.

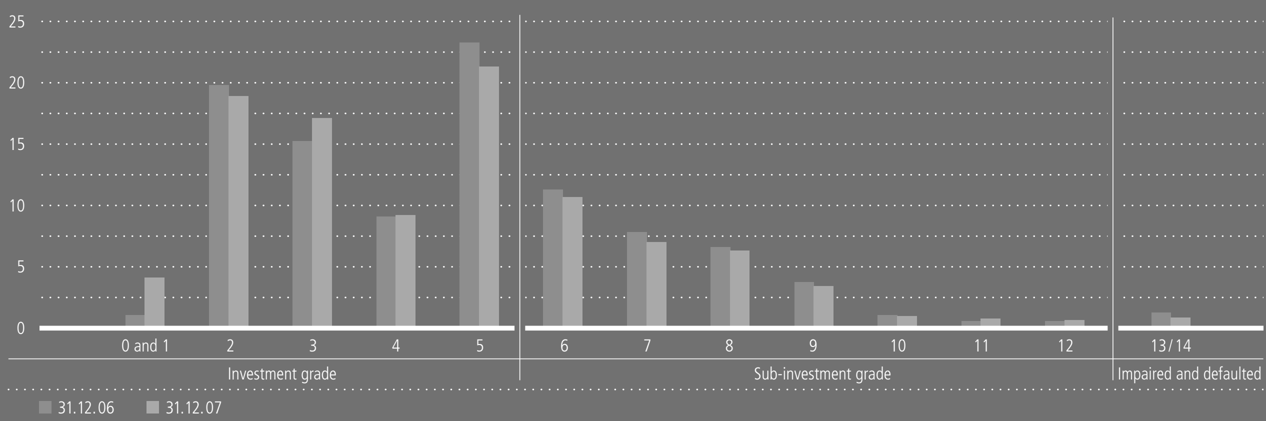
## Investment Bank: banking products exposure by UBS internal rating

*As a % of Investment Bank banking products exposure*




## Global Wealth Management & Business Banking: banking products, gross by UBS internal rating

*As a % of Global Wealth Management & Business Banking banking products, gross*



# Risk management and control

In 2007, UBS suffered significant losses as a result of positions in instruments related to US residential mortgage markets. This experience does not invalidate UBS's risk management and risk control principles – the high level precepts remain valid – but it has demonstrated that the policies, measures and processes that implement the principles can be strengthened in some ways. UBS is taking steps to ensure that the lessons learned in 2007 are embedded in its risk management and control frameworks and in the structure and processes of its risk control organization.

## Risk management and control principles

Audited

Taking, managing and controlling risk is core to UBS's business. The aim is not, therefore, to eliminate all risks but to achieve an appropriate balance between risk and return. UBS's approach to risk management and control is based on five principles:
- *business management throughout the firm is accountable* for all the risks assumed or incurred by their business operations and is responsible for the continuous and active management of risk exposures to ensure that risk and return are balanced;
- an *independent control process* is an integral part of the firm's structure – its goal is to provide an objective check on risk-taking activities and to support senior management in achieving appropriate alignment of the interests of all stakeholders including shareholders, clients and employees;
- comprehensive, transparent and objective *risk disclosure* to senior management, the Board of Directors (BoD), shareholders, regulators, rating agencies and other stakeholders is an essential component of the risk control process;
- *earnings protection* is based on limiting the scope for adverse variations in earnings and exposure to stress events – controls are applied at the level of individual exposures and portfolios in each business and to risk in aggregate, across all businesses and major risk types, relative to the firm's risk capacity (the level of risk UBS is capable of absorbing, based on its anticipated earnings power); and
- *protection of UBS's reputation* ultimately depends on the effective management and control of the risks incurred in the course of business.

The principles are the foundation upon which the more detailed risk management and control frameworks are built. These frameworks comprise both qualitative elements, including policies and authorities, and quantitative components including limits. They are continually adapted and enhanced as UBS's business and the market environment evolve.

The pace of innovation in financial markets makes this challenging, and never more so than when markets undergo major dislocations as they did in 2007. Many parts of UBS's risk management and control frameworks were resilient in the face of these stressful conditions, but, in a limited area of the Investment Bank, some aspects of risk management assessments and the market risk control framework proved inadequate to identify certain risk concentrations and therefore to prevent losses in the extreme market conditions of the second half of 2007.

➔ **The steps UBS is taking to strengthen its risk management and control frameworks are described in the sidebar "Enhancements to market risk management and control" on pages 36–37 of this report**

## Risk management and control responsibilities

Audited

The *BoD* has a strategic and supervisory function. It is responsible for the firm's fundamental approach to risk, for approving the risk principles and for determining risk capacity and risk appetite.

The *Chairman's Office* acts as the Risk Council of the BoD. In this capacity, it oversees the risk profile of the firm on behalf of the BoD and oversees implementation by the Group Executive Board (GEB) of the risk management and control principles.

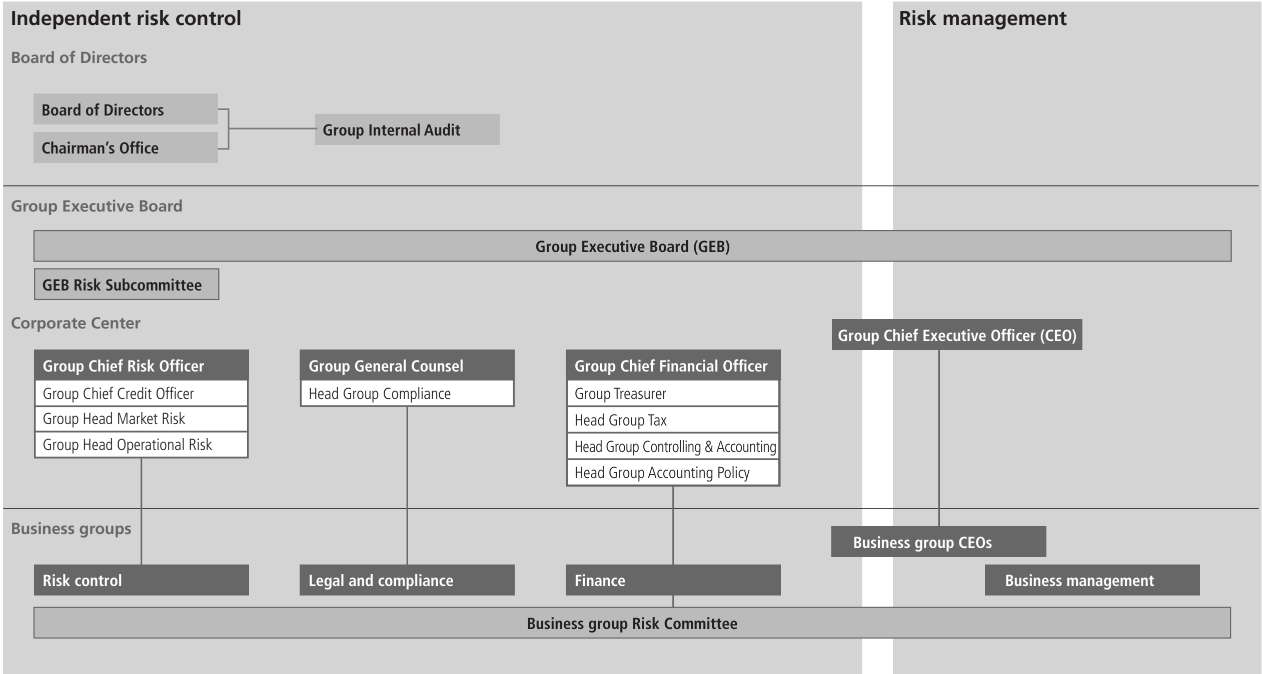
The *GEB, together with its Risk Sub-Committee,* is responsible for implementing the risk principles, including approval of core risk policies, and for managing the risk profile of UBS as a whole.

The *Group Chief Risk Officer (Group CRO)* has overall responsibility for the development, implementation and enforcement of UBS's risk principles. The role is supported by the Group Chief Credit Officer (Group CCO), the Group Head of Market Risk and the Group Head of Operational Risk. Together they establish risk control frameworks, formulate risk policies and determine methodologies for measurement and assessment of risk. They are responsible for monitoring UBS's risks and its risk/return profile, and have the authority to mandate risk reductions in the light of market conditions and UBS's financial resources.

The *Group Chief Financial Officer (Group CFO)* is responsible for transparency in the financial performance of UBS and its business groups, including high-quality and timely reporting and disclosure in line with regulatory requirements, corporate governance standards and global best practice. The Group CFO is responsible for implementation of the risk principles in the areas of capital management, liquidity, funding and tax.

The *Group General Counsel* is responsible for implementing the risk principles in the areas of legal and compliance.

**Risk management and control framework**




The *Chief Executive Officer (CEO)* of each business group has overall responsibility for the business group and its management, and is accountable for its results and risks.

Within the business groups, *business management* is responsible for ensuring that risks are identified and managed. The *risk control functions* are responsible for the implementation of independent control processes. They are empowered to enforce the risk principles and frameworks and corrective measures mandated by the Group CRO, the risk function heads and senior management.

*All employees*, but in particular those involved in risk decisions, must make UBS's reputation an overriding concern. Responsibility for UBS's reputation cannot be delegated or syndicated.

### The risk control process

There are five key elements in the independent risk control process:

– *risk policies* to implement the risk principles, reflecting UBS's risk capacity and risk appetite, and consistent with evolving business requirements and international best practice. UBS's risk policies are principle-based, specifying minimum requirements, high-level controls and standards, and broad authorities and responsibilities – they are never a substitute for the exercise of sound business judgment but, rather, guide and determine actions and decisions;
– *risk identification* through continuous monitoring of portfolios, assessment of risks in new businesses and complex or unusual transactions, and ongoing review of the risk profile in the light of market developments and external events;
– *risk measurement* using methodologies and models which are independently verified and approved;
– *risk control* by monitoring and enforcing compliance with risk principles, policies and limits, and with regulatory requirements; and
– *transparent risk reporting* to stakeholders, and to management at all levels, on all relevant aspects of the approved risk control framework, including limits.

UBS has control processes around the establishment of new businesses or significant changes to existing businesses, and the execution of complex or unusual transactions. These processes involve the business, and potentially all the control functions – risk control, legal, compliance, treasury, finance, tax and logistics, as necessary. The objective is to ensure that all critical elements are addressed across disciplines. A key aspect is whether transactions can be booked in a way that will permit appropriate ongoing risk management, measurement, control and reporting. These processes are being strengthened to reflect the lessons learned in 2007.

More generally, UBS is seeking ways to further integrate its credit and market risk structure in the Investment Bank to provide a more holistic view within and across asset classes.

➔ **For further details, refer to the sidebar "Enhancements to market risk management and control" on pages 36–37 of this report**

### Risk categories

*Business risks* are the risks associated with a chosen business strategy – it is business management's responsibility to respond to fundamental changes in the economic environment and the competitive landscape. Business risks are not subject to independent risk control but are factored into the firm's planning and budgeting process and the assessment of UBS's risk capacity and overall risk exposure.

The primary and operational risks inherent in business activities are subject to independent risk control.

Audited

*Primary risks* are:

- *credit risk* – the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. It arises on traditional banking products, such as loans and commitments, and on derivatives and similar transactions. A form of credit risk also arises on securities and other obligations in tradable form. Their fair values are affected by changing expectations about the probability of failure to meet obligations as well as actual failures. Where these instruments are held in connection with a trading activity, UBS controls the risk as market risk;
- *market risk* – the risk of loss resulting from changes in market variables of two broad types: general market risk factors and idiosyncratic components. General market risk factors include interest rates, exchange rates, equity market indices, commodity prices and general credit spreads. Idiosyncratic components are specific to individual names and affect the values of their securities and other obligations in tradable form, and derivatives referenced to those names. *Investment positions* may also be affected by market risk factors but they are often not liquid and are generally intended or required to be held beyond a normal trading horizon. For these reasons they are subject to a different control framework; and
- *liquidity and funding risk* – the risk that UBS might be unable to meet its payment obligations when due, or to borrow funds in the market on an unsecured or secured basis at an acceptable price to fund actual or proposed commitments.

*Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. Operational risks must be monitored, and are controlled and mitigated to the extent possible and desirable.

➔ **The control frameworks for these risk categories are described in the following sections of this report: "Credit risk", "Market risk", "Investment positions", "Operational risk" and "Treasury and capital management"**

### Quantitative controls

Audited

In principle, for risks that are quantifiable, UBS measures potential loss at three levels – expected loss, statistical loss and stress loss.

*Expected loss* is the loss that is expected to arise on average over time in connection with an activity. It is an inherent cost of such activity, and must be factored into business plans. For financial instruments carried at fair value, expected loss is reflected in valuations and deducted directly from revenues.

*Statistical loss* measures, such as Value at Risk ("VaR"), estimate the amount by which actual loss in a portfolio can exceed expected loss over a specified time horizon, measured to a specified level of confidence (probability).

*Stress loss* is the loss that could arise from extreme events, typically beyond the confidence level of the statistical loss estimate, and is normally a scenario-based measure.

Concentration controls complement portfolio risk measures. Controls are generally applied where UBS identifies that positions in different financial instruments or different portfolios are affected by changes in the same risk factor or group of correlated factors and there is the potential for significant loss in the event of extreme but plausible adverse developments. UBS's concentration controls include credit limits for individual clients, counterparties and counterparty groups, ceilings on exposure to all but the best-rated countries, limits on potential loss from changes in general market risk factors, and thresholds on single name exposures in the trading portfolio.

➔ **These controls are explained in more detail in the "Credit risk" and "Market risk" sections of this report; an analysis of identified risk concentrations is provided in the "Risk concentrations" section of this report**

Audited

The primary day-to-day quantitative controls are intended to govern normal periodic adverse results and prevent severe losses as a result of stress events. The identification of stress events and scenarios to which UBS is vulnerable and an assessment of their potential impact – in particular the danger of aggregated losses from a single event through concentrated exposures – is a critical component of the risk control process. Risk measures and controls rely on a combination of past experience, available external data, and judgments about likely future developments. Each new stress event is in some way unique, and thus no risk measure can provide complete protection against every possible scenario. Equally, each stress event offers new insights into ways of enhancing risk measures and controls, whether specific to an individual portfolio or risk type or, as is the case with the experience of 2007, a more generic extension from a particular experience, applying the lessons learned more broadly.

➔ **The measures UBS is taking in response to the losses incurred in 2007 are described in the sidebar "Enhancements to market risk management and control" on pages 36–37 of this report**

#### "Earnings-at-risk" and "Capital-at-risk"

To complement the day-to-day operating controls, UBS has developed two concepts – "Earnings-at-risk" and "Capital-at-risk" – to assess aggregate risk exposure across risk types and businesses against its financial resources. These measures assess UBS's ability to absorb the potential loss inherent in its business in the current economic cycle, across all business lines, and from all major sources, including primary risks, operational risks and business risks.

Earnings-at-risk focuses on UBS's ability to absorb losses from current earnings, while capital-at-risk considers more extreme losses and their potential to lead to a breach of minimum regulatory capital requirements or, ultimately, to insolvency. Capital-at-risk is an input to the capital management process.

*Earnings-at-risk* has been an integral part of the risk control process since 2004 and is monitored by the GEB and Chairman's Office as part of the regular quarterly risk reporting cycle. The concept reflects UBS's long-held view that the first and primary resource to absorb losses is a firm's earnings stream. Earnings-at-risk has three elements – risk capacity, risk exposure and risk appetite.

Risk capacity is the level of risk UBS considers itself capable of absorbing, based on its earnings power, without damage to its dividend paying ability, its strategic plans and, ultimately, its reputation and ongoing business viability. It is based on a combination of budgeted/forecast and historical revenues and costs, adjusted for performance-related compensation, and dividends and related taxes.

Risk exposure is an estimate of potential loss based on current and prospective risk limits and risk positions across major risk categories – primary risks, operational risk and business risk. It is assessed against a severe but plausible constellation of events over a one-year time horizon to a 95% confidence level – in effect to assess the impact of a "once in 20 years" event. The measure builds on the statistical loss measures used in the day-to-day operating controls as far as possible, extending their time horizons where necessary, with adjustments and supplements determined by management to reflect known coverage gaps, measurement weaknesses and potential events. The results are combined to reflect potential correlations between the various risk categories under the severe scenarios envisaged.

A comparison of risk exposure with risk capacity serves as a basis for determining the appropriateness of current or proposed risk limits, and UBS's ability to pay a cash dividend out of its current year earnings. It is also one of the tools available to management to guide decisions on adjustments to the risk profile.

Risk appetite is established by the BoD, who set an upper bound on aggregate risk exposure in the form of a "risk exposure ceiling". It is appropriate that risk exposure should be less than risk capacity, but in the difficult market conditions that confronted UBS in 2007, this relationship has not held: calculated risk exposure has increased and risk capacity has fallen beyond the levels predicted. For 2007 as a whole, UBS recorded a net loss, showing that the risk inherent in some positions had resulted in total risk exposure greater than UBS's risk capacity.

The pattern of UBS's losses was unexpected – a limited area experiencing extreme writedowns while other areas maintained strong or even record performance. In these circumstances, there was less flexibility to adjust performance-related compensation than had previously been assumed. This, and the actual losses experienced, reduced measured risk capacity.

On the other hand, risk exposure increased. Major market and credit risk limits for parts of the Investment Bank not connected to US residential mortgage markets were adjusted in recognition of the reduced risk capacity but the reduction was more than offset by other factors: the standard market risk measures reported higher exposure as volatility increased, and because it had become apparent that some of these measures did not fully capture certain market risks, a much larger exposure estimate was used for these positions.

Measured risk exposure is neither an expected case nor a worst case and it can be significantly affected by many external factors. Based on UBS's assessment of the various dimensions of its portfolio of risks, and their potential evolution – particularly in light of its US residential mortgage-related exposures – management will continue to reduce the firm's risk exposure to achieve an appropriate level relative to its risk capacity, but liquidity has been and remains quite poor in the markets for positions on which UBS has suffered major losses.

As with any model, Earnings-at-risk is heavily dependent on the many assumptions (including the chosen confidence level) and estimates that are necessarily entailed in determining the inputs and generating the output, not least because risk exposure includes a combination of statistical and more judgmental elements. Measured risk exposure must be understood in this context. Risk capacity and risk exposure are, furthermore, dynamic measures, affected significantly by the external environment which will impact, for example, correlations between risk categories, the liquidity of UBS's positions, the potential to reduce or hedge them at reasonable prices, and UBS's funding costs. In the current difficult market conditions, there is a high degree of uncertainty in the statistical estimation of risk exposure and a material element is now contributed by supplementary measures. Observable data has been supplemented by judgmental elements for residential and commercial real estate, corporate and consumer credit and US municipal and student loan markets, and for potential defaults by monoline insurers. These estimates are subjective, not derived from statistical models but determined through extensive consultation between risk control professionals.

*Capital-at-risk* builds off the Earnings-at-risk concept but assesses the potential for losses to exceed earnings capacity and erode capital. For Capital-at-risk, the analysis of risk exposure is essentially the same as for Earnings-at-risk but measured at two higher confidence levels – the first in relation to UBS's minimum regulatory capital requirement, and the second in terms of solvency.

The Capital-at-risk measure of aggregate risk exposure is an important consideration in the assessment of capital adequacy.

➔ **Further details are available in the "Capital management" section of this report**

Like Earnings-at-risk, Capital-at-risk relies on the day-to-day risk control measures and will potentially underestimate aggregate exposure if these measures do not fully capture the risks. As the underlying systems are enhanced – a process which is already in hand – the measures of aggregate risk exposure will also improve, and in the meantime supplementary estimates will continue to be incorporated. Furthermore, as a result of the events of 2007, UBS has gained a better understanding of the dynamics of the risk capacity and exposure measures and of the interplay between different measures of capacity – in particular the relationship between risk management, treasury management and capital management measures.

### Qualitative controls

Although measurement of risk is clearly important, quantification does not always tell the whole story, and not all risks are quantifiable. Due diligence, sound judgment, common sense and an appreciation of a wide range of potential outcomes – including a willingness to challenge assumptions – are key components of a strong risk culture for both risk management and risk control. UBS's risk measures did not adequately identify risks in the US residential mortgage markets in 2007, and qualitative assessments equally did not fully appreciate the range of potential outcomes and the deep tail risk in the portfolio. UBS will learn from this experience and will strive to strengthen its risk culture accordingly.

# Risk concentrations

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## Risk concentrations

A concentration of risk exists where positions in financial instruments are affected by changes in the same risk factor or group of correlated factors, and the exposure could, in the event of extreme but plausible adverse developments, result in significant losses. The identification of risk concentrations necessarily entails judgment about potential future developments, which cannot be predicted with certainty. In determining whether a concentration of risk exists, risk controllers consider a number of elements, both individually and in combination. They include the shared characteristics of the instruments; the size of the position; the sensitivity of the position to changes in risk factors and the volatility of those factors; the liquidity of the markets in which the instruments are traded and the availability and effectiveness of hedges or other potential risk mitigants; and the risk reward profile of the positions. If a risk concentration is identified, it is assessed to determine whether it should be reduced or the risk should be mitigated, and the available means to do so. Identified concentrations are subject to increased monitoring.

Based on its assessment of the portfolios and asset classes where there is the potential for material loss in a stress scenario relevant to today's environment, UBS believes that the exposures shown below can be considered risk concentrations according to this definition.

There is clearly a possibility that losses could arise on asset classes and positions other than those disclosed, if the correlations that emerge in a stressed environment differ markedly from those envisaged by UBS. The firm has, for example, exposures to other US asset-backed securities (ABS), non-US (both Swiss and non-Swiss) residential and commercial real estate and mortgages, non-US ABS, non-US reference linked note (RLN) programs, corporate collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) globally, and non-US structured credit programs. It is exposed to credit spread and default risk on its fixed income trading inventory, to idiosyncratic risk on both equities and fixed income inventory, and to emerging markets country risk in many of its trading activities. It has derivatives transactions and a significant prime services business through which it is exposed to the hedge fund industry. If UBS decided to support a Global Asset Management fund or another investment sponsored by UBS it might, depending on the facts and circumstances, present risks that could increase to material levels. UBS does not currently foresee the likelihood of material losses on such positions but the possibility cannot be ruled out.

➔ **The amount and composition of UBS's Swiss real estate exposure, which arises from domestic lending by Global Wealth Management & Business Banking, is discussed in the "Credit risk" section of this report**

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## Exposure to US mortgage markets

The area of UBS most severely affected by the progressive market dislocation during 2007 is the fixed income, currencies and commodities (FICC) business of the Investment Bank, which has positions in securities related to the US residential mortgage market in a number of portfolios. The deterioration of this sector was more sudden and severe than any such event in recent market history. As a result, the securitized credit markets became illiquid and UBS's positions, including securities with high credit ratings, lost substantial value. These difficulties persisted throughout third quarter 2007, with further deterioration in fourth quarter 2007 as increasing homeowner delinquencies fuelled market expectations of future writedowns. During fourth quarter, monoline insurers were adversely affected by their exposure to US residential mortgage-linked products.

➔ **The major losses incurred in 2007 on the positions disclosed below are detailed in Note 3 in *Financial Statements 2007***

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In the tables below, the size of the positions held is expressed as "net exposure". Net exposures for each instrument class are the sum of the long and short positions where hedge effectiveness is considered to be high. UBS's net exposures will increase

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### US sub-prime residential mortgage exposure

| *USD billion* | Net exposures as of 31.12.07 |
|---|---|
| **Total[1]** | **27.6** |
| Of which | |
| residential mortgage-backed securities (RMBS) | 14.2 |
| super senior RMBS collateralized debt obligations (CDOs)[2] | 13.3 |
| warehouse and retained RMBS CDOs | 0.1 |

1 The equivalent position at 31 December 2006 was approximately USD 42.5 billion. At this date, positions were not analyzed in the form presented for 31 December 2007. The figure for 31 December 2006 has therefore been estimated based on securities position records, in order to supply the disclosure required by accounting standards. 2 Hedges provided by a single monoline insurer rated non-investment grade on 31 December 2007 were considered to be ineffective. Hedge ineffectiveness is treated as an addition to net exposure and no value is ascribed to the hedge.

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### US Alt-A residential mortgage exposures

| *USD billion* | Net exposures as of 31.12.07 |
|---|---|
| **Total**[1] | **26.6** |
| Of which | |
| AAA-rated RMBS backed by first lien mortgages | **21.2** |
| other | **5.4** |

1 There is no industry standard definition of Alt-A. For 31 December 2007 the classification is based solely on FICO scores, which are a commonly used basis of categorization. The equivalent position at 31 December 2006 was approximately USD 37.6 billion. At this date, positions were not analyzed in the form presented for 31 December 2007. The figure for 31 December 2006 has therefore been estimated based on securities position records, in order to supply the disclosure required by accounting standards.

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### US commercial real estate exposures

| *USD billion* | Net exposures as of 31.12.07 |
|---|---|
| Trading assets[1] | **3.6** |
| Real estate loans[2] | **4.1** |

1 Equivalent position at 31 December 2006 USD 6.5 billion. 2 Equivalent position at 31 December 2006 USD 3.7 billion.

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### US reference-linked notes program exposure

| | 31.12.07[1] | | |
|---|---|---|---|
| *USD billion* | Assets held | Credit protection remaining | Net exposures |
| Market value | 13.2 | 2.0 | 11.2 |
| Of which | | | |
| sub-prime and Alt-A | 4.4 | 0.6 | 3.8 |
| commercial mortgage-backed securities (CMBS) | 3.6 | 0.6 | 3.0 |
| other | 5.2 | 0.8 | 4.4 |

1 Equivalent positions at 31 December 2006 were: assets held USD 20.8 billion, of which sub-prime and Alt-A USD 9.9 billion, commercial mortgage-backed securities (CMBS) USD 3.7 billion; net exposure USD 17.2 billion, of which sub-prime and Alt-A USD 7.9 billion, CMBS USD 3.1 billion.

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if hedges are considered to have become ineffective. From a risk management perspective, it is necessary to look beyond net exposure and consider important factors such as different vintages, delinquency rates, credit ratings and underlying mortgage pools, as well as differences in attachment points, timing of cash flows, control rights, other basis risks and counterparty risk.

#### Positions related to US residential sub-prime mortgages

On 31 December 2007, approximately one-quarter of residential mortgage backed securities (RMBS) referred to mortgage loans of 2005 or earlier vintages, while three-quarters referred to mortgage loans with 2006 and 2007 vintages. On 31 December 2007, the overwhelming majority of these securities were rated AAA and had an expected weighted average life of around three years.

At the same date, around one-third of UBS's positions in super senior RMBS CDOs referred to mortgage loans of vintage 2005 or earlier. The other two-thirds referred to mortgage loans with 2006 and 2007 vintages. These securities have a range of subordination levels, maturities and rights in the event of default.

#### Positions related to US residential Alt-A mortgages

UBS's Alt-A position can be divided into two categories. The first consists of AAA-rated RMBSs, backed by first lien mortgages, which amounted to USD 21.2 billion at 31 December 2007. The second category consists of other RMBSs, either non-AAA or RMBSs backed by second lien mortgages, and a small CDO exposure. These positions amounted to USD 5.4 billion at year-end 2007.

#### Positions related to US commercial real estate

UBS has exposure to US commercial real estate from two sources. The first is its trading inventory, which includes commercial mortgage-backed securities (CMBS) and loans held for securitization, amounting to USD 3.6 billion net exposure on 31 December 2007. Approximately 90% of the CMBS and loans are rated AA or better. These positions are exposed to credit spread movements and this risk is actively managed.

The second category consists of direct loans and investments totaling USD 4.1 billion on 31 December 2007, of which USD 400 million are classified as equity investments. These assets are diversified by sector and geography.

#### Positions related to the US reference-linked note program

The structure of UBS's reference-linked note (RLN) program is explained in the sidebar opposite.

UBS has created ten US RLNs to date. The maximum permitted face values of the underlying asset pools total USD 16.9 billion face value, and UBS holds total credit protection of USD 3.8 billion (on average about 23%).

**Exposure[1] to monoline insurers, by rating**

| USD billion<br>Credit protection bought from monoline insurers rated[2] | 31.12.07<br>Notional amount[3]<br>Column 1 | Fair value of underlying CDOs[4]<br>Column 2 | Fair value of CDSs[5] prior to credit valuation adjustment<br>Column 3 (=1–2) | Credit valuation adjustment in 2007<br>Column 4 | Fair value of CDSs after credit valuation adjustment<br>Column 5 (=3–4) |
|---|---|---|---|---|---|
| **A or higher** | | | | | |
| on US sub-prime residential mortgage-backed securities (RMBS) CDOs high grade | 7.1 | 4.7 | 2.4 | 0.2 | 2.2 |
| on US sub-prime RMBS CDOs mezzanine | 1.1 | 0.6 | 0.5 | 0.0 | 0.5 |
| on other US RMBS CDO | 1.0 | 0.8 | 0.2 | 0.0 | 0.2 |
| **Total** | **9.2** | **6.1** | **3.1** | **0.2** | **2.9** |
| **Non-investment grade or unrated** | | | | | |
| on US sub-prime RMBS CDOs high grade | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| on US sub-prime RMBS CDOs mezzanine | 1.6 | 1.1[6] | 0.5 | 0.4 | 0.1 |
| on other US RMBS CDO | 0.8 | 0.6[6] | 0.2 | 0.2 | 0.0 |
| **Total** | **2.4** | **1.7[6]** | **0.7** | **0.6** | **0.1** |
| **Credit protection on US RMBS CDO** | **11.6[7]** | **7.8** | **3.8** | **0.8** | **3.0[7]** |
| **Credit protection on other than US RMBS CDOs** | **12.6[7]** | **11.9** | **0.7** | **0.1** | **0.6[7]** |

1 Excludes the benefit of credit protection purchased from unrelated third parties. 2 Categorization based on the lowest insurance financial strength rating assigned by external rating agencies. 3 Represents gross notional amount of credit default swaps (CDSs) purchased as credit protection. 4 Collateralized debt obligations (CDOs). 5 Credit default swaps (CDSs). 6 Remaining credit protection from non-investment grade monoline of USD 1.2 billion on sub-prime residential mortgage-backed securities (RMBS) CDOs and USD 0.6 billion on other RMBS CDOs is considered ineffective. 7 As of 31 December 2006, the notional amount of CDSs on US RMBS CDOs bought from monoline insurers was USD 6.7 billion and on other exposures USD 7.8 billion. The fair values of these CDSs were zero at that date.

On 31 December 2007, the total fair value of assets held by UBS in connection with the US RLN program was USD 13.2 billion.

The original credit protection of USD 3.8 billion is still intact. Cumulative fair value gains of USD 1.8 billion have been recognized on this credit protection in the income statement up to 31 December 2007 and the fair value of the remaining credit protection at 31 December 2007 was USD 2 billion.

**Exposure to monoline insurers**

The vast majority of UBS's direct exposure to the monoline sector arises from over-the-counter (OTC) derivative contracts – mainly credit default swaps (CDSs). Across all asset classes, the total fair value of CDS protection purchased from monoline insurers on 31 December 2007 was USD 3.6 billion, after credit valuation adjustments of USD 957 million (CHF 1,091 million) in 2007, all of which were taken in

## Reference-linked note program

Reference-linked notes (RLN) are credit-linked notes issued by UBS referenced to an underlying pool of assets which are consolidated on UBS's balance sheet. The assets consist of a variety of fixed income positions, including corporate bonds, collateralized loan obligations, residential mortgage-backed securities (RMBSs), commercial mortgage-backed securities, collateralized debt obligations (CDOs) and other asset-backed securities. The proceeds of the notes provide UBS with credit protection against defined default events in the underlying asset pool up to a certain percentage. The notes have a maturity that is generally longer than the life of the instruments included in the underlying pool.

Through the lifetime of each RLN, UBS will realize losses if defaults in the underlying asset pool exceed the percentage protection, or if assets which do not ultimately default are sold at a loss.

Up to maturity, UBS is subject to revenue volatility as the RLN program is classified as held for trading under International Financial Reporting Standards (IFRS) and is therefore carried at fair value. Since the inception of the US RLN program, the credit protection has been valued using approaches that UBS considers to be consistent with market standard approaches for tranched credit protection. UBS seeks to actively manage its risk exposures in connection with the US RLN program via derivative and cash market positions. This can also contribute to revenue volatility.

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**Leveraged finance commitments**

| USD billion | As of 31.12.07[1] |
|---|---|
| **Total** | **11.4** |
| **Of which old deals** | **5.6** |
| funded | 3.2 |
| **Of which new deals** | **5.8** |
| funded | 4.2 |

1 The total equivalent position at 31 December 2006 was total USD 12.3 billion, of which the funded component was USD 0.9 billion.

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fourth quarter. Of these totals, USD 2.9 billion represents CDSs bought as protection for portfolios of US RMBS CDO, after credit valuation adjustments of USD 871 million (CHF 993 million) in fourth quarter.

Direct exposure to monoline insurers is calculated as the sum of the fair values of individual CDSs. This, in turn, depends on the valuation of the instruments against which protection has been bought. A positive fair value, or a valuation gain, on the CDS is recognized if the fair value of the instrument it is intended to hedge is reduced.

The table on the previous page shows the CDS protection bought from monoline insurers. It illustrates the notional amounts of the protection originally bought, the fair value of the underlying CDOs and the fair value of the CDSs both prior to and after credit valuation adjustments taken for these contracts in 2007.

In fourth quarter 2007, UBS took credit valuation adjustments of USD 588 million (CHF 670 million) on CDSs on US RMBS CDOs purchased from a monoline insurer whose credit rating was downgraded to "non-investment grade". These valuation adjustments reflect the degree to which UBS considers its claims against this monoline counterparty to be impaired. For risk management purposes, the underlying US RMBS CDOs are treated as unhedged on 31 December 2007 and are included in the super senior RMBS CDO exposure in the table on page 11.

In its trading portfolio, UBS also has indirect exposure to monoline insurers through "monoline wrapped" securities issued by US states and municipalities, student loan programs and other asset-backed securities totaling approximately USD 11 billion on 31 December 2007 (approximately USD 8 billion on 31 December 2006).

### Exposure to auction rate certificates

Auction rate certificates (ARCs) are long-term securities structured to allow frequent resetting of their coupon and, at the same time, the possibility for holders to redeem their investment, giving ARCs some of the characteristics of a short-term instrument. They are typically issued by US states, student loan programs, municipalities and related agencies and authorities, and may be wrapped by monoline insurers. An auction takes place at the beginning of each interest reset period to determine the coupon for that period.

UBS sponsors ARCs programs and although it is not obligated to do so, it has, from time to time, provided liquidity to the auction process by buying securities when there were not enough bids from investors. As a result of the continued deterioration of credit markets and concerns about the financial status of monoline insurers, the demand for ARC securities has been falling since fourth quarter 2007. In first quarter 2008 a number of auctions failed and the market has become illiquid, leading to valuation uncertainties.

On 31 December 2007, UBS had ARC positions in its trading inventory totaling USD 5.9 billion, of which USD 4.5 billion related to student loans. USD 1.9 billion of the student loans and USD 1.4 billion of the other ARCs are "monoline wrapped" and are included in the indirect exposures to monolines of USD 11 billion detailed above. There were no material writedowns on ARCs securities up to the end of 2007.

On 31 December 2006, UBS had ARC positions totaling USD 1.0 billion, of which USD 0.3 billion related to student loans. USD 0.1 billion of the student loans and USD 0.7 billion of the other ARCs were monoline wrapped.

### Exposure to 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, 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.

# Credit risk

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Credit risk is the risk of financial loss resulting from failure by a client or counterparty to meet its contractual obligations to UBS. This can be caused by factors directly related to the counterparty, such as business or management problems, or from failures in the settlement process, for example on foreign exchange transactions, where UBS has honored its obligation but the counterparty fails to deliver the counter-value (settlement risk). Alternatively, it can be triggered by economic or political difficulties in the country in which the counterparty is based or where it has substantial assets (country risk).

**Sources of credit risk**

Credit risk is inherent in traditional banking products – loans, commitments to lend and contingent liabilities, such as letters of credit – and in "traded products" – derivative contracts such as forwards, swaps and options, repurchase agreements (repos and reverse repos), and securities borrowing and lending transactions. The risk control processes applied to these products are fundamentally the same, although the accounting treatment varies – they can be carried at amortized cost or fair value, depending on the type of instrument and, in some cases, the nature of the exposure.

Many of the business activities of Global Wealth Management & Business Banking and the Investment Bank create credit risk. Global Wealth Management & Business Banking offers private and corporate customers in Switzerland and wealth management clients internationally a variety of credit products, although the majority of credit risks are well secured against financial collateral or other assets. The Investment Bank gives corporate, institutional, intermediary and alternative asset management clients access to the full range of credit and capital markets instruments across all product classes, and engages with other professional counterparties in its trading and risk management activities.

**Credit risk control organization and governance**

Effective credit risk control is critical to UBS's safety and soundness. The credit risk control framework is based on the risk management and control principles, supported by credit policies. It has both qualitative and quantitative elements. UBS has established processes to ensure that risks are identified, assessed, pre-approved where necessary, and continuously monitored and reported. Measures and limits are applied to the credit risk of individual counterparties and counterparty groups, and the quality and diversification of portfolios and sub-portfolios are assessed, a key objective being to control risk concentrations.

The Group Chief Credit Officer (Group CCO), who reports to the Group Chief Risk Officer (Group CRO), is responsible for implementing and maintaining this framework, supported by independent credit risk control units in the business groups who report to the Group CCO functionally and who continuously monitor and control credit risk. Their responsibilities include assessing the creditworthiness of individual counterparties and the adequacy and effectiveness of any security or credit hedges, and evaluating credit risk in portfolios, subportfolios and other aggregations, including country risk.

The Chairman's Office delegates authority to the Group Executive Board (GEB) and approves delegations by the GEB ad personam to the Group CCO and the business group CCOs. Further delegations are made to credit officers in the business groups. The level of credit authority delegated to holders depends on their seniority and experience and varies according to the quality of the counterparty and any associated security. These authorities encompass all aspects of the approval of credit risk, including settlement risk, and the determination of allowances, provisions and credit valuation adjustments for any impaired claims.

**Credit risk control**

Limits and controls

The primary objective of quantitative controls is to avoid, as far as possible, undue credit risk concentrations. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographical region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. UBS has established limits to constrain exposure to individual counterparties and counterparty groups and at portfolio and sub-portfolio levels, wherever risk concentrations are identified, including exposure to specific industries and countries, where appropriate.

At the level of the individual counterparty and counterparty group, credit officers establish limits for all types of banking and traded products exposure, which cover not only the current outstanding amount and replacement values of contractual obligations but also contingent commitments and the potential future development of exposure on traded products. Credit engagements may not be entered into without the appropriate approvals and limits.

Limits are applied in a variety of forms to portfolios or sectors, where necessary, to restrict risk concentrations or areas of higher risk, or to control the rate of portfolio growth. In particular for higher risk engagements, such as the Investment

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Bank's leveraged lending portfolio, the impact of variations in default rates and asset values is assessed using stress scenarios, taking into account risk concentrations. Stress loss limits are applied to portfolios where considered necessary, including limits on exposures to all but the best-rated countries.

In establishing these controls, including the related authorities and approval processes, a distinction is made between those exposures which are to be held to maturity ("take and hold" exposures) and those which will be held only in the short term, pending distribution or risk transfer ("temporary exposures"). An example of temporary exposure is syndicated lending where the bulk of the original commitment will be distributed to other financial institutions or investors. For all exposures, the credit quality and cash flow generation capacity of the counterparty over the full term of the obligation are at the heart of the credit assessment. For temporary exposures, market liquidity and UBS's distribution capabilities are also key considerations in the approval process.

Risk mitigation

UBS employs risk mitigation techniques for most of its credit portfolios, typically by taking security in the form of financial collateral (cash or marketable securities) or other assets, or through risk transfers or the purchase of credit protection.

Taking security is the most common form of risk mitigation. Valuation standards are applied in assessing the mitigating effect of security. In lending to affluent private clients (lombard lending) the pledge of securities or cash is required. The Investment Bank also takes financial collateral in the form of marketable securities in much of its over-the-counter (OTC) derivatives activity and in its securities financing (securities lending/borrowing and repurchase/reverse repurchase) business. Where financial collateral is taken, discounts ("haircuts") are generally applied to the market value, reflecting the quality, liquidity, volatility – and in some cases complexity – of the individual instruments. Exposures and collateral positions are continuously monitored, and margin calls and close-out procedures are enforced when the market value of collateral falls below predefined levels relative to the exposure. Collateral concentrations within individual client portfolios and across clients are also monitored where relevant and may affect the discount applied to specific collateral. For property financing, a mortgage over the relevant property is taken to secure the claim, considering the ability of the borrower to service the debt from income, and in accordance with UBS's policy on loan to value ratios.

OTC derivatives business is conducted almost without exception under bilateral master agreements, which generally allow for the close out and netting of all transactions in the event of default by the other party. UBS has also entered into two-way collateral agreements with market participants, under which either party can be required to provide collateral in the form of cash or marketable securities when exposure exceeds a pre-defined level. The OTC derivatives business with lower-rated counterparties is generally conducted under one-way collateral agreements where the counterparty provides collateral to UBS. Under these agreements, only cash or very liquid collateral is accepted. UBS has standards for netting and collateral agreements, including assurance that contracts are legally enforceable in insolvency in the relevant jurisdictions.

UBS has also made use of credit hedging, in the form of risk transfers, securitizations and purchase of credit protection, as part of its active management of credit risk to reduce concentrated exposures to individual names or sectors or in specific portfolios. Most of this credit hedging is achieved by transferring underlying credit risk to high-grade market counterparties using single name credit default swaps, executed under bilateral netting agreements and generally also under collateral agreements. Credit-pooling vehicles are also used to transfer risk to outside investors via credit-linked notes. In the internal risk reporting processes, the gross exposure before hedging as well as net exposure is tracked. The benefit of credit hedges is only recognized in credit risk measures if they cover future exposure increases to a high level of confidence, and offer protection against a wide range of credit events, including failure to pay, bankruptcy and insolvency, restructuring and repudiation, and moratorium. Proxy hedges (credit protection on a different but correlated name) and index or macro hedges are not recognized.

The effectiveness of credit protection bought from a counterparty depends on the ability of the counterparty to meet any claim. Exposure to credit protection providers is monitored as part of overall credit exposure. Where there is significant correlation between the counterparty and the hedge provider (so-called "wrong-way risk") UBS's policy is not to recognize any benefit in credit risk measures.

Reporting

An essential element of the credit risk control process is transparent and objective risk reporting.

The credit risk control units in the business groups are responsible for risk reporting to business group management covering both exposure to individual counterparties from all products and activities, and portfolio risks. They also supply information to a central unit under the Group CCO, which provides consolidated reports of counterparty and portfolio risk and country risk to senior management, the GEB, the Chairman's Office, the Board of Directors (BoD) and regulators where applicable.

**Credit risk measurement**

Credit risk measurement is an essential component of the credit risk control framework. The measurement of credit exposure from a loan which is fully drawn is straightforward. By contrast, the estimation of credit exposure on a traded product, the value of which varies with changes in market variables, interim cash flows and the passage of time, is more complex and requires the use of models. The assessment of portfolio risk also entails estimations of the likelihood of defaults occurring, of the associated loss ratios if they do, and of default correlations between counterparties.

UBS has developed tools to support the quantification of credit risk of individual counterparties, applying the three generally accepted parameters: probability of default, loss given default and exposure at default. Models are also used to derive portfolio risk measures – expected loss, statistical loss and stress loss.

Models are generally developed by dedicated units within the business groups. In line with UBS's internal governance standards and the requirements of the new regulatory capital framework (Basel II), the development and maintenance of models conforms to global standards, and the models and their components are subject to independent verification by a specialist team in Corporate Center before implementation. The model owners in the business groups are responsible for monitoring performance once the models are deployed. Models must comply with established measurement standards to ensure consistency and allow meaningful aggregation of credit risk across all businesses.

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### Credit risk parameters

Three parameters are used to measure and control individual counterparty credit risk:

- the *"probability of default",* which is an estimate of the likelihood of the client or counterparty defaulting on its contractual obligations. This probability is assessed using rating tools tailored to the various categories of counterparties. They are also calibrated to the UBS 15-class Masterscale, in order to ensure consistency in the quantification of default probabilities across all counterparties. Besides their use for credit risk measurement, ratings are an important element in setting credit risk authorities;
- the likely recovery ratio on the defaulted claims, which is a function of the type of counterparty and any credit mitigation or support (such as security or guarantee), from which the *"loss given default"* is determined;
- the current exposure to the counterparty and its possible future development, from which potential *"exposure at default"* is derived. For traded products such as OTC derivatives, the exposure at default is not a definitive number – it must be derived by modeling the range of possible outcomes. In measuring individual counterparty exposure against credit limits, UBS considers the "maximum likely exposure" measured to a high confidence level over the full life of all outstanding obligations, whereas in aggregating exposures to different counterparties for portfolio risk measurement, the expected exposure to each counterparty at a given time horizon (usually one year) generated by the same model is used.

These parameters are the basis for most internal measures of credit risk. They are also key inputs to the regulatory capital calculation under the Advanced Internal Rating Based approach of the new Basel Capital Accord (Basel II), which UBS has adopted from 1 January 2008, when the Accord came into force.

➔ **For a more detailed description of the three credit risk parameters discussed above, please refer to "Rating system design and estimation of credit risk parameters" on pages 29–30 of this report**

### Expected loss

Credit losses must be expected as an inherent cost of doing business. But the occurrence of credit losses is erratic in both timing and amount, and those that arise usually relate to transactions entered into in previous accounting periods. In order to reflect the fact that future credit losses are implicit in today's portfolio, UBS uses the concept of "expected loss".

Expected credit loss is a statistically based concept which is used to estimate the annual costs that are expected to arise, on average, from positions in the current portfolio that become impaired. The expected loss for a given credit facility is a function of the three components described above – probability of default, loss given default and exposure at default. The expected loss figures for individual counterparties are aggregated to derive the expected credit loss for the whole portfolio.

Expected loss is the foundation of credit risk quantification in all portfolios. It is an input to the valuation or pricing of some products, and the determinant of credit risk costs charged to the business in the management accounts, which differs from the credit loss expense reported under International Financial Reporting Standards (IFRS). Expected loss is also the starting point for the measurement of portfolio statistical loss and stress loss.

➔ **For more information on credit loss expenses, please refer to pages 28–29 of this report and Note 2a in *Financial Statements 2007***

### Statistical loss

UBS uses a statistical model – Credit Value at Risk ("Credit VaR") – to estimate the largest potential loss on the portfolio over one year measured to a specified level of confidence. The shape of the modeled loss distribution is driven by systematic default relationships amongst counterparties within and between segments. The results of this analysis provide an indication of the level of risk in the portfolio, and the way it develops over time. It is also an important input to the overall risk measures Earnings-at-risk and Capital-at-risk.

➔ **"Earnings-at-risk" and "Capital-at-risk" are described in the "Risk management and control" section of this report**

### Stress loss

Stress loss is a scenario-based measure which complements the statistical model. It is used to assess potential loss in various extreme but plausible scenarios in which it is assumed that one or more of the three key credit risk parameters deteriorates substantially according to a pattern that is typical for the chosen scenario. Stress tests are run regularly, and on an ad hoc basis as necessary, in order to identify adverse portfolio situations, particularly risk concentrations. All scenario results are monitored, and for certain portfolios and segments, stress loss is subject to limits.

Audited

### Composition of credit risk (Group)

The measures of credit risk differ, depending on the purpose for which exposures are aggregated – financial accounting under IFRS, determination of regulatory capital, or UBS's own internal management view, i.e. the way credit portfolio risk is managed. The table below starts with the IFRS view ("maximum exposure to credit risk"), and shows the adjustments made to reach the internal view ("gross credit exposure"). The gross credit exposure shown in the table is broadly aligned with the regulatory capital view, but does not include the potential future exposure that can arise on traded products which is an additional component of both the internal and regulatory capital views, as explained below.

In general, none of the exposures in the table reflects the benefit of security held or other risk mitigation employed, such as hedging and risk transfers. The main differences between the internal and IFRS views of gross credit exposure are:

- within banking products, cash collateral posted by UBS against negative replacement values on derivatives and other positions is not considered to be credit exposure but, rather, is reflected in the assessment of counterparty risk on the underlying positions. On the other hand, in its internal risk control view UBS considers certain financing which is conducted, for legal reasons, under repurchase-/reverse repurchase-like agreements, and shown as such under IFRS, to be loans;
- the derivatives exposure shown under IFRS is the sum of all positive replacement values, offset by negative replacement values with the same counterparty only if the cash flows are intended to be settled on a net basis. Internally, UBS nets positive and negative replacement values with the same counterparty where the business is conducted under a bilateral master agreement which allows for close-out and netting of all transactions in the event of default by either party, and such agreements are judged to be legally enforceable in insolvency; and
- under IFRS, securities lending/borrowing and repurchase/reverse repurchase transactions are shown on the balance sheet as UBS's full claim on the counterparty without recognizing the counterclaim which the counterparty has for return of cash or securities on the same transactions. By contrast, for internal risk control purposes, the claims on and counterclaims from each counterparty are considered on each transaction on a net basis, and further netted across transactions where such netting is considered to be legally enforceable in insolvency.

Note that under US Generally Accepted Accounting Principles (GAAP) a greater degree of netting is permitted than under IFRS for OTC derivatives replacement values and for securities lending/borrowing and repurchase/reverse repurchase transactions. UBS's balance sheet figures for these types of transactions are not directly comparable to those of firms which report under US GAAP.

Audited

### Exposure to credit risk

| | 31.12.2007 | | | | | 31.12.2006 | |
|---|---|---|---|---|---|---|---|
| | IFRS[1] reported values[2] | Adjustments: balance sheet to regulatory capital view | | Valuation and other adjustments | | IFRS[1] reported values[2] | |
| CHF million | Maximum exposure to credit risk | Consolidation scope adjustment | Capital view adjustments | | Gross credit exposure[3] | Maximum exposure to credit risk | Gross credit exposure[3] |
| Cash and balances with central banks | 18,793 | (1) | 0 | (2,358) | 16,434 | 3,495 | 1,311 |
| Due from banks | 60,907 | (293) | (1,928) | (32,383) | 26,303 | 50,426 | 25,810 |
| Loans | 335,864 | (136) | (3,910) | (50,984) | 280,834 | 297,842 | 274,830 |
| Financial assets designated at fair value | 4,116 | 0 | 0 | 50 | 4,166 | 2,252 | 2,348 |
| Contingent claims | 20,824 | 0 | 0 | (384) | 20,440 | 17,908 | 17,654 |
| Undrawn irrevocable credit facilities | 83,980 | 51 | 846 | (3,906) | 80,971 | 97,287 | 83,428 |
| **Banking products** | 524,484 | (379) | (4,992) | (89,965) | 429,148 | 469,210 | 405,381 |
| Derivatives[4] | 428,217 | 3,171 | (39) | (292,371) | 138,978 | 292,975 | 110,732 |
| Securities lending/borrowing[5] | 207,063 | 0 | 0 | (184,060) | 23,003 | 351,590 | 37,851 |
| Repurchase/reverse repurchase agreements | 376,928 | 0 | 0 | (372,937) | 3,991 | 405,834 | 10,019 |
| **Traded products** | 1,012,208 | 3,171 | (39) | (849,368) | 165,972 | 1,050,399 | 158,602 |
| **Total at the end of the year** | 1,536,692 | 2,792 | (5,031) | (939,333) | 595,120 | 1,519,609 | 563,983 |
| Less: contra assets allowances, provisions and credit valuation adjustments | | | | | (1,978) | | (1,477) |
| **Net of impairment losses recognized** | | | | | 593,142 | | 562,506 |

1 International Financial Reporting Standards (IFRS). 2 These amounts are considered the best representation of "maximum exposure to credit risk" as defined by IFRS, measured gross, without taking into account collateral held or other credit enhancements and only netting in accordance with IFRS. 3 Gross credit exposure is an internal view of credit risk. 4 Positive replacement values, netted in accordance with IFRS or internal view as applicable. 5 Cash collateral on securities borrowed.

As explained in the Credit risk measurement section, UBS also measures, and generally applies limits to, credit exposure to individual counterparties and counterparty groups and measures risk across counterparties at various portfolio and sub-portfolio levels. In these calculations UBS also considers the potential development of replacement values of traded products over time as market risk factors change, interim payments are made and transactions mature, all of which can significantly alter the risk exposure profile over time. These potential developments are not reflected in the tables opposite and below, which reflect only the current exposures.

The credit risk exposure reported in the table opposite also excludes UBS's participation in the deposit insurance guarantee scheme under Swiss Banking Law, according to which Swiss banks and securities dealers are required to jointly guarantee an amount of up to CHF 4 billion for privileged client deposits in the event that another Swiss bank or securities dealer becomes insolvent. For the period 1 July 2007 to 30 June 2008, the Swiss Federal Banking Commission (SFBC) has established UBS's share in the deposit insurance as CHF 846 million.

Total gross credit exposure amounted to CHF 595.1 billion on 31 December 2007, an increase of CHF 31.1 billion since the end of the previous year. Almost half of this increase was due to higher balances with central banks, reflecting UBS's higher liquidity reserves towards year-end. The growth in loan exposure was entirely due to increased collateralized lending activity in Global Wealth Management & Business Banking. The Investment Bank actively reduced credit risk, where possible, in light of its exposure to US residential mortgage-related products and in conjunction with its management of balance sheet and risk-weighted asset usage.

The quality of the gross unimpaired credit portfolio improved as the investment grade component (internal rating grades 0–5) increased to 79.0% from the previous year's level of 73.5%.

The table below shows the gross credit exposure (i.e. without recognition of credit hedges, collateral or other risk mitigation) by business group.

The largest contributor to gross credit exposure at CHF 311 billion is the lending portfolio (Due from banks CHF 26 billion, Loans CHF 281 billion, and Financial assets designated

### Gross credit exposure by UBS internal ratings

| *CHF million* | Banking products | | Traded products | | Total exposure | |
|---|---|---|---|---|---|---|
| UBS internal rating | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 |
| 0–1 | **30,540** | 5,265 | **42,852** | 34,148 | **73,392** | 39,413 |
| 2–3 | **164,476** | 135,149 | **98,454** | 95,449 | **262,930** | 230,598 |
| 4–5 | **113,955** | 119,926 | **15,210** | 19,973 | **129,165** | 139,899 |
| 6–8 | **76,601** | 94,278 | **7,566** | 8,084 | **84,167** | 102,362 |
| 9–12 | **38,875** | 44,711 | **915** | 760 | **39,790** | 45,471 |
| Total 0–12 (net of past due) | **424,447** | 399,329 | **164,997** | 158,414 | **589,444** | 557,743 |
| Impaired assets | **2,433** | 2,682 | **975** | 188 | **3,408** | 2,870 |
| Past due but not impaired | **2,268** | 3,370 | | | **2,268** | 3,370 |
| Total | **429,148** | 405,381 | **165,972** | 158,602 | **595,120** | 563,983 |

### Gross credit exposure by business groups

| | Global Wealth Management & Business Banking | | Investment Bank | | Other[1] | | UBS[1] | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 |
| Cash and balances with central banks | **9,992** | 900 | **6,441** | 410 | **1** | 1 | **16,434** | 1,311 |
| Due from banks | **8,236** | 6,245 | **17,532** | 18,966 | **535** | 599 | **26,303** | 25,810 |
| Loans | **240,643** | 222,775 | **39,725** | 51,951 | **466** | 104 | **280,834** | 274,830 |
| Financial assets designated at fair value | **0** | 0 | **4,166** | 2,348 | **0** | 0 | **4,166** | 2,348 |
| Contingent claims | **15,929** | 13,138 | **4,500** | 4,516 | **11** | 0 | **20,440** | 17,654 |
| Undrawn irrevocable credit facilities | **2,081** | 2,064 | **78,890** | 81,364 | **0** | 0 | **80,971** | 83,428 |
| **Banking products** | **276,881** | 245,122 | **151,254** | 159,555 | **1,013** | 704 | **429,148** | 405,381 |
| Derivatives | **2,735** | 1,273 | **136,149** | 109,437 | **94** | 22 | **138,978** | 110,732 |
| Securities lending / borrowing | **63** | 307 | **22,940** | 37,544 | **0** | 0 | **23,003** | 37,851 |
| Repurchase / reverse repurchase agreements | **162** | 234 | **3,829** | 9,785 | **0** | 0 | **3,991** | 10,019 |
| **Traded products** | **2,960** | 1,814 | **162,918** | 156,766 | **94** | 22 | **165,972** | 158,602 |
| **Total credit exposure, gross** | **279,841** | 246,936 | **314,172** | 316,321 | **1,107** | 726 | **595,120** | 563,983 |
| **Net of impairment losses recognized** | **278,873** | 245,705 | **313,162** | 316,075 | **1,107** | 726 | **593,142** | 562,506 |

1 Includes Global Asset Management, Corporate Center and Industrial Holdings.

at fair value CHF 4 billion) which represents 52% of total gross credit exposure and 73% of total banking products exposure. Within this lending portfolio, CHF 249 billion (80%) is attributable to Global Wealth Management & Business Banking. Traded products exposure is incurred predominantly by the Investment Bank. The sections below provide further details of products, industry and rating distributions in the business group portfolios.

In the portfolio of loans to affluent private clients secured by securities (lombard lending) there are no material risk concentrations, either within the overall collateral pool or with respect to the counterparties themselves.

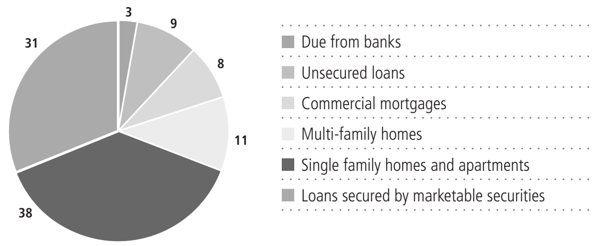
The property financing portfolio is diversified and limits per counterparty ensure that no single property exposure presents an undue concentration.

Exposure to providers of credit protection, usually in the form of credit derivatives, is controlled by the overall credit limit for the counterparty, which is typically a high-grade financial institution, or else the exposure is fully funded, for example through a synthetic securitization.

**Global Wealth Management & Business Banking: composition of lending portfolio, gross**

*in %*

As of 31.12.07




## Composition of credit risk (business groups)

### Global Wealth Management & Business Banking

Total gross banking products exposure of Global Wealth Management & Business Banking, which stood at CHF 277 billion on 31 December 2007, increased by CHF 32 billion or 13% from a year earlier. Both the amount and the proportion of the total portfolio classified as investment grade increased from the previous year. The distribution of the exposure across UBS's internal rating and loss given default (LGD) buckets as displayed in the table below shows that the majority of the exposure is from products attracting the lowest LGDs, demonstrating the continued improvement in the quality of this portfolio.

Global Wealth Management & Business Banking's gross lending portfolio (Due from banks and Loans) on 31 December 2007 amounted to CHF 249 billion, of which CHF 142 billion (57 %) was secured by real estate and CHF 78 billion (31%) by marketable securities. The pie chart above shows that exposure to real estate is well diversified with 38% of the gross lending portfolio being secured on single family homes and apartments which, historically, have exhibited a low risk profile. The 11% of exposure secured by residential multi-family homes consists of rented apartment buildings. Loans and other credit engagements with individual clients, excluding mortgages, amounted to CHF 99 billion and are predominantly extended against the pledge of marketable securities. The volume of collateralized lending to private individuals rose by CHF 15 billion or 24% from the previous year. The increasing demand for this product, as in 2006, reflects the continuing low interest rate environment.

The high quality of Global Wealth Management & Business Banking's lending portfolio is demonstrated by the table below, which shows newly impaired loans and related allowances and provisions in relation to the total gross lending portfolio at year-end for the last four years. Despite an increase in the total gross lending portfolio each year, the totals of new impairments and of new allowances and provisions have declined. Most of the newly impaired loans are secured by mortgages or other collateral so that new allowances are proportionately lower than the newly impaired positions.

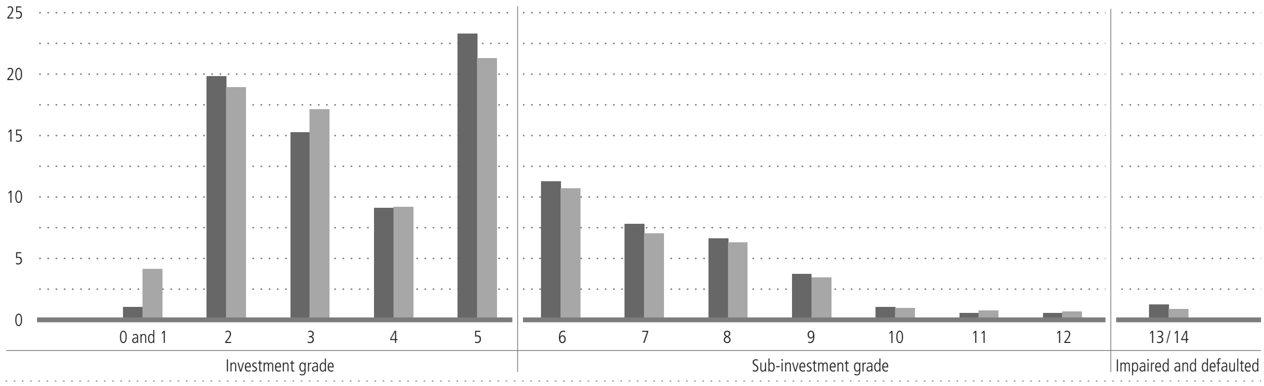
The Swiss lending portfolio (excluding mortgages) within the Business Banking area amounted to CHF 22 billion, representing 8% of Global Wealth Management & Business Banking's total gross banking products exposure. It is widely spread across industries, with the largest exposures being to banks and financial institutions, followed by public authorities.

**Global Wealth Management & Business Banking: development of impaired loans portfolio**

| *CHF million, except where indicated* | **2007** | 2006 | 2005 | 2004 |
|---|---|---|---|---|
| Total lending portfolio, gross, at year-end | **248,878** | 229,021 | 217,327 | 180,718 |
| New impaired loans | **323** | 345 | 532 | 537 |
| New allowances / provisions | **91** | 128 | 138 | 239 |
| New impairments as a % of total lending portfolio, gross | **0.13** | 0.15 | 0.24 | 0.30 |
| New allowances / provisions as a % of total lending portfolio, gross | **0.04** | 0.06 | 0.06 | 0.13 |

## Global Wealth Management & Business Banking: banking products, gross by UBS internal rating

*As a % of Global Wealth Management & Business Banking banking products, gross*



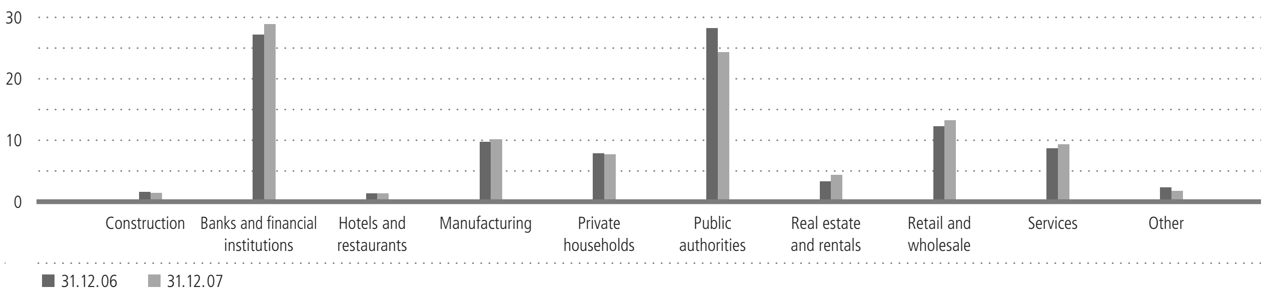

## Global Wealth Management & Business Banking: distribution of banking products exposure across UBS internal rating and loss given default buckets

| As of 31.12.07 | | Loss given default (LGD) buckets | | | | Weighted average |
|---|---|---|---|---|---|---|
| *CHF million* | Gross exposure | 0–25% | 26–50% | 51–75% | 76–100% | LGD (%) |
| 0 | 1,498 | 104 | 1,393 | 1 | | 33 |
| 1 | 9,741 | 4 | 9,696 | 41 | | 40 |
| 2 | 52,237 | 48,881 | 3,110 | 246 | | 20 |
| 3 | 47,473 | 40,476 | 5,083 | 570 | 1,344 | 21 |
| 4 | 25,163 | 21,643 | 2,986 | 534 | | 18 |
| 5 | 58,957 | 53,665 | 3,650 | 1,639 | 3 | 17 |
| 6 | 29,307 | 25,222 | 3,851 | 222 | 12 | 19 |
| 7 | 19,210 | 16,599 | 1,977 | 613 | 21 | 20 |
| 8 | 17,192 | 11,723 | 4,502 | 962 | 5 | 24 |
| 9 | 9,019 | 6,883 | 840 | 237 | 1,059 | 27 |
| 10 | 2,192 | 1,805 | 266 | 119 | 2 | 23 |
| 11 | 1,689 | 1,468 | 194 | 27 | | 22 |
| 12 | 1,349 | 1,305 | 29 | 15 | | 20 |
| **Total non-impaired** | **275,027** | **229,778** | **37,577** | **5,226** | **2,446** | **21** |
| Investment grade | 195,069 | 164,773 | 25,918 | 3,031 | 1,347 | |
| Sub-investment grade | 79,958 | 65,005 | 11,659 | 2,195 | 1,099 | |
| Impaired and defaulted[1] | 1,854 | | | | | |
| **Total banking products** | **276,881** | **229,778** | **37,577** | **5,226** | **2,446** | |

1 Includes CHF 34 million of off-balance sheet items.

## Business Banking Switzerland: lending portfolio, gross (excluding mortgages) by industry sector

*As a % of Business Banking Switzerland lending portfolio, gross (excluding mortgages)*



Investment Bank

A substantial majority of the Investment Bank's gross credit exposure falls into the investment grade category (internal counterparty rating classes 0 to 5), both for gross banking products (69%) and for traded products (94%). The counterparties are primarily banks and financial institutions, multinational corporate clients and sovereigns.

*Banking products exposure*

On 31 December 2007, the Investment Bank's total gross credit exposure from banking products amounted to CHF 151.3 billion or CHF 100.7 billion net, taking credit hedges into account. Of this net amount, CHF 31.3 billion was considered temporary exposure and CHF 69.4 billion take and hold exposure. The table below shows the composition of the Investment Bank's gross banking products exposure, the hedges and other risk mitigation and the net exposure in total and for the take and hold portfolio. Compared with the end of 2006, the net take and hold exposure fell by one-third as a result of active risk reduction and management of balance sheet and risk-weighted asset usage.

As described under "Risk mitigation" on page 16 of this section, the Investment Bank has engaged in a substantial credit risk hedging program and on 31 December 2007 had

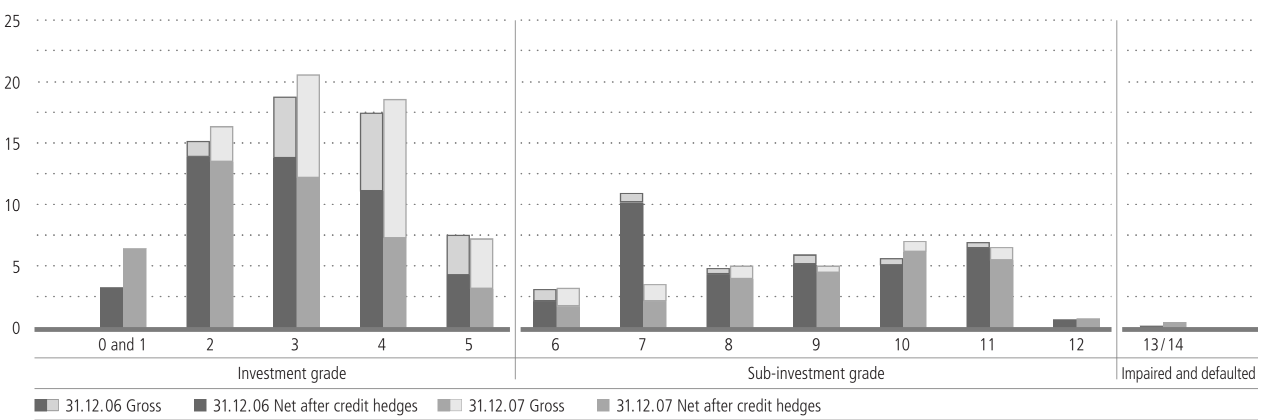
**Investment Bank: banking products**

| *CHF million* | 31.12.07 | | | | 31.12.06 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Investment grade** | **Sub-investment grade** | **Impaired and defaulted** | **Total** | Investment grade | Sub-investment grade | Impaired and defaulted | Total |
| Gross banking products exposure | **103,848** | **46,755** | **651** | **151,254** | 98,801 | 60,503 | 251 | 159,555 |
| Risk transfers[1] | **2,901** | **(2,864)** | **(37)** | | 2,576 | (2,551) | (25) | |
| Less: specific allowances for credit losses and loan loss provisions | **0** | **0** | **(126)** | **(126)** | 0 | 0 | (101) | (101) |
| Net banking products exposure | **106,749** | **43,891** | **488** | **151,128** | 101,377 | 57,952 | 125 | 159,454 |
| Less: credit protection bought (credit default swaps, credit-linked notes)[2] | **(43,012)** | **(7,391)** | **(29)** | **(50,432)** | (28,245) | (4,410) | (1) | (32,656) |
| **Net banking products exposure, after application of credit hedges** | **63,737** | **36,500** | **459** | **100,696** | 73,132 | 53,542 | 124 | 126,798 |
| Less: temporary exposure | **(11,091)** | **(20,160)** | **(30)** | **(31,281)** | (6,833) | (21,354) | | (28,187) |
| **Net take and hold banking products exposure** | **52,646** | **16,340** | **429** | **69,415** | 66,299 | 32,188 | 124 | 98,611 |

1 Risk transfers include unfunded risk participations. Risk participations are shown as a reduction in exposure to the original borrower and corresponding increase in exposure to the participant bank.
2 Notional amount of credit protection bought on net banking products exposure includes credit default swaps and the funded portion of structured credit protection purchased through the issuance of credit-linked notes.

**Investment Bank: banking products exposure by UBS internal rating**

*As a % of Investment Bank banking products exposure*



a total of CHF 50 billion in credit hedges in place against banking products exposure.

To illustrate the effects of credit hedging and other risk mitigation, the graph opposite shows the exposures by counterparty rating before and after application of risk mitigation.

Additionally, the matrix below shows the distribution of the Investment Bank's take and hold banking products exposure after application of risk mitigants, across UBS internal rating classes and LGD buckets. There is a concentration in the 26–50% bucket where most senior secured and unsecured claims fall. Sub-investment grade exposure – which in aggregate reduced by CHF 16 billion (–49%) – decreased mainly in the 0–25% LGD bucket as exposure to US mortgage originators was wound down. At the end of the year UBS had no credit risk exposure to any sub-prime mortgage originators. It should be noted that exposure distributions shown elsewhere in this section refer only to gross or net exposure and do not take recovery expectations into account.

Net banking products exposure after application of credit hedges continues to be widely diversified across industry sectors. At 31 December 2007, the largest exposures were to regulated banks (22%) and financial institutions (21%).

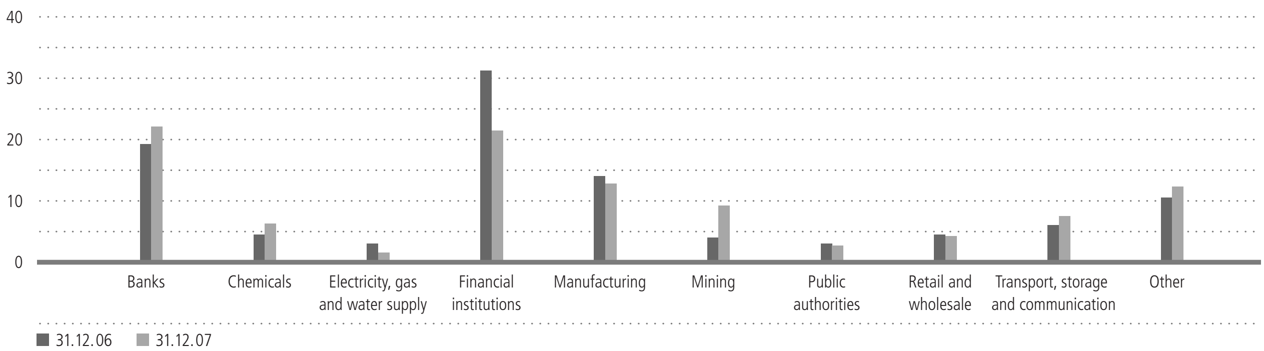
**Investment Bank: distribution of net take and hold banking products exposure across UBS internal rating and loss given default buckets**

| As of 31.12.07 | | Loss given default (LGD) buckets | | | | Weighted |
|---|---|---|---|---|---|---|
| *CHF million* | Exposure[1] | 0–25% | 26–50% | 51–75% | 76–100% | average LGD (%) |
| 0 and 1 | 9,388 | 27 | 8,632 | 617 | 112 | 50 |
| 2 | 19,309 | 2,396 | 15,382 | 534 | 997 | 44 |
| 3 | 11,894 | 384 | 9,606 | 919 | 985 | 48 |
| 4 | 8,059 | 588 | 6,083 | 968 | 420 | 45 |
| 5 | 3,996 | 1,004 | 1,686 | 1,140 | 166 | 44 |
| 6 | 1,995 | 262 | 1,223 | 425 | 85 | 45 |
| 7 | 2,184 | 142 | 1,630 | 379 | 33 | 46 |
| 8 | 2,383 | 214 | 1,128 | 771 | 270 | 51 |
| 9 | 3,659 | 887 | 2,254 | 514 | 4 | 36 |
| 10 | 2,865 | 1,173 | 1,138 | 457 | 97 | 35 |
| 11 | 2,579 | 1,256 | 871 | 380 | 72 | 31 |
| 12 | 675 | 509 | 117 | 29 | 20 | 20 |
| **Total non-impaired** | **68,986** | **8,842** | **49,750** | **7,133** | **3,261** | **43** |
| Investment grade | 52,646 | 4,399 | 41,389 | 4,178 | 2,680 | 44 |
| Sub-investment grade | 16,340 | 4,443 | 8,361 | 2,955 | 581 | 39 |
| Impaired and defaulted | 429 | 360 | 54 | 15 | 0 | 12 |
| **Net take and hold exposure** | **69,415** | **9,202** | **49,804** | **7,148** | **3,261** | **43** |

1 Net take and hold exposure.

**Investment Bank: banking products exposure[1] by industry sector**

*As a % of Investment Bank banking products exposure[1]*




1 Net banking products exposure, after application of credit hedges.

## Settlement risk

Settlement risk arises in transactions involving exchange of value when UBS must honor its obligation to deliver without first being able to determine that the counter-value has been received. Market volumes have continued to rise year-on-year but UBS has expanded its own transaction volume without increasing settlement risk by the same proportion, through the use of multilateral and bilateral arrangements. In fourth quarter 2007, settlement risk on 78% of gross settlement volumes was eliminated through risk mitigation.

The most significant source of settlement risk is foreign exchange transactions. UBS is a member of CLS ("Continuous linked settlement"), a foreign exchange clearing house which allows transactions to be settled on a delivery versus payment basis, significantly reducing foreign exchange-related settlement risk relative to the volume of business. In 2007, the transaction volume settled through CLS continued to increase, although the proportion of UBS's overall gross volumes settled through CLS fell to 51% in fourth quarter 2007 from 55% in fourth quarter 2006. 71% of UBS's CLS volume was with other CLS settlement members and the remainder with third party members, who settle their eligible trades via CLS settlement members. While the number of CLS settlement members is relatively stable, in 2007 the number of third party members UBS dealt with again increased considerably year-on-year.

Risk reduction by other means – primarily account-account settlement and payment netting – increased to 27% of gross volumes in fourth quarter 2007 from 23% a year earlier.

The avoidance of settlement risk through CLS and other means does not, of course, eliminate the credit risk on foreign exchange transactions resulting from changes in exchange rates prior to settlement. Pre-settlement risk on forward foreign exchange transactions is measured and controlled as part of the overall credit risk on OTC derivatives.

## Country risk

UBS assigns ratings to all countries to which it has exposure. Sovereign ratings express the probability of occurrence of a country risk event that would lead to impairment of UBS's claims. The default probabilities and the mapping to the ratings of the major rating agencies are the same as for counterparty rating classes (as described under "Probability of default"). In the case of country rating, the three lowest classes (12 to 14) are designated "distressed".

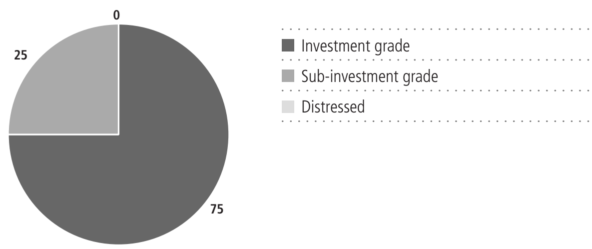
For all countries rated three and below, UBS sets country risk ceilings approved by the Chairman's Office or under delegated authority. The country risk ceiling applies to all UBS's exposures to clients, counterparties or issuers of securities from the country, and to financial investments in that country. Country risk measures cover both cross-border transactions and investments, and local operations by UBS branches and subsidiaries in countries where the risk is material. In determining the size of a country risk ceiling, goodwill resulting from acquisitions is also taken into account. Extension of credit, transactions in traded products and positions in securities may be denied on the basis of a country ceiling, even if exposure to the name is otherwise acceptable. Within the group of countries subject to ceilings, those that have yet to reach a mature stage of economic, financial, institutional, political and social development or have significant potential for economic or political instability are defined as emerging market countries. The country data provided in this section cover only country risk exposures to emerging market countries.

Counterparty defaults resulting from multiple insolvencies ("systemic risk") or general prevention of payments by authorities ("transfer risk") are the most significant effects of a country crisis, but for internal measurement and control of country risk UBS also considers the probable financial impact of market disruptions arising prior to, during and following a country crisis. These might take the form of severe falls in the country's markets and asset prices, longer-term devaluation of the currency, and potential immobilization of currency balances.

**Emerging markets exposure by UBS internal country rating category**

*in %*

As of 31.12.07



The potential financial impact of severe emerging markets crises is assessed by stress testing. This entails identifying countries that might be subject to a potential crisis event and determining potential loss, making conservative assumptions about potential recovery rates depending on the types of transaction involved and their economic importance to the affected countries.

UBS's liquidity position could be adversely impacted by restrictions on, or major impediments to, cross-border transfers of funds, which might prevent a liquidity surplus in one country being used to meet a shortfall in another. This risk does not generally result from existing or foreseeable legal restrictions in specific countries but, rather, from unexpected economic stress situations or sovereign defaults, which might induce a government to limit or prohibit the transfer of funds outside the country. UBS assesses the potential impact on its liquidity position of potential transfer risk events in countries with a one-year probability of default of 5% or more as indicated by UBS's internal sovereign rating.

### Country risk exposure

Exposure to emerging market countries amounted to CHF 41.3 billion on 31 December 2007, compared with CHF 30.6 billion on 31 December 2006. Of this amount, CHF 30.9 billion or 75% was to investment grade countries. The growth of CHF 10.6 billion in total emerging markets exposure arose to a large extent in Asia.

The pie chart opposite shows UBS's emerging market country exposures (excluding those which are of a temporary nature) on 31 December 2007, based on the main country rating categories. The table below analyzes emerging market country exposures by major geographical area and product type on 31 December 2007 compared with 31 December 2006. Temporary exposures arising from loan underwriting in these markets are separately shown in the table.

On 31 December 2007, UBS had net exposure totaling CHF 911 million to 29 countries with a one-year probability of default of 5% or more, of which CHF 556 million was to those with a probability of default of 8% or more. Only CHF 81 million was to distressed countries, which have a one-year probability of default of 13% or more and where restrictions are highly probable or have already materialized. This represents less than 0.2% of UBS's emerging markets exposure and the associated risk is immaterial.

### Impairment and default – distressed claims

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UBS has a number of classifications for distressed claims.

A loan carried at amortized cost is considered to be *"past due"* when a significant payment has been missed. It is classified as *"non-performing"* where payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that the claim will be settled by later payments or the liquidation of collateral; or when insolvency proceedings have commenced against the borrower; or when obligations have been restructured on concessionary terms.

Any claim, regardless of accounting treatment, is classified as *"impaired"* if UBS considers it probable that it will suffer a loss on that claim as a result of the obligor's inability to meet its obligations according to the contractual terms, and after realization of any available collateral. "Obligations" in this context include interest payments, principal repayments or other payments due, for example under an OTC derivative contract or a guarantee.

The recognition of impairment in the financial statements depends on the accounting treatment of the claim. For products carried at amortized cost, impairment is recognized through the creation of an allowance or provision, which is charged to the income statement as credit loss expense. For products recorded at fair value, impairment is recognized through a credit valuation adjustment, which is charged to the income statement through the net trading income line.

UBS has policies and processes to ensure that the carrying values of impaired claims are determined in compliance with IFRS on a consistent and fair basis, especially for those im-

**Emerging markets exposure by major geographical area and product type**

| *CHF million* | Total | | Banking products | | Traded products | | Financial investments | | Tradable assets | |
|---|---|---|---|---|---|---|---|---|---|---|
| As of | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 |
| Emerging Europe | **5,439** | 4,663 | **1,590** | 1,476 | **1,071** | 1,110 | **151** | 104 | **2,627** | 1,973 |
| Emerging Asia | **22,039** | 15,904 | **5,653** | 4,266 | **6,210** | 3,401 | **2,123** | 1,325 | **8,053** | 6,912 |
| Emerging America | **8,778** | 7,282 | **1,486** | 1,024 | **2,288** | 2,267 | **150** | 132 | **4,854** | 3,859 |
| Middle East/Africa | **5,007** | 2,768 | **2,414** | 1,145 | **1,603** | 892 | **0** | 19 | **990** | 712 |
| Total | **41,263** | 30,617 | **11,143** | 7,911 | **11,172** | 7,670 | **2,424** | 1,580 | **16,524** | 13,456 |
| Temporary exposures[1] | **3,049** | 2,160 | | | | | | | | |

1 Temporary exposures are loan underwritings which are held short-term, pending syndication, sale or hedging. They are not included in the regional subtotals or overall total.

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paired claims for which no market estimate or benchmark for the likely recovery value is available. The credit controls applied to valuation and workout are the same for both amortized cost and fair-valued credit products. Each case is assessed on its merits, and the workout strategy and estimation of cash flows considered recoverable are independently approved by the credit risk control organization.

Portfolios of claims carried at amortized cost with similar credit risk characteristics are also assessed for collective impairment. A portfolio is considered impaired on a collective basis if there is objective evidence to suggest that it contains impaired obligations but the individual impaired items cannot yet be identified.

➔ **Note: portfolios considered impaired on a collective basis are not included in the totals of impaired loans in the tables on pages 20, 21 and 23 of this report or in Note 9c in *Financial Statements 2007***

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The assessment of collective impairment differs depending on the nature of the underlying obligations. In UBS's retail businesses, where delayed payments are routinely seen, UBS typically reviews individual positions for impairment only after they have been in arrears for a certain time. To cover the time lag between the occurrence of an impairment event and its identification, collective loan loss allowances are established, based on the expected loss measured for the portfolio over the average period between trigger events and their identification for individual impairments. Collective loan loss allowances of this kind are not required for corporate and investment banking businesses because individual counterparties and exposures are continuously monitored and impairment events are identified at an early stage.

Additionally, for all portfolios, UBS assesses each quarter – or on an ad hoc basis if necessary – whether there has been any previously unforeseen development which might result in impairments which cannot be immediately identified individually. Such events could be stress situations such as a natural disaster or a country crisis, or they could result from structural changes in, for example, the legal or regulatory environment. To determine whether an event-driven collective impairment exists, a set of global economic drivers is regularly assessed for the most vulnerable countries and, on a case by case basis, the impact of specific potential impairment events since the last assessment is reviewed. Again, the expected loss parameters of the affected sub-portfolios are the starting point for determining the collective impairment, adjusted as necessary to reflect the severity of the event in question.

### Past due but not impaired loans

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The table opposite provides an overview of the aging of past due but not impaired loans. These loans have suffered missed payments but are not considered impaired because UBS expects ultimately to collect all amounts due under the contractual terms of the loans or with equivalent value.

Compared with 31 December 2006, the past due exposure has decreased by CHF 1.1 billion, primarily as a result of improved processes to identify and settle overdue amounts.

### Impaired loans, allowances and provisions

The table opposite shows that allowances and provisions for credit losses decreased by 12.6%, to CHF 1,164 million on 31 December 2007 from CHF 1,332 million on 31 December 2006. Note 9b in *Financial Statements 2007* provides further details of the changes in allowances and provisions for credit losses during the year. In accordance with International Accounting Standard (IAS) 39, UBS has assessed its portfolios of claims with similar credit risk characteristics for collective impairment. On 31 December 2007, allowances and provisions for collective impairment amounted to CHF 34 million.

The gross impaired lending portfolio decreased to CHF 2,392 million on 31 December 2007 from CHF 2,628 million on 31 December 2006.

The ratio of the impaired lending portfolio to the total lending portfolio (both measured gross) improved to 0.6% on 31 December 2007 from 0.8% on 31 December 2006.

In general, Swiss practice is to write off loans only on final settlement of bankruptcy proceedings, sale of the underlying assets, or formal debt forgiveness. By contrast, US practice is generally to write off non-performing loans, in whole or in part, much sooner, thereby reducing the amount of such loans and corresponding allowances recorded. A consequence of applying the Swiss approach is that, for UBS, recoveries of amounts written off in prior accounting periods tend to be small, and the level of outstanding impaired loans as a percentage of gross loans tends to be higher than for its US peers.

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Loans or receivables with a carrying amount of CHF 126 million and CHF 48 million were reclassified from impaired to performing during 2007 and 2006 either because they had been renegotiated and the new terms and conditions met normal market criteria for the quality of the obligor and type of loan, or because there had been an improvement in the financial position of the obligor, enabling it to repay any past due amounts such that future principal and interest are deemed to be fully collectible in accordance with the original contractual terms.

Collateral held against the impaired loans portfolio consists in most cases of real estate. It is UBS policy to dispose of foreclosed real estate as soon as practicable. The carrying amount of foreclosed property recorded in the balance sheet under Other assets at the end of 2007 and 2006 amounted to CHF 122 million and CHF 248 million respectively.

UBS seeks to liquidate collateral in the form of financial assets in the most expeditious manner, at prices considered fair. This may require that it purchases assets for its own account, where permitted by law, pending orderly liquidation.

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## Past due but not impaired loans

| *CHF million* | **31.12.07** | 31.12.06 |
|---|---|---|
| 1–10 days | **515** | 942 |
| 11–30 days | **1,381** | 410 |
| 31–60 days | **74** | 544 |
| 61–90 days | **36** | 463 |
| > 90 days | **262** | 1,011 |
| **Total** | **2,268** | 3,370 |

## Allowances and provisions for credit losses

| *CHF million* | Global Wealth Management & Business Banking | | Investment Bank[1] | | Other[2] | | UBS[1] | |
|---|---|---|---|---|---|---|---|---|
| As of | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 | **31.12.07** | 31.12.06 |
| Due from banks | **8,237** | 6,245 | **52,164** | 43,612 | **507** | 506 | **60,908** | 50,363 |
| Loans | **240,641** | 222,776 | **95,760** | 76,188 | **466** | 104 | **336,867** | 299,068 |
| **Total lending portfolio, gross** | **248,878** | 229,021 | **147,924** | 119,800 | **973** | 610 | **397,775[3]** | 349,431[3] |
| Allowances for credit losses | **(908)** | (1,159) | **(123)** | (97) | **0** | 0 | **(1,031)** | (1,256) |
| **Total lending portfolio, net** | **247,970** | 227,862 | **147,801** | 119,703 | **973** | 610 | **396,744[3]** | 348,175[3] |
| Impaired lending portfolio, gross | **1,820** | 2,507 | **572** | 121 | **0** | 0 | **2,392** | 2,628 |
| Estimated liquidation proceeds of collateral for impaired loans | **(740)** | (1,034) | **(364)** | (25) | **0** | 0 | **(1,104)** | (1,059) |
| **Impaired lending portfolio, net of collateral** | **1,080** | 1,473 | **208** | 96 | **0** | 0 | **1,288** | 1,569 |
| Allocated allowances for impaired lending portfolio | **874** | 1,121 | **123** | 97 | **0** | 0 | **997** | 1,218 |
| Other allowances and provisions | **94** | 110 | **73** | 4 | **0** | 0 | **167** | 114 |
| **Total allowances and provisions for credit losses** | **968** | 1,231 | **196** | 101 | **0** | 0 | **1,164** | 1,332 |
| *Of which collective loan loss provisions and allowances* | **34** | 38 | **0** | 0 | **0** | 0 | **34** | 38 |
| **Ratios** | | | | | | | | |
| Allowances and provisions as a % of total lending portfolio, gross | **0.4** | 0.5 | **0.1** | 0.1 | **0.0** | 0.0 | **0.3** | 0.4 |
| Impaired lending portfolio as a % of total lending portfolio, gross | **0.7** | 1.1 | **0.4** | 0.1 | **0.0** | 0.0 | **0.6** | 0.8 |
| Allocated allowances as a % of impaired lending portfolio, gross | **48.0** | 44.7 | **21.5** | 80.2 | **N/A** | N/A | **41.7** | 46.3 |
| Allocated allowances as a % of impaired lending portfolio, net of collateral | **80.9** | 76.1 | **59.1** | 101.0 | **N/A** | N/A | **77.4** | 77.6 |

1 Figures reflect International Financial Reporting Standards (IFRS) reported values and, for 31 December 2006, the reclassification of prime brokerage as explained Note 1 in *Financial Statements 2007*. 2 Includes Global Asset Management and Corporate Center. 3 Excludes CHF 27 million and CHF 93 million gross loans from Industrial Holdings for the years ended 31 December 2007 and 31 December 2006.

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## Impaired assets by type of financial instrument

| *CHF million* | Impaired exposure | Estimated liquidation proceeds of collateral | Allocated allowances, provisions and credit valuation adjustments | Net impaired exposure |
|---|---|---|---|---|
| Impaired loans | 2,392 | (1,104) | (997) | 291 |
| Impaired contingent claims | 41 | 0 | (33) | 8 |
| Defaulted derivatives contracts | 905 | 0 | (814) | 91 |
| Defaulted securities financing transactions | 70 | 0 | (70) | 0 |
| **Total 31.12.07** | **3,408** | **(1,104)** | **(1,914)** | **390** |
| Total 31.12.06 | 2,870 | (1,059) | (1,399) | 412 |

**Impaired assets by region and time elapsed since impairment[1]**

| | Time elapsed since impairment | | | | | |
|---|---|---|---|---|---|---|
| *CHF million* | 0–90 days | 91–180 days | 181 days–1 year | 1 year–3 years | > 3 years | Total |
| Switzerland | 135 | 41 | 89 | 326 | 1,306 | 1,897 |
| Europe | 33 | 11 | 2 | 22 | 80 | 148 |
| North America / Caribbean | 1,221 | 4 | 17 | 1 | 35 | 1,278 |
| Latin America | 12 | 22 | 0 | 14 | 3 | 51 |
| Asia Pacific | 0 | 5 | 0 | 1 | 12 | 18 |
| Middle East / Africa | 0 | 0 | 0 | 0 | 16 | 16 |
| **Total 31.12.07** | 1,401 | 83 | 108 | 364 | 1,452 | 3,408 |
| Allocated allowances, provisions and credit valuation adjustments | (813) | (26) | (40) | (154) | (881) | (1,914) |
| Carrying value | 588 | 57 | 68 | 210 | 571 | 1,494 |
| Estimated liquidation proceeds of collateral | (436) | (26) | (55) | (146) | (441) | (1,104) |
| Net impaired assets | 152 | 31 | 13 | 64 | 130 | 390 |

1 Impaired assets include loans, defaulted derivative contracts, defaulted securities financing transactions and impaired contingent claims.

The table above shows the geographical breakdown and aging of the impaired assets portfolio on 31 December 2007. This portfolio includes not only impaired loans, but also impaired off-balance sheet claims and defaulted derivatives and repurchase / reverse repurchase contracts, which are subject to the same workout and recovery processes.

The CHF 1,221 million of impaired assets shown against North America / Caribbean in the 0 to 90 day time band is a consequence of the recent US mortgage-related market dislocations. Two exposures make up the majority of the total. One is an exposure to a monoline insurer from whom UBS has purchased credit protection in the form of credit default swaps, predominantly on collateralized debt obligations backed by US residential mortgage-backed securities. A 90% credit valuation adjustment on this exposure was taken in fourth quarter 2007. The second is a loan to an Alt-A mortgage originator where the estimated liquidation proceeds of the collateral are only slightly below the outstanding loan amount.

CHF 1.5 billion, or 42% of the gross portfolio of CHF 3.4 billion, relates to positions that defaulted more than three years ago.

After deducting allocated specific allowances, provisions and credit valuation adjustments of CHF 1.9 billion and the estimated liquidation proceeds of collateral (to a large extent real estate) of CHF 1.1 billion, net impaired assets amounted to CHF 0.4 billion.

### Credit loss expense

UBS's financial statements are prepared in accordance with IFRS, under which credit loss expense charged to the income statement in any period is the sum of net allowances and direct write-offs minus recoveries arising in that period, i.e. the credit losses actually incurred. By contrast, for internal management reporting, credit loss expense is based on the expected loss concept described under "Credit risk measurement". To hold the business groups accountable for credit losses actually incurred, they are additionally charged or refunded the difference between actual credit loss expense and expected credit loss, amortized over a three-year period. The difference between the amounts charged to the business groups in the management accounts ("adjusted expected credit loss") and the credit loss expense recorded at Group level is reported in Corporate Center.

➔ **For further information on adjusted expected credit loss, see Note 2a in *Financial Statements 2007***

From first quarter 2008, as part of the transition to the new Capital Accord (Basel II), UBS will cease using the adjusted expected credit loss concept in management accounts and will no longer report adjusted expected credit losses in its quarterly reports. Expected loss as a risk measure will, however, continue to be a key part of the overall credit risk framework.

The discussion which follows covers only the credit loss expense recorded under IFRS.

In 2007, UBS experienced a net credit loss expense of CHF 238 million, compared with a net credit loss recovery of CHF 156 million in 2006.

The Investment Bank recorded a net credit loss expense of CHF 266 million for 2007, compared with a net credit loss recovery of CHF 47 million in 2006. The main component was valuation adjustments of CHF 131 million taken during fourth quarter 2007, reflecting spread widening (as opposed to credit impairment) on US commercial mortgages that had been carried at amortized cost and were securitized or sold at less than their carrying value.

Global Wealth Management & Business Banking reported a net credit loss recovery of CHF 28 million for 2007, compared with a CHF 109 million net credit loss recovery for 2006. The reduced level of net 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 Global Wealth Management & Business Banking figures.

**Rating system design and estimation of credit risk parameters**

Probability of default

UBS assesses the likelihood of default of individual counterparties using rating tools tailored to the various counterparty segments. Probability of default is summarized in a common Masterscale, shown below, which segments clients into 15 rating classes, two being reserved for cases of impairment or default. The UBS Masterscale reflects not only an ordinal ranking of counterparties, but also the range of default probabilities defined for each rating class, and in order to ensure consistency in determining default probabilities, all rating tools must be calibrated to the common Masterscale. This approach means that clients migrate between rating classes as UBS's assessment of their probability of default changes. The performance of rating tools, including their predictive power with regard to default events, is regularly validated and model parameters are adjusted as necessary.

External ratings, where available, are used to benchmark UBS's internal default risk assessment. The ratings of the major rating agencies shown in the table are linked to the internal rating classes based on the long-term average 1-year default rates for each external grade. Observed defaults per agency rating category vary year-on-year, especially over an economic cycle, and therefore UBS does not expect the actual number of defaults in its equivalent rating band in any given period to equal the rating agency average. UBS monitors the long-term average default rates associated with external rating classes. If these long-term averages were observed to have changed in a material and permanent way, their mapping to the Masterscale would be adjusted

At the Investment Bank, rating tools are differentiated by broad segments. Current segments include banks, sovereigns, corporates, funds, hedge funds, commercial real estate and a number of more specialized businesses. The design of these tools follows a common approach. The selection and combination of relevant criteria (financial ratios and qualitative factors) is determined through a structured analysis by credit officers with expert knowledge of each segment, supported by statistical modeling techniques where sufficient data is available

The Swiss banking portfolio includes exposures to a range of enterprises, both large and small- to medium-sized ("SMEs") and the rating tools vary accordingly. For segments where sufficient default data is available, rating tool development is primarily based on statistical models. Typically, these "score cards" consist of eight to twelve criteria combining financial ratios with qualitative and behavioral factors which have proven good indicators of default in the past, are accepted by credit officers and are easy to apply. For smaller risk segments with few observed defaults a more expert-based approach is chosen, similar to that applied at the Investment Bank. For the Swiss commercial real estate segment and for lombard lending, which is part of the retail segment, the probability of default is derived from simulation of potential changes in the value of the collateral and the probability that it will fall below the loan amount.

Default expectations for the Swiss residential mortgage segment are based on the internal default and loss history, where the major differentiating factor is the loan to value ratio – the amount of the outstanding obligation expressed as a percentage of the value of the collateral.

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**UBS internal rating scale and mapping of external ratings**

| UBS rating | *Description* | Moody's Investor Services equivalent | Standard & Poor's equivalent |
|---|---|---|---|
| **0 and 1** | *Investment grade* | Aaa | AAA |
| **2** | | Aa1 to Aa3 | AA+ to AA– |
| **3** | | A1 to A3 | A+ to A– |
| **4** | | Baa1 to Baa2 | BBB+ to BBB |
| **5** | | Baa3 | BBB– |
| **6** | *Sub-investment grade* | Ba1 | BB+ |
| **7** | | Ba2 | BB |
| **8** | | Ba3 | BB– |
| **9** | | B1 | B+ |
| **10** | | B2 | B |
| **11** | | B3 | B– |
| **12** | | Caa to C | CCC to C |
| **13** | *Impaired and defaulted* | D | D |
| **14** | | D | D |

Loss given default

Loss given default or loss severity represents UBS's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit mitigation. Loss given default estimates cover loss of principal, interest and other amounts due (including work-out costs), and also consider the costs of carrying the impaired position during the work-out process.

At the Investment Bank, where defaults are rare events, loss given default estimates are based on expert assessment of the risk drivers (country, industry, legal structure, collateral and seniority), supported by empirical evidence from internal loss data and external benchmark information where available. In the Swiss portfolio, loss given default differs by counterparty and collateral type and is statistically estimated using internal loss data. For the residential mortgage portfolio, a further differentiation is derived by statistical simulation based on loan to value ratios.

### Exposure at default

Exposure at default represents the amounts UBS expects to be owed at the time of default.

For outstanding loans, the exposure at default is the drawn amount or face value. For loan commitments and for contingent liabilities, it includes any amount already drawn plus the further amount which is expected to be drawn at the time of default, should it occur. This calculation is based on a "credit conversion factor", a fixed percentage per product type derived from historical experience of drawings under commitments by counterparties within the year prior to their default.

For traded products, the estimation of exposure at default is more complex, since the current value of a contract or portfolio of contracts can change significantly over time and may, at the time of a future default, be considerably higher or lower than the current value. For repurchase and reverse repurchase agreements and for securities borrowing and lending transactions, the net amount which could be owed to or by UBS is assessed, taking into account the impact of market moves over the time it would take to close out all transactions ("close-out exposure"). Exposure at default on OTC derivative transactions is determined by modeling the potential evolution of the replacement value of the portfolio of trades with each counterparty over the lifetime of all transactions – "potential credit exposure" – taking into account legally enforceable close-out netting agreements where applicable.

For all traded products, the exposure at default is derived from the same Monte Carlo simulation of potential market moves in all relevant risk factors, such as interest rates and exchange rates, based on estimated correlations between the risk factors. This ensures a scenario-consistent estimation of exposure at default across all traded products at counterparty and portfolio level. The randomly simulated sets of risk factors are then used as inputs to product specific valuation models to generate valuation paths, taking into account the impact of maturing contracts and changing collateral values, including the ability to call additional collateral.

The resultant distribution of future valuation paths supports various exposure measures. All portfolio risk measures are based on the expected exposure profile. By contrast, in controlling individual counterparty exposures UBS limits the potential "worst case" exposure over the full tenor of all transactions, and therefore applies the limits to the "maximum likely exposure" generated by the same simulations, measured to a specified high confidence level.

Cases where there is material correlation between factors driving a counterparty's credit quality and the factors driving the future path of traded products exposure – "wrong-way risk" – require special treatment. In such cases, the potential credit exposure generated by the standard model is overridden by a calculation from a customized exposure model that explicitly takes this correlation into account. For portfolios where this risk is inherently present, for instance for the hedge funds portfolio, UBS has established special controls to capture these wrong-way risks.

# Market risk

Market risk is the risk of loss from changes in market variables. There are two broad categories of variables – general market risk factors and idiosyncratic components. General market risk factors are variables which are driven by macroeconomic, geopolitical and other market-wide considerations, independent of any instrument or single name. They include the level, slope or shape of yield curves (interest rates), the levels of equity market indices and exchange rates, prices of energy, metals and commodities, and the general level of credit spreads – the yield paid by borrowers above that on risk-free securities. Associated volatilities and correlations between risks factors – which may be unobservable or only indirectly observable – are also considered to be general market risk factors. Idiosyncratic components are those that cannot be explained by general market moves – broadly, elements of the prices of debt and equity instruments and derivatives (including derivative securities and basket products) linked to them, that result from factors and events specific to individual names.

UBS discloses its market risk in terms of statistical loss using its proprietary Value at Risk ("VaR") model, but internally also applies stress measures and a variety of concentration and other quantitative and qualitative controls.

In 2007, the market for US residential mortgage-related products – a previously large and highly liquid market – suffered extreme moves and severe dislocation. Although, conceptually, the market risk framework includes appropriate types of controls, their detailed implementation did not cover all the dimensions of risk measurement and aggregation which, in the extreme events of 2007, proved to be necessary. The Investment Bank had accumulated positions, predominantly in highly rated instruments, which were not identified as concentrations. Enhancements have been made and will continue to be made to reflect the lessons learnt.

➔ **Further detail is provided in the sidebar "Enhancements to market risk management and control" on pages 36–37 of this report**

## Sources of market risk

UBS takes both general and idiosyncratic market risks in its trading activities, and some non-trading businesses create general market risks.

### Trading

Most of UBS's trading activity is in the Investment Bank. It includes market-making, facilitation of client business and proprietary position taking in the cash and derivative markets for equities, fixed income, interest rates, foreign exchange, energy, metals and commodities.

The fixed income trading area of fixed income, currencies and commodities (FICC) carries inventory, including exposures to residential and commercial real estate, corporate and consumer credit, and US municipal and student loan markets. Credit spread exposure from FICC positions is generally the largest contributor to VaR.

Exposure to movements in the level and shape of yield curves arises in all the Investment Bank's trading activities but predominantly in parts of FICC. Exposure to directional interest rate movements varies depending on client flows and traders' views of the markets. It is often these variations that drive changes in the level of Investment Bank VaR, although the impact of any position or change in position depends on the composition of the whole portfolio at the time.

UBS is active in all major equity markets and an increasing number of newer markets. Equity risk is the other major contributor to Investment Bank market risk, partly from index-based transactions but also from individual stocks, giving rise to idiosyncratic as well as general market risk. A significant component of equity VaR is event risk from proprietary positions, which are taken, for example, to capture arbitrage opportunities or price movements resulting from mergers and acquisitions.

UBS trades in large volumes in currencies, and to a lesser extent in energy, metals and commodities, but the contribution from these activities to overall market risk has generally been relatively small.

The asset management and wealth management businesses carry small trading positions, principally to support client activity. The market risk from these positions is not material to UBS as a whole.

Trading businesses are subject to a variety of market risk limits within which traders manage their risks according to their view of the market, employing a variety of hedging and risk mitigation strategies. Senior management and risk controllers may, however, give instructions for risk to be reduced, even when limits are not exceeded, if particular positions or the general levels of exposure are considered inappropriate. Hedging and mitigation strategies are then discussed and agreed with trading management.

### Non-trading

In the Investment Bank, significant non-trading interest rate risk and all non-trading foreign exchange risks are captured, controlled and reported under the same risk management and control framework as trading risk.

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In the other business groups, exposures to general market risk factors – primarily interest rates and exchange rates – also arise from non-trading activities. Market risks are generally transferred to the Investment Bank or Treasury, who manage the positions as part of their overall portfolios within their allocated limits. The largest items are the interest rate risks in Global Wealth Management & Business Banking. All risk transfers take place according to approved transfer pricing mechanisms. Market risks that are retained by the other business groups are not significant relative to UBS's overall risk, and all exposures are subject to market risk measures and controls. With the exception of structural currency exposures, all non-trading currency and commodity positions are subject to market risk regulatory capital and are therefore generally captured in VaR, although such positions do not contribute significantly to overall VaR.

Treasury also assumes market risk from its balance sheet and capital management responsibilities. Treasury finances non-monetary balance sheet items such as bank property and equity investments in associated companies; it also manages interest rate and foreign exchange risks resulting from the deployment of UBS's consolidated equity, from structural foreign exchange positions and from non-Swiss franc revenues and costs. The market risk limits allocated to Treasury cover both the risks resulting from these responsibilities, and those transferred from other business groups. The limits allow them flexibility to pre-hedge or delay hedging if desired, both to manage large flows and to take advantage of market movements.

➔ **Treasury's risk management activities are explained in more detail in the "Treasury and capital management" section of this report**

Exposure to single names arising from debt instruments, such as loans, which are not originated or acquired as part of a trading activity is controlled under the credit risk framework. Neither idiosyncratic nor credit spread risk on these instruments is captured under the market risk framework. Credit spread risk is, however, a material component of the risk on the Investment Bank's syndicated financing business and the credit spread exposures from this activity are reported to senior management alongside those on the trading inventory.

The Investment Bank hedges an increasing proportion of its credit exposure. Specific hedges, such as credit default swaps on the same name, are reflected in credit risk measures, but other types of hedge may also be used for exposure management – for example, credit indices or proxy hedges on other names. Hedges of this type are treated as open positions for risk control purposes and are captured under the market risk framework.

Risk on equity investment positions, including private equity, is not controlled under the market risk framework.

➔ **For details on risk control please see the "Investment positions" section of this report**

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**Risk control organization, governance and structure**

The Group Head of Market Risk, reporting to the Group Chief Risk Officer (Group CRO), is responsible for development of the market risk control framework. There is a CRO in each business group and a designated CRO for Treasury. The Group Head of Market Risk, the business group CROs and their teams are responsible for the independent control of market risk.

It is the primary responsibility of traders to identify the risks inherent in their activities, including those arising from new businesses and products, and from structured transactions. The independent controllers are responsible for ensuring that identified risks are completely and accurately captured in risk measurement systems and appropriately constrained by portfolio and concentration controls. They are also responsible for assessing the reasonableness of reported risk, particularly in relation to the revenues generated on the risk positions – an important step in identifying risks that are not adequately reflected in risk measures.

The Investment Bank CRO organization provides market risk measurement and reporting support to all business groups and, in close cooperation with the Group Head of Market Risk, is responsible for the development and ongoing enhancement of market risk measures, including the models used to measure VaR, stress loss and risk on tradable single name exposures.

The Chairman's Office delegates market risk authority to the GEB and approves delegations by the GEB ad personam to the Group CRO, the Group Head of Market Risk and the business group CROs. Further delegations are also made to market risk officers in the business groups. For many trading businesses, standard transactions within approved business lines and limits do not require prior risk control approval. Rather, risk management and risk control authority holders approve the retention of positions or give instructions for risk to be reduced based on subsequent review. Large transactions such as security underwritings and transactions creating less liquid risks – particularly structured and complex transactions – do, however, require pre-approval, as do temporary increases in limits to accommodate new transactions or positions.

Standard forms of market risk measures, limits and controls are applied to portfolios and risk concentrations. Other forms of measurement and control are developed, where necessary, for individual risk types, particular books and specific exposures. The quantitative controls are complemented by qualitative controls geared to the prompt identification, assessment, measurement and monitoring of market risks. Risks that are not well reflected by standard measures are subject to additional controls, potentially including transaction level pre-approval and specific limits.

UBS's policy requires that models used for valuation or which feed risk positions to risk control systems are subject

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to independent verification by specialist quantitative units in the CRO organization.

UBS's approach to valuation of instruments for which no directly observable market price is available is described in Note 26 in *Financial Statements 2007.* Valuation adjustments for model uncertainty are applied where appropriate, consistent with accounting requirements.

Reporting is an important component of the qualitative framework and UBS therefore has processes requiring regular reporting to senior managment in the business groups, the Group Head of Market Risk and Group CRO, and the GEB, Chairman's Office and Board of Directors (BoD).

Utilizations of most limits, including all major portfolio and concentration limits, are reported daily and all excesses are investigated. Daily reports, including commentary, on material risk positions are provided to senior management in the business groups and to the Group Head of Market Risk and Group CRO. Monthly and quarterly reports, including both quantitative and qualitative information, are prepared in the business groups, and these provide the basis for consolidated reports to the GEB, the Chairman's Office and the BoD.

**Risk measures**

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UBS has two major portfolio measures of market risk – VaR and stress loss – which are common to all business groups. They are complemented by concentration risk measures and supplementary controls.

Concentration limits are tailored to the nature of the activities and the risks they create. They therefore differ between, for example, the Investment Bank, where the risks are most varied and complex, and Treasury, which carries market risk in a limited range of risk types and not generally in complex instruments.

Supplementary limits are established on portfolios, subportfolios, asset classes or products for specific purposes where standard limits are not considered to provide comprehensive control. These "operational limits" are intended to address concerns about, for example, market liquidity or operational capacity. They may also be applied to complex products for which not all model input parameters are observable, and which thus create difficulties in valuation and risk measurement. Operational limits can take a variety of forms including values (market, nominal or notional) or risk sensitivities. The ways in which operational limits are applied have been expanded following the experience of 2007.

➔ **For further information, please see the sidebar "Enhancements to market risk management and control" on pages 36–37 of this report**

Value at Risk (VaR)

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VaR is a statistically based estimate of the potential loss on the current portfolio from adverse movements in both general and idiosyncratic market risk factors. The same VaR model is used for internal risk control (including limits) and as the basis for determining market risk regulatory capital requirements.

➔ **For futher information, please refer to the "Capital management" section of this report**

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UBS measures VaR using a 10-day time horizon for internal risk measurement and control, and as the basis for market risk regulatory capital, and based on a 1-day horizon for information and for backtesting. VaR is derived from a distribution of potential losses. It expresses the amount that might be lost over the specified time horizon as a result of changes in market variables, but only to a certain level of confidence (99%) and there is therefore a specified statistical probability (1%) that actual loss over the period could be greater than the VaR estimate.

VaR is calculated at the end of each trading day, based on positions recorded at that time. Retrospective adjustments to valuations, affecting risk positions, may be booked some days later, particularly at period ends. VaR is not subsequently restated to reflect these later adjustments to positions.

VaR models are based on historical data and thus implicitly assume that market moves over the next 10 days or one day will follow a similar pattern to those that have occurred over 10-day and 1-day periods in the past. For general market risk, UBS uses a look-back period of five years – a period which generally captures the cyclical nature of financial markets and is likely to include periods of both high and low volatility. UBS applies these historical changes directly to current positions, a method known as historical simulation.

Idiosyncratic risk is measured on all forms of single name risk. For debt instruments the measure includes rating migration risk and prepayment risk – these measures were enhanced during 2007. For equity instruments, the measure is based on the Capital Asset Pricing Model ("CAPM") supplemented by a "deal break" methodology for equity arbitrage positions, where UBS is typically long in the stock of one company and short in that of another. The deal break measure assesses the probability of collapse of a merger or takeover, and its impact on the two stock prices – a one-off jump move generating the same potential loss for both 10-day and 1-day VaR.

The Chairman's Office annually approves a 10-day VaR limit for UBS as a whole and allocations to the business groups, the largest being to the Investment Bank. In the business groups, VaR limits are set for lower organizational levels as necessary.

In the start-up phase of a business, some market risks may be controlled outside VaR but the level of such risk is deliberately kept small, typically by application of operational limits.

*Backtesting*
The predictive power of the VaR model is monitored by "backtesting". Backtesting compares the 1-day VaR calculated on trading portfolios at close of each business day with the actual revenues arising on those positions on the next business day. These revenues ("backtesting revenues") exclude non-trading components such as commissions and fees, and estimated revenues from intraday trading. If backtesting revenues are negative and exceed the 1-day VaR, a "backtesting exception" is considered to have occurred. If the number of backtesting exceptions in a rolling 12-month period exceeds levels specified by regulators, the "multiplier" by which the market risk regulatory capital requirement is derived from 10-day VaR is increased.

Although UBS uses VaR to measure general market risks arising in non-trading books, the results are not formally backtested because these books are not generally marked to market.

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VaR based on a 1-day horizon provides an estimate of the likely range of daily mark to market revenues on trading positions under normal market conditions. When 1-day VaR is measured at a 99% confidence level, such an exception can be expected, on average, one in a hundred business days. More frequent backtesting exceptions are likely to occur if market moves are greater than those seen in the look-back period, if the frequency of large moves increases, or if historical correlations and relationships between markets or variables break down (for example, in a period of market disruption or a stress event). Backtesting exceptions are also likely to arise if the way positions are represented in VaR does not adequately capture all their differentiating characteristics and the relationships between them. Such granularity can become particularly important as business grows and as markets evolve or when they experience the sort of dislocation seen in 2007.

UBS experienced many backtesting exceptions as a result of these developments and is responding to them.

➔ **For further details, please refer to the sidebar "Enhancements to market risk management and control" on pages 36–37 of this report**

All backtesting exceptions and any exceptional revenues on the profit side of the VaR distribution are investigated, and all backtesting results are reported to senior business management, the Group CRO and business group CROs.

As required by regulations, backtesting exceptions are also notified to internal and external auditors and relevant regulators.

### Stress loss
The purpose of stress testing is to quantify exposure to extreme and unusual market movements. It is an essential complement to VaR.

The VaR measure is based on observed historical movements and correlations, whereas stress loss measures are informed but not constrained by past events. UBS's objectives in stress testing are to explore a wide range of possible outcomes, to understand vulnerabilities, and to provide a control framework that is comprehensive, transparent and responsive to changing market conditions.

UBS's stress scenarios include an industrial country market crash with a range of yield curve and credit spread behavior, and emerging market crises, with and without currency pegs breaking. A general recovery scenario is also assessed. The standard scenarios are run daily, and it is against these that the development of stress loss exposure is tracked and comparisons are made from one period to the next. Stress loss limits, approved by the Chairman's Office, are applied to the outcome of these scenarios for all business groups. Emerging markets stress loss in aggregate and stress loss for individual emerging market countries, measured under the standard stress scenarios, are also separately limited. The scenarios and their components are reviewed at least annually.

UBS has been developing and will soon implement a new approach to the specification of stress loss scenarios that better differentiates between the source of a stress event and its contagion effect.

Specific scenarios targeting current concerns and vulnerabilities are also used. They must, by definition, be constantly adapted to changing circumstances and portfolios. The choice of scenarios is judgmental, depending on management's view of potential economic and market developments and their relevance to the positions UBS carries. The market moves envisaged in a targeted stress test might prove to be less than the moves actually seen in a stress event, and actual events may differ significantly from those modeled in the stress scenarios. UBS's targeted stress tests did not predict the severe dislocation in US residential mortgage-related markets in 2007 – in particular the breakdown in correlation within and between asset classes and the complete drying up of liquidity. UBS is endeavoring to reflect these experiences in its stress testing framework.

The VaR results beyond the 99% confidence level are analyzed to better understand the potential risks of the portfolio and to help identify risk concentrations. The results of this analysis are valuable in their own right and can also be used to formulate position-centric stress tests. Although the standard scenarios incorporate generic elements of past market crises, more granular detail of specific historical events is provided by the VaR tail. During 2007, the "worst historical loss" from the VaR distribution was introduced as an additional formal stress scenario. UBS is also considering use of a longer historical time series, where available, to generate this stress exposure.

Additionally, UBS measures and limits the impact of increased default rates on the value of its portfolio of single name exposures.

UBS applies country ceilings to limit exposure to all but the best-rated countries and these measures cover market as well as credit risks.

➔ **For details of country risk control please refer to pages 24–25 in the "Credit risk" section of this report**

Most major financial institutions employ stress tests, but their approaches differ widely and there is no benchmark or industry standard in terms of scenarios or the way they are applied to an institution's positions. Furthermore, the impact of a given stress scenario, even if measured in the same way across institutions, depends entirely on the make-up of each institution's portfolio, and a scenario highly applicable to one institution may have no relevance to another. Comparisons of stress results between institutions can therefore be highly misleading, and for this reason UBS, like most of its peers, does not publish quantitative stress results.

### Concentration limits and other controls

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UBS applies concentration limits to exposures to general market risk factors and to single name exposures. The limits take account of variations in price volatility and market depth and liquidity.

In the Investment Bank, limits are placed on exposure to individual risk factors. They are applied to general market risk factors or groups of highly correlated factors based on market moves broadly consistent with the basis of VaR, i.e. 10-day, 99% confidence moves. Each limit applies to exposures arising from all instrument types in all trading businesses of the Investment Bank. The market moves are updated in line with the VaR historical time series and the limits are reviewed annually or as necessary to reflect market conditions. The effectiveness of risk factor limits in controlling concentrations of risk depends critically upon the way risk positions are represented. If long and short positions are considered to be sensitive to the same risk factor, potential gains and losses from changes in that factor are netted. The steps UBS is taking to enhance granularity of risk representation in its VaR measure are equally relevant to its risk concentration controls.

The Investment Bank carries exposure to single names, and therefore to event – including default – risk. This risk is measured across all relevant instruments (debt and equity, in physical form and from forwards, options, default swaps and other derivatives including basket securities) as the aggregate change in value resulting from an event affecting a single name or group. The maximum amount that could be lost if all underlying debt and equity of each name became worthless is also tracked. Positions are controlled in the context of the liquidity of the market in which they are traded, and all material positions are monitored in light of changing market conditions and specific, publicly available information on individual names – market risk officers do not have access to non-public information and must therefore rely to a significant extent on external ratings.

This form of single name exposure measure is most appropriate to corporate clients, financial institutions and other entities, the value of whose equity and debt instruments is dependent on their own assets, liabilities and capital resources. Asset-backed securities are usually issued through special purpose, bankruptcy remote vehicles and it is more important to aggregate risk in other dimensions than the issuer name, in particular the factors affecting the value of the underlying asset pools. UBS monitored underlying exposures by broad asset category but not to the level of granularity that proved neccessary in the case of mortgage-backed securities. It is now enhancing its measures accordingly.

➔ **For further details, please refer to the sidebar "Enhancements to market risk management and control" on the next two pages of this report**

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Exposures arising from security underwriting commitments are subject to the same measures and controls as secondary market positions. There are also governance processes for the commitments themselves, generally including review by a commitment committee with representation from both the business and the control functions. All firm underwriting commitments are approved under specific delegated risk management and risk control authorities.

### Other applications of market risk measures

Market risk measurement tools may be selectively applied to portfolios for which the primary controls are in other forms. VaR can, for example, provide additional insight into the sensitivity of investment positions to market risk factors, even though some of the assumptions of VaR – in particular the relatively short time horizon – may not be representative of their full risk. The results can be used by business management and risk controllers for information or to trigger action or review.

## Enhancements to market risk management and control

In 2007, UBS's market risk measures underestimated the potential losses resulting from exposures to the previously deep and liquid US residential mortgage market – neither trading management nor market risk controllers foresaw the extreme rates of delinquency and default and low recovery levels now projected, or the breakdown in correlation within and between asset classes that emerged in the second half of 2007 and revealed the tail risk in UBS's positions. With the accompanying drying up of liquidity in parts of the market, the size of UBS's positions has proved excessive relative to the market. The size, frequency and pattern of market moves were exceptional and UBS suffered losses in excess of those predicted by statistical or even stress loss risk measures based on historical market movements. Other market risk management and control processes were, however, intended to identify risk concentrations and sources of potential loss in more extreme circumstances. UBS is therefore taking steps to address the gaps which these events have revealed.

**Risk management**

Following the major losses, senior management changes were made. The fixed income, currencies and commodities (FICC) business unit is being restructured to build upon and strengthen its core business strategy of client servicing and risk distribution, and introduce stronger risk discipline:

- a workout group has been established to ensure robust risk management of the segregated, legacy portfolios and to develop orderly exit strategies;
- the remaining real estate-related activities are being refocused towards intermediation of client flows and alignment to the needs of investment banking and wealth management clients; and
- management of flow credit trading is being consolidated. This will improve risk aggregation and communication and, over time, will allow consolidation of risk management systems.

The introduction of a new funding framework for the Investment Bank will encourage more disciplined use of the balance sheet.

➔ **For further information, please refer to the sidebar "New funding framework" on page 51 of this report**

The models used in the risk management and valuation of US residential real estate-related products have been refined and recalibrated to reflect projections for lifetime cumulative losses consistent with market prices, where observable, and will continue to be updated as these projections and market parameters change. Even though some of these developments were undertaken under time pressure in a period of rapidly evolving markets and expectations, all models were approved for use by the independent model verification team. In first quarter 2008, the models were put into full production mode in the Investment Bank.

**Risk control**

As explained under "Risk measures", which starts on page 33 of this section, where values of different instruments are assessed to be driven by the same risk factor, sensitivities in standard risk control measures have typically been expressed net across instruments and positions. If the drivers are not, in fact, the same risk factor but, rather, risk factors which have historically been very closely correlated, this netting will disguise "basis" risk – the risk of divergent movements between risk factors that are not perfectly correlated. A feature of the market dislocation in 2007 was the breakdown of historical correlations within markets, for example delinquency rates on sub-prime mortgages of different vintages. An important enhancement to the market risk control framework is therefore to increase the granularity of risk representation – not just for US residential mortgage related products but more generally – so that basis risks can be appropriately measured and

controlled.
The specific characteristics of individual instruments which are critical in a stress event cannot always be predicted and it is therefore important to have a multi-faceted framework with complementary controls. UBS is applying more extensive limits, by asset class, based on gross values as well as risk sensitivities, in order to protect against extreme losses in the event of future dislocations and breakdowns – even if the probability of their occurring currently appears to be remote.
Additionally, controls have been introduced to highlight positions which are large relative to market depth.
In 2007, UBS also suffered significant markdowns as a result of leveraged positions – positions on which the rate of loss accelerated as market moves became more extreme – and on positions which were protected against market moves up to a certain point but fully exposed beyond that level. Such risks often only materialize when markets move beyond the range covered by statistical and stress loss parameters, and thus they do not show up in the regular risk measures. Controls over these deep tail risks already exist for some portfolios and are now being more widely applied.
UBS is revising its approach to global stress testing to deliver a more diverse range of scenarios, which better differentiate between the source of a stress event and its contagion effect. Additionally, more extensive use of targeted stress tests is planned, using forward looking scenarios based on analysis of the positions and vulnerabilities of each portfolio. An important additional aspect of stress testing will be to consider liquidity as well as price sensitivity. New stress loss limits have been introduced at business area level, and on the stress loss contribution to standard scenarios from emerging markets, individually and in aggregate.
Since second quarter 2007, a series of in-depth reviews, which will cover all Investment Bank trading portfolios, has been under way. The findings of these reviews are being incorporated into development plans and will be factored into the quantitative enhancements described above. They also provide important insights into necessary qualitative changes to market risk management and control. It is intended that reviews of this type will become a regular feature, contributing to the ongoing enhancement of the market risk framework.
UBS has, for many years, had a policy covering the pre-approval of structured and complex transactions. This has operated well at the transactional level but needs to be more systematically complemented by an assessment of the cumulative impact of "one-off" transactions with similar characteristics on market risk in the portfolio. Processes have been adjusted so that repeat transactions now trigger a review as a new business initiative, the objective being to identify, at an early stage, any potential build-up of risks that are not appropriately captured by the control framework.
Investment Bank market risk policies are also being revised to emphasize the key characteristics of trading activities, and the criteria for assessing the liquidity of positions.
Market and credit risk control operate on opposite sides of information barriers – market risk officers do not generally have access to non-public information about clients and counterparties unless formally brought "over the wall". There are, however, areas where the two teams can and do work closely together to provide a comprehensive and consistent view of risks. Areas for further cooperation and integration in organization and processes are being explored to better exploit the complementary skills of the two units.
The planned quantitative improvements and enhancements to processes will be reinforced through education to ensure that the lessons from 2007 are understood by risk managers and risk controllers alike. UBS has a dedicated risk education unit, reporting to the Group CRO, which is developing programs to help strengthen risk culture and risk awareness.

**Market risk in 2007**

The graphs below illustrate the relative calm of the first half of 2007, and the severe dislocation of markets and extreme volatility of the second half. Markets retreated in response to the first fall in the US sub-prime market, but by the end of first quarter the impact appeared to have been contained. Equities markets resumed their upward trend from late March through to May, but by June inflation fears and renewed concerns about wider contagion from the sub-prime market led to increased volatility. A flight to quality and rapid deleveraging by some market participants followed in third quarter, resulting in intra-market dislocations as participants exited "crowded trades". Spreads between government yields and bank borrowing rates ("TED spread") widened dramatically and central banks intervened to counter the general drying up of liquidity. In the US residential mortgage-related markets, credit spreads on the highest rated securities reached unprecedented levels, with associated increases in volatilities. A temporary recovery in September was short-lived – markets fell again in November on further deterioration in US residential mortgage markets, fears of a US recession and uncertainties about the health of the banking sector. Despite a slight recovery in some markets in December many experienced professionals regard trading conditions in fourth quarter as amongst the most difficult for many years.

Value at Risk

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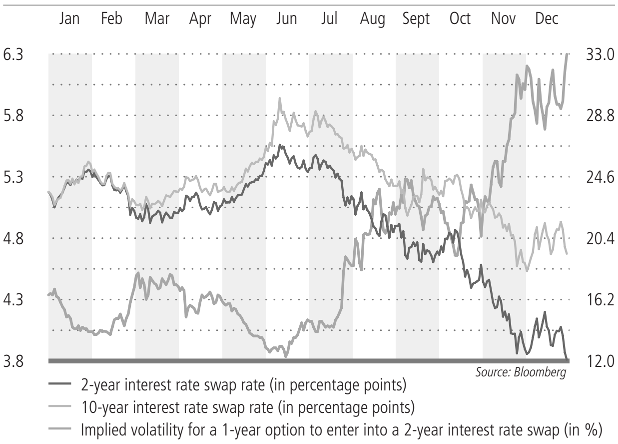
In 2007, Investment Bank VaR was higher on average and at year-end than in 2006, with a much greater range between minimum and maximum.

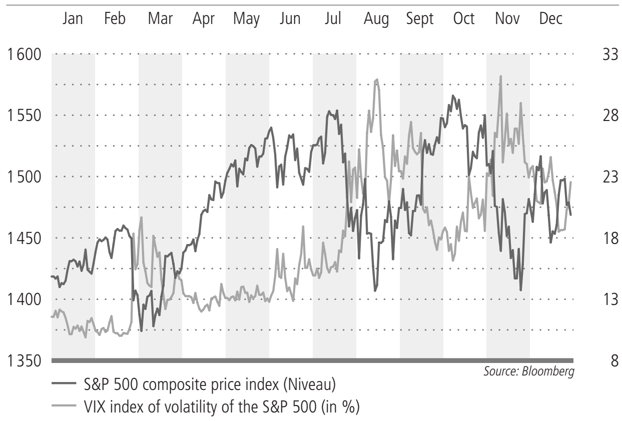
**USD interest rates**

*Yield* *Volatility in %*



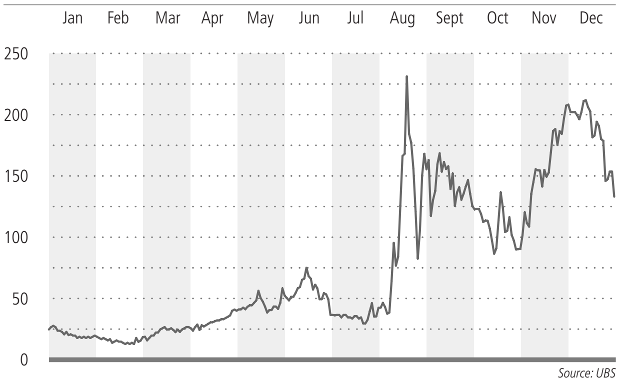

**US stock price development**

*Spot* *Volatility in %*



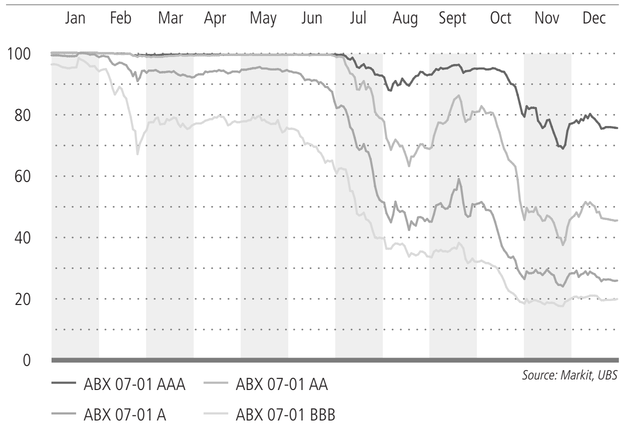

**TED spread**

*3-month Eurodollar LIBOR rate versus US 3-month T-bill yield (in basis points)*




**US sub-prime mortgage-backed securities**

*Price in %*



The graph of US sub-prime mortgage-backed securities illustrates the scale of market value decline which eroded partial hedges on positions, and increased risk exposure. The extreme volatility of spreads has progressively increased reported VaR on existing positions with each update of the 5-year historical time series. While the illiquidity of large parts of this market has prevented significant reductions in positions, amortizations and writedowns, together with active risk reduction in other areas, resulted in a lower VaR at year end than the peak for the year which occurred in fourth quarter.

There were other notable contributors to the fluctuations in Investment Bank VaR during the course of the year. The acquisition of Banco Pactual, completed in December 2006, resulted in more volatile interest rate VaR. In the first half of the year, directional exposure to equity markets not only increased equity VaR but also reduced the offset against interest rate VaR. Credit spread exposure and idiosyncratic risk were major contributors to the risk profile throughout the year.

Market risk limits were adjusted in third quarter to constrain the level of risk in areas other than US residential mortgage market related exposure, but the impact on these positions of updates to the historical time series in third and fourth quarters has more than offset risk reductions elsewhere.

Corporate Center VaR was generally lower than in 2006, until fourth quarter when the major writedowns announced in December led to temporary positions associated with Treasury's management of the foreign exchange component of parent bank profits and losses, and its management of the parent bank equity.

VaR for UBS as a whole was dominated by the Investment Bank, with Treasury providing some offset at times.

**Investment Bank: Value at Risk (10-day, 99% confidence, 5 years of historical data)**

| | **Year ended 31.12.07** | | | | Year ended 31.12.06 | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | **Min.** | **Max.** | **Average** | **31.12.07** | Min. | Max. | Average | 31.12.06 |
| **Risk type** | | | | | | | | |
| Equities | **147** | **415** | **210** | **242** | 144 | 360 | 203 | 232 |
| Interest rates (including credit spreads) | **269** | **877** | **475** | **576** | 237 | 607 | 417 | 405 |
| Foreign exchange | **9** | **73** | **28** | **21** | 16 | 65 | 31 | 40 |
| Energy, metals and commodities[1] | **24** | **90** | **51** | **41** | 26 | 102 | 49 | 44 |
| Diversification effect | [2] | [2] | **(227)** | **(266)** | [2] | [2] | (280) | (248) |
| **Total** | **291** | **836** | **537** | **614** | 331 | 559 | 420 | 473 |

1 Includes base metals and soft commodities risk from 15 March 2006. 2 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

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**UBS: Value at Risk (10-day, 99% confidence, 5 years of historical data)**

| | **Year ended 31.12.07** | | | | Year ended 31.12.06 | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | **Min.** | **Max.** | **Average** | **31.12.07** | Min. | Max. | Average | 31.12.06 |
| **Business groups** | | | | | | | | |
| Investment Bank[1,2] | **291** | **836** | **537** | **614** | 331 | 559 | 420 | 473 |
| Global Asset Management[3] | **2** | **10** | **4** | **3** | 4 | 16 | 9 | 10 |
| Global Wealth Management & Business Banking | **2** | **5** | **3** | **3** | 4 | 14 | 10 | 5 |
| Corporate Center | **10** | **92** | **25** | **61** | 25 | 69 | 43 | 27 |
| Diversification effect | [4] | [4] | **(34)** | **(93)** | [4] | [4] | (54) | (52) |
| **Total** | **288** | **833** | **535** | **588** | 336 | 565 | 429 | 464 |

1 Includes UBS risk managed by Dillon Read Capital Management from June 2006 to 2 May 2007 and risk transferred from Dillon Read Outside Investor Fund from 3 May 2007. 2 Includes UBS Pactual from 1 December 2006. 3 Only covers UBS positions in alternative and quantitative investments. During first quarter 2007, seed money and coinvestments in these funds were reclassified as financial investments and they are not included in reported Value at Risk from that point. 4 As the minimum and maximum occur on different days for different business groups, it is not meaningful to calculate a portfolio diversification effect.

**UBS: Value at Risk (1-day, 99% confidence, 5 years of historical data)[1]**

| | **Year ended 31.12.07** | | | | Year ended 31.12.06 | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | **Min.** | **Max.** | **Average** | **31.12.07** | Min. | Max. | Average | 31.12.06 |
| Investment Bank[2] | **124** | **253** | **164** | **149** | 129 | 230 | 172 | 160 |
| **UBS** | **126** | **254** | **165** | **152** | 131 | 233 | 173 | 162 |

1 10-day and 1-day Value at Risk (VaR) results are separately calculated from underlying positions and historical market moves. They cannot be inferred from each other. 2 Positions in Investment Bank subject to market risk regulatory capital contributed average VaR of CHF 160 million in 2007 and CHF 169 million in 2006.

## Backtesting

As a result of the severe market volatility and dislocation which prevailed from the end of July, UBS experienced 29 backtesting exceptions in 2007, its first since 1998. The multiplier by which the market risk regulatory capital requirement is derived from 10-day VaR has been increased accordingly.

The first histogram shows daily backtesting revenues alongside all daily revenues for 2007. In the second histogram, the daily backtesting revenues are compared with the corresponding VaR over the same 12-month period for days when backtesting revenues were negative.

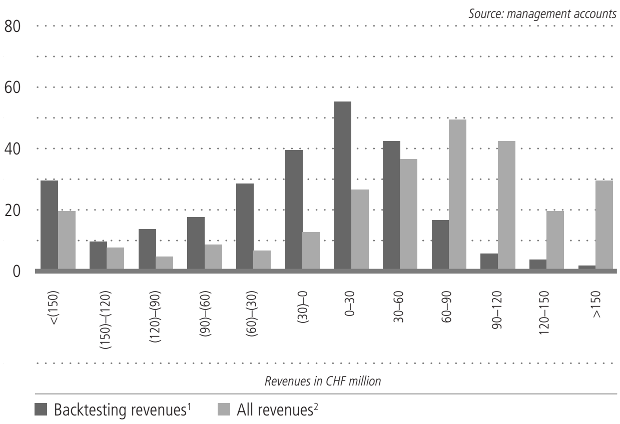
Given market conditions, the occurrence of backtesting exceptions is not surprising. Moves in some key risk factors were, on occasions, well beyond the level expected statistically with 99% confidence based on the historical time series in use at the time. Despite regular updates to the time series, backtesting exceptions have continued, partly caused by "jump events". Some of these reflect a step change in market conditions, such as the mass downgrade by a rating agency of highly rated US residential mortgage market-linked securities. Others result from periodic new information or show the cumulative impact over several days or weeks of changing conditions in markets with diminished liquidity – the monthly remittance data published by mortgage servicers typically results in discontinuities of this type. UBS also made changes to its valuation approach to certain positions, leading to step changes. For example, as liquidity dried up, certain positions moved from a mark-to-market to a market-to-model basis. The enhancements UBS is making to market risk measures will not, of course, eliminate backtesting exceptions from these sources.

## Stress loss

Stress loss for Investment Bank is defined as the worst case outcome from the official stress scenarios, which now include the worst historical loss from each day's VaR simulation. Stress loss, like VaR, is dominated by US residential mortgage-related positions, with a significant contribution from corporate credit spread exposure. Changing directional exposures to interest rates and equity markets have led to fluctuations in reported stress loss over the course of the year.

**Investment Bank: revenue distribution**

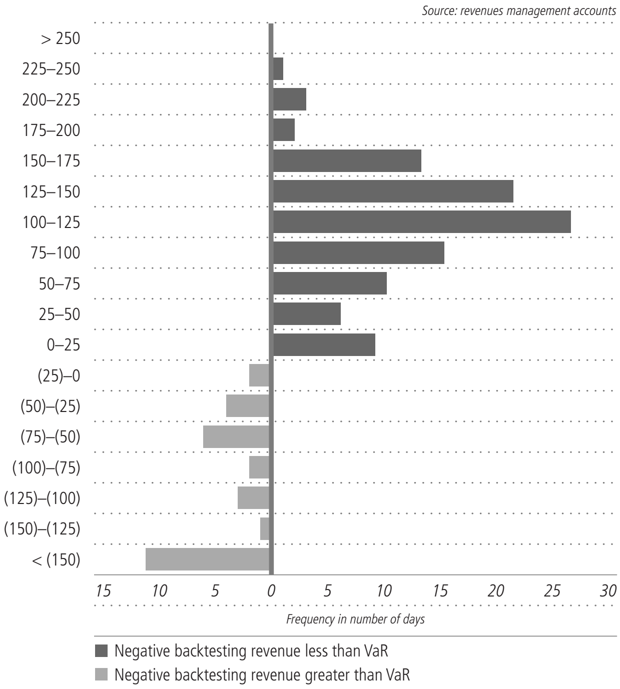
*Frequency in number of days* — *1 January 2007 – 31 December 2007*




1 Excludes non-trading revenues, such as commissions and fees, and revenues from intraday trading. 2 Includes all revenues from business areas which have trading activities.

**Investment Bank: analysis of negative backtesting revenues[1]**

*1-day 99% confidence Value at Risk (VaR) less backtesting revenue (CHF million)* — *1 January 2007 – 31 December 2007*




1 Backtesting revenues exclude non-trading revenues, such as commissions and fees, and revenues from intraday trading. Analysis for loss days only.

**Value at Risk outlook**

In its fourth quarter 2007 report, UBS indicated that it was considering changing the internal risk control and/or regulatory capital treatment of some US residential mortgage market-related positions. Decisions have now been taken to reclassify some of the legacy portfolios managed by the FICC workout group. The markets for these positions are not liquid and 10-day VaR is not an adequate measure of their risks or an appropriate risk control tool. They will no longer be subject to internal VaR limits, they will be subject to banking book, rather than trading book, regulatory capital, and they will be excluded from UBS's disclosed VaR from first quarter 2008.

Audited

The marginal contribution of the legacy positions to Investment Bank VaR at 31 December 2007 is approximately CHF 260 million.

Since year-end 2007, the VaR historical time series has been further updated to capture the continued increase in market volatility in November and December. As a result, VaR on existing Investment Bank positions – excluding the legacy positions – increased by approximately 4%. Had the legacy positions remained in VaR their marginal contribution to Investment Bank VaR would have more than trebled.

# Investment positions

Audited

UBS makes investments for a variety of purposes. The majority of investment positions are equity holdings, some of which are made for revenue generation or as part of strategic initiatives, while others, such as exchange and clearing house memberships are held in support of UBS's business activities. Investments are also made in funds managed by UBS to seed them at inception or to demonstrate alignment of UBS's interests with those of investors. UBS also holds debt investments.

**Equity investments**

Many equity investments are unlisted and therefore illiquid. Investments in listed stocks are limited in number both by individual market and in total. The fair values of equity investments are generally dominated by factors specific to the individual stocks and the correlation of individual holdings to equity indices varies. Furthermore, equity investments are generally intended to be held medium- or long-term and may be subject to lock-up agreements. For these reasons, they are not directly controlled using the market risk measures applied to trading activities. They are, however, subject to controls, including pre-approval of new investments by business management and risk control, and regular monitoring and reporting.

Where investments are made as part of an ongoing business they are also subject to standard controls, including portfolio and concentration limits. Seed money and co-investments in UBS-managed funds made by Global Asset Management are, for example, subject to a portfolio limit. All investments must be explained and justified, approved according to delegated authorities, and monitored and reported to senior management throughout their life.

Private equity positions were, in the past, the major component of equity investments but the portfolio is being managed down.

While equity investments are not subject to UBS's Group and business group VaR limits, market risk measurement tools may be selectively applied to them, where appropriate, for internal management information. VaR can, for example, provide additional insight into the sensitivity of investments in UBS-managed funds where the assets and other exposures of the funds are in the form of tradable financial instruments. Although some of the assumptions of VaR – in particular the relatively short time horizon – may not be representative of the full risk on equity investments, the results can be used by business management and risk controllers for information or to trigger action or review.

Under International Financial Reporting Standards (IFRS), equity investments may be classified as Financial investments available-for-sale, Financial assets designated at fair value through profit and loss, or Investments in associates.

Composition of equity investments

At 31 December 2007, UBS held equity investments totaling CHF 7,690 million of which CHF 3,583 million were classified as Financial investments available-for-sale, CHF 2,128 million as Financial assets designated at fair value and CHF 1,979 million as Investments in associates. Within Financial investments available-for-sale, CHF 1,865 million are listed equities. None of UBS's equity investments is in structured equity products.

At 31 December 2006, equity investments totalled CHF 10,014 million of which CHF 8,062 million were classified as Financial investments available-for-sale, CHF 429 million as Financial assets designated at fair value and CHF 1,523 million as Investments in associates. Within Financial investments available-for-sale, CHF 5,880 million were listed equities.

UBS's largest single equity investment is its 1% stake in Bank of China, which was taken in 2005, as part of a major strategy initiative. The fair value of this investment on 31 December 2007 was CHF 1,644 million, of which CHF 1,084 million is an unrealized gain reported in equity. The fair value at 31 December 2006 was CHF 2,055 million of which CHF 1,450 million was an unrealized gain recorded in equity. Bank of China is a domestic Chinese bank which has a listing on the H-share register in Hong Kong. The fair value at which UBS carries this investment is determined by a valuation technique (level 2) to reflect the lock-up agreement between UBS and Bank of China. The market value of the shares is affected primarily by the performance of the bank itself, which will, in turn, be somewhat influenced by the Chinese economy, but it is not expected that day to day movements in either Chinese or Hong Kong stock market indices will have a long term impact on the value of this investment. Changes in the exchange rate between the Swiss franc and the Chinese renmimbi, in which the assets and liabilities of Bank of China are primarily denominated, will affect the fair value at which the investment is recorded in UBS's financial statements.

At 31 December 2006, UBS held a stake in Bank Julius Baer with a fair value of CHF 3,029 million. This stake was acquired when Private Banks & GAM was sold in 2005. It was sold in June 2007.

Within the total of CHF 2,128 million Financial assets designated at fair value, an amount of CHF 1,788 million

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represents the assets of trust entities associated with employee compensation schemes. They are broadly offset by liabilities to plan participants included in Other liabilities. The equivalent positions at 31 December 2006 amounted to CHF 1,726 million.

➔ **Details of significant associates are provided in Note 33 in *Financial Statements 2007***

### Debt investments

Debt investments classified for IFRS as Financial investments available-for-sale can be broadly categorized as money market papers and debt securities, which are mainly held for statutory, regulatory or liquidity reasons, and non-performing loans, which are purchased in the secondary market by the Investment Bank as part of an approved business line.

The risk control framework applied to debt instruments classified as Financial investments available-for-sale varies depending on the nature of the instruments and the purpose for which they are held.

UBS Bank USA holds debt investments in instruments for which there are liquid markets and of a type which the Investment Bank also carries in its trading inventory (US government sponsored agency securities). They are controlled under the market risk framework and for internal risk control purposes are not considered to be investment positions.

Non-performing loans are subject to specific limits and controls, including risk management and risk control pre-approval. The fair value of non-performing loans is not highly sensitive to interest rate movements but, rather, depends on the expected recovery rate for each individual loan.

Other debt investments are predominantly securities issued by sovereigns of the Organization for Economic Co-operation and Development (OECD) and highly rated financial institutions.

Where applicable, debt investments are reflected in reports to senior management of consolidated credit exposures and in large exposure reports to the Swiss Federal Banking Commission (SFBC).

#### Composition of debt investments

On 31 December 2007, debt financial investments classified as Financial investments available-for-sale consisted of money market papers of CHF 349 million and other debt investments of CHF 1,034 million.

At 31 December 2006, the equivalent positions were CHF 354 million money market paper and CHF 521 million other debt investments.

# Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. It is inherent in all UBS's activities, not only in the business the firm conducts but due to the fact it is a business – because UBS is an employer, it owns and occupies property and holds assets, including information, belonging to both the firm and its clients. The approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the firm has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The Group Chief Risk Officer (Group CRO) and the Group Head of Operational Risk (who reports to the Group CRO) are responsible for the independence, objectivity and effectiveness of the operational risk framework.

## Operational risk framework

Every function, whether a front-end business or a control or logistics unit, must manage the operational risks that arise from its own activities. Because these risks are all pervasive, with a failure in one area potentially impacting many others, UBS's framework is based on mutual oversight across all functions. Each business group has therefore established cross-functional bodies as an integral part of its governance structure, to actively manage operational risk.

To ensure the integrity of risk management decisions, each business group also has an Operational Risk Control unit, the head of which reports functionally to the Group Head of Operational Risk. The primary remit of these units is to confirm the effective implementation of the operational risk framework in the business group, to ensure transparent assessment and reporting of risks to senior management, and to coordinate with their counterparts in other business groups and with the Group Head of Operational Risk on cross-business group matters.

The foundation of the operational risk framework is the definition by all functions of their roles and responsibilities so that, collectively, they can ensure that there is adequate segregation of duties, complete coverage of risks and clear accountability. From this analysis, they develop control objectives and standards to protect UBS's tangible and intangible assets and interests, based on the types of operational risk events that might arise, ranging from daily reconciliation problems to potentially severe events such as fraud. UBS recognizes that it cannot eliminate all risks, because errors and accidents will always happen, and that even where it is possible it is not always cost effective to do so. UBS's internal control framework differentiates potential events depending on their likely frequency and impact. Its mitigation and avoidance efforts are focused on areas where UBS believes it is most exposed to severe events – including both those that are reasonably foreseeable and those that, while not predictable, are thought to be reasonably possible. For lower impact risks UBS concentrates on management and monitoring.

The functions monitor compliance with their controls and assess their operating effectiveness in several ways, including self-certification by staff, and evaluation of responses by management. Additionally, they track a wide range of metrics to provide potential early warning of increased risk associated with non-attainment of control objectives. These include numbers and characteristics (severity, size, age, etc.) of, for example, client complaints and claims, deal cancellations and corrections, unreconciled items on cash and customer accounts, and systems failures. The implications of internal and external audit findings and other relevant sources of information are also assessed.

As major operational risk events occur, UBS assesses their causes and the implications for its control framework, whether or not they lead to direct financial loss. This includes events affecting third parties that are relevant to the firm's business if sufficient information is made public. It is important to use all available information to test the control framework because, even if an internal event does not lead to a direct or indirect financial loss, it may indicate that UBS's standards are not being complied with.

The totality of this information is reviewed by functional managers to assess their operational risk exposure and the actions needed to address specific issues. These issues are formally captured on a risk inventory, which forms the basis of reporting to senior management. Regular reports are made both within the business groups and to the Group CRO to allow senior management to assess the overall operational risk profile.

## Operational risk measurement

UBS has developed a model for quantification of operational risk, which meets the regulatory capital standard under the Basel II Advanced Measurement Approach (AMA). It has two main components. The historical component is based on UBS's own internal losses and is used primarily to determine the expected loss portion of the capital requirement. The firm has been collecting operational risk event data (both profits and losses) since 2002.

The scenario component of the AMA model is used primarily to determine the unexpected loss portion of the capital requirement. It is based on a set of generic scenarios that represent categories of operational risks to which UBS is exposed. The scenarios themselves are generated from an analysis of internal and external event information, the current business environment, and UBS's own internal control environment through comparison to the risk inventory. For each scenario, UBS estimates a base case mainly derived from its own experience, a stressed case mainly derived from integrating experiences of select peers and a worst case based on events experienced by an expanded set of peers in the financial industry. The scenarios are reviewed at least annually by experts in the relevant subject matter and their risk control counterparts to ensure their validity and may be updated based on material new information or events that occur.

Currently, UBS does not reflect mitigation through insurance in its AMA model.

UBS does not set limits on operational risk but reports the measured risk through the standard reporting processes, and includes it in the overall quantification of risk under the Earnings-at-risk and Capital-at-risk frameworks.

With the implementation of Basel II from 1 January 2008, UBS calculates its operational risk regulatory capital requirement using the AMA model for the consolidated group and the parent bank, in accordance with the requirements of the Swiss Federal Banking Commission, UBS's primary regulator. For regulated subsidiaries, the simpler basic indicator or standardized approaches are adopted, as agreed with local regulators.

The operational risk framework is primarily qualitative rather than quantitative – financial losses and capital considerations are only one, and not the most important, element. UBS uses the operational risk framework as the basis for specialist internal control assessments in areas such as legal, compliance, tax and human resources and to meet internal control-related regulatory requirements, such as Section 404 of the US Sarbanes-Oxley Act of 2002, as well as Basel II.

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