BASE LISTING DOCUMENT DATED 13 APRIL 2010

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

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

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 ("**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.

The Structured Products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

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	Aa3
Standard and Poor's Ratings Services, a division of the McGraw-Hill Companies Inc.	A+
Fitch Ratings Ltd., London	A+

Rating agencies usually receive a fee from the issuers that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the Structured Products;
- ratings of issuers may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and
- a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the date of this document are for reference only. Any downgrading of our ratings could result in a reduction in the value of the Structured Products.

The Structured Products are not rated.

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 Financial Market Supervisory Authority 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?

There has been no material adverse change in our financial or trading position since 31 December 2009.

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 any capital gains arising on the sale of the 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.

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 or if you are a citizen of such state, 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 2009 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 websites of the Stock Exchange at *http://www.hkex.com.hk/eng/dwrc/search/listsearch.asp* or *http://www.hkex.com.hk/eng/cbbc/search/listsearch.asp*.

各上市文件亦可於聯交所網站 (*http://www.hkex.com.hk/chi/dwrc/search/listsearch_c.asp* 或 *http://www.hkex.com.hk/chi/cbbc/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 4 March 2010 and/or the references to their name in this document, 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.

Authorised representatives

Evelyn Koh and Johnny Yu, 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.

HKEx, 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 Financial Market Supervisory Authority. 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".

Call warrants

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.

Put warrants

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 warrants

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 warrants

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 warrants

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 warrants; 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/eng/prod/secprod/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.

OVERVIEW OF CBBCs

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;

(c) unit trusts listed on the Stock Exchange; and/or

(d) overseas shares, indices, 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/eng/prod/secprod/cbbc/underlying_latest.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, B and C 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**") or CBBCs over single unit trusts ("**Single Unit Trust 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 supplemental 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 or distributions 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/eng/prod/secprod/cbbc/Intro.htm* to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

1. Overview

UBS AG (also the "Issuer" or the "Company") with its subsidiaries is a client-focused financial services firm that offers a combination of wealth management, asset management and investment banking services on a global and regional basis. By delivering a full range of advice, products and services to its private, corporate and institutional clients, UBS aims to generate sustainable earnings, create value for its shareholders, and be economically profitable in every segment, market and business in which it operates. With headquarters in Zurich and Basel, Switzerland, UBS is present in all major financial centers and has offices in over 50 countries. On 31 December 2009, UBS employed 65,233 people[1].

On 31 December 2009 UBS's BIS Tier1[2] ratio was 15.4%, invested assets stood at CHF 2,233 billion, equity attributable to UBS shareholders was CHF 41,013 million and market capitalization was CHF 57,108 million.

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 fulfill 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. UBS currently has long-term senior debt ratings of A+ (outlook stable) from Standard & Poor's, Aa3 (outlook negative) from Moody's and A+ (outlook stable) from Fitch.

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.

According to Article 2 of the Articles of Association of UBS AG ("Articles of Association") the purpose of UBS AG 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.

UBS AG shares are listed on the SIX Swiss Exchange, the New York Stock Exchange and the Tokyo Stock Exchange[3].

The addresses and telephone numbers of UBS AG's two registered offices and principal places of business are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, telephone +41 44 234 1111; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, telephone +41 61 288 5050.

3. Business Overview

3.1 Business Divisions and Corporate Center

Organizationally, UBS AG and its subsidiaries have operated throughout 2009 as a group ("UBS Group", "Group", or "UBS") with four business divisions (Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank) and a Corporate Center. Each of the business divisions and the Corporate Center are described below. A full description of their strategies, organization, products, services, markets and performance can

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1 Full-time equivalents.

2 BIS Tier 1 ratio is the ratio of eligible Tier 1 capital to BIS risk-weighted assets. Eligible Tier 1 capital comprises paid-in share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interests less certain deduction items, mainly comprising accrued dividends, net long positions in own shares and goodwill.

3 UBS expects to de-list its shares from the Tokyo Stock Exchange in the near future.

be found in the Annual Report 2009 of UBS AG published on 15 March 2010 (the "Annual Report 2009"), in the English version on pages 71-107 (inclusive).

3.1.1 Wealth Management & Swiss Bank

Wealth Management & Swiss Bank focuses on delivering comprehensive financial services to high net worth and ultra high net worth individuals around the world - except those served by Wealth Management Americas - as well as private and corporate clients in Switzerland. UBS provides clients in over 40 countries, including Switzerland, with financial advice, products and tools to fit their individual needs. UBS has, in its own opinion, a leading position across all clients segments in Switzerland.

3.1.2 Wealth Management Americas

Wealth Management Americas provides advice-based relationships through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of core affluent, high net worth and ultra high net worth individuals and families. It includes the former Wealth Management US business unit, as well as the domestic Canadian business and the international business booked in the United States.

3.1.3 Global Asset Management

Global Asset Management is, in its own opinion, a large-scale asset manager with well diversified businesses across regions, capabilities and distribution channels. It offers investment capabilities and investment styles across all major traditional and alternative asset classes. These include equities, fixed income, currency, hedge fund, real estate, infrastructure and private equity investment capabilities that can also be combined in multi-asset strategies.

3.1.4 Investment Bank

The Investment Bank provides securities and other financial products and research in equities, fixed income, rates, foreign exchange and precious metals. It also provides advisory services and access to the world's capital markets for corporate, institutional, intermediary and alternative asset management clients.

3.1.5 Corporate Center

The Corporate Center seeks to ensure that the business divisions operate as a coherent and effective whole by providing and managing support and control functions for the business divisions and the Group in such areas as risk control, finance, legal and compliance, funding, capital and balance sheet management, management of foreign currencies, communication and branding, human resources, information technology, real estate, procurement and service centers.

3.2 Organizational Structure of the Issuer

UBS AG is the parent company of the UBS Group. The objective of UBS's group structure is to support the business activities of the Company within an efficient legal, tax, regulatory and funding framework. None of the individual business divisions of UBS or the Corporate Center are legally independent entities; instead, they primarily perform their activities through the domestic and foreign offices of the parent bank.

Settlement of transactions through the parent bank allows UBS to fully exploit the advantages generated for all business divisions 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 legal, tax or regulatory provisions, or where additional legal entities join the Group through acquisition, these tasks are performed on location by legally independent Group companies. UBS AG's significant subsidiaries are listed in the Annual Report 2009, in English, on pages 350-352 (inclusive).

3.3 Competition

UBS faces stiff competition in all business areas. Both in Switzerland and abroad, it 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.

3.4 Recent Developments

On 17 November 2009 at its 2009 Investor Day in Zurich, UBS AG's Group Executive Board has provided an update on the ongoing transformation of the firm, and the strategy and medium-term targets that will characterize UBS's return to sustainable profitability. The continuing transformation of UBS and the execution of the business strategies presented to investors will enable UBS to meet specific goals over the medium-term (3-5 years). At a Group level, UBS aims to achieve: approximately CHF 15 billion of annual profit before tax; a cost-to-income ratio of 65-70%; and a return-on-equity of 15-20%. The objectives will be subject to market movements and regulatory changes.

On 29 September 2009, UBS announced that Sergio Marchionne, Senior Independent Director of the Board of Directors of UBS AG, and Peter Voser will not stand for re-election to the Board at the annual general meeting which will take place on 14 April 2010. Further, on 7 December 2009, UBS announced that it has nominated Wolfang Mayrhuber, the Chairman of the Executive Board and CEO of Deutsche Lufthansa AG, for election to the Board of Directors of UBS AG.

On 15 March 2010, UBS published its Annual Report 2009 and reported a net loss attributable to UBS shareholders for 2009 of CHF 2,736 million, compared to a net loss of CHF 21,292 million for 2008. This improvement was due to much lower losses on residual risk positions in the Investment Bank and reduced operating expenses for the Group. The result for 2009 included a number of significant items, namely an own credit loss of CHF 2.0 billion which occurred as a result of the markets' perception of UBS's improved creditworthiness, charges relating to the sale of UBS Pactual of CHF 1.4 billion, restructuring charges of CHF 0.8 billion, and a CHF 0.3 billion gain on the mandatory convertible notes converted in August 2009. The Group's net profit attributable to shareholders for the fourth quarter was CHF 1.2 billion, including a positive contribution from each of UBS's business divisions. The year-end 2009 BIS tier 1 ratio was 15.4%, up from 11.0% on 31 December 2008. UBS's total assets stood at CHF 1,341 billion on 31 December 2009, down CHF 674 billion (33%) from CHF 2,015 billion on 31 December 2008. This decline was due primarily to significant market driven reductions in replacement values (RVs) on both sides of the balance sheet. UBS's FINMA leverage ratio was 3.93% on 31 December 2009 compared with 2.45% on 31 December 2008. Net new money outflows in 2009 were CHF 89.8 billion for Wealth Management & Swiss Bank, compared with CHF 107.1 billion in 2008; CHF 11.6 billion for Wealth Management Americas, compared with CHF 15.9 billion; and CHF 45.8 billion for Global Asset Management, compared with CHF 103.0 billion.

3.5 Trend Information (Outlook)

In 2010, UBS expects to see the full effects of the progress it has made in improving operating efficiency, reducing risk and rebuilding and re-focusing its businesses. UBS is confident the steps it is taking to reduce client outflows in its wealth and asset management business divisions will be effective, but in the immediate future UBS still expects to report net outflows with some pressure on margins. UBS expects that the Investment Bank's performance for the year as a whole will improve, in part because its residual risk positions will have a much reduced effect on results. UBS Group results are heavily dependent on market vitality, and more favorable market conditions in January and February 2010 have benefited most of its businesses.

4. Administrative, Management and Supervisory Bodies of the Issuer

UBS AG operates under a strict dual board structure, as mandated by Swiss banking law. 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 Organization Regulations of UBS AG with their annexes govern all details as to authorities and responsibilities of the two bodies.

4.1 Board of Directors

The BoD is the most senior body of UBS AG. The BoD consists of at least six and a maximum of 12 members. All the members of the BoD are elected individually by the Annual General Meeting

("AGM") for a term of office of one year[4]. The BoD constitutes itself at its first meeting following the AGM. In this meeting the Chairman, the Vice Chairman/Vice Chairmen, the Senior Independent Director, the committee Chairmen and the committee members are elected among and by the BoD members. The BoD committees comprise the Audit Committee, the Corporate Responsibility Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee and the Risk Committee.

The BoD has ultimate responsibility for the success of the UBS Group and for delivering sustainable shareholder value within a framework of prudent and effective controls. It decides on UBS's strategic aims and the necessary financial and human resources upon recommendation of the Group Chief Executive Officer ("Group CEO") and sets the UBS Group's values and standards to ensure that its obligations to its shareholders and others are met. The BoD's proposal for election must be such that three quarters of the BoD members will be independent. While the Chairman does not need to be independent, at least one of the Vice Chairmen must be. 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 twelve members:

	Title	Term of office	Position outside UBS AG
Kaspar Villiger	Chairman	2010	None
Sergio Marchionne	Independent Vice Chairman/ Senior Independent Director	2010	CEO and member of the board of Fiat S.p.A.; CEO of Fiat Group Automobiles; CEO of Chrysler Group LLC; Chairman of Société Générale de Surveillance Group of Geneva (SGS); member of the BoD of Philip Morris International Inc., New York; member of European Automobile Manufacturers' Association (ACEA); Chairman of CNH Case New Holland.
Sally Bott	Member	2010	Group HR Director and member of the Group Executive Committee of BP plc; member of the board of the Royal College of Music in London; member of the board of the Carter Burden Center for the Aging in New York City.
Michel Demaré	Member	2010	CFO and member of the Group Executive Committee of ABB; President Global Markets at ABB; member of the IMD Foundation Board, Lausanne.
Rainer-Marc Frey	Member	2010	Founder and Chairman of Horizon21; member of the BoD of DKSH Group, Zurich; member of the Advisory Board of Invision Private Equity AG, Zug; member of the BoD of the Frey Charitable Foundation, Freienbach.
Bruno Gehrig	Member	2010	Vice Chairman of the BoD of Roche Holding Ltd., Basel; Chairman of the Swiss Air Transport Foundation, Zug.
Ann F. Godbehere	Member	2010	Board member of Prudential plc, Rio Tinto plc and Rio Tinto Limited, the Lloyd's managing agency, Atrium Underwriters Ltd. and Atrium Underwriting Group Ltd., as well as member of the board of Ariel Holdings.

[4] At the Annual General Meeting on 23 April 2008 the shareholders reduced the term of office for the members of the BoD from three years to one year. As a result, the new members were elected for one year. For existing members the one-year term starts from the point at which they are re-elected.

	Title	Term of office	Position outside UBS AG
Axel P. Lehmann	Member	2010	Group Chief Risk Officer of Zurich Financial Services (Zurich); responsible for Group IT at Zurich; Chairman of the Board of the Institute of Insurance Economics at the University of St. Gallen and Vice Chairman of the Chief Risk Officer Forum.
Helmut Panke	Member	2010	Member of the BoD of Microsoft Corporation, Redmond, USA, and Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG, Germany.
William G. Parrett	Member	2010	Independent Director of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc., USA; Chairman of the BoD of the United States Council for International Business and of United Way Worldwide; member of the Board of Trustees of Carnegie Hall; member of the Executive Committee of the International Chamber of Commerce.
David Sidwell	Member	2010	Director of the Federal National Mortgage Association (Fannie Mae) and Senior Advisor at Oliver Wyman; trustee of the International Accounting Standards Committee Foundation, London; Chairman of the BoD of Village Care of New York; Director of the National Council on Aging.
Peter R. Voser	Member	2010	CEO and executive BoD member of Royal Dutch Shell plc; member of the BoD of the Swiss Federal Audit Oversight Authority.

4.2 Group Executive Board

Under the leadership of the Group CEO, the GEB has executive management responsibility for the UBS Group and its business. It assumes overall responsibility for the development of the UBS Group and business division strategies and the implementation of the approved strategies. All GEB members (with the exception of the Group CEO) are proposed by the Group CEO. The appointments are approved by the BoD.

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 thirteen members:

Oswald J. Grübel	Group Chief Executive Officer
John Cryan	Group Chief Financial Officer
Markus U. Diethelm	Group General Counsel
John A. Fraser	Chairman and Chief Executive Officer Global Asset Management
Lukas Gähwiler	Chief Executive Officer UBS Switzerland, Wealth Management & Swiss Bank
Carsten Kengeter	co-CEO Investment Bank
Ulrich Körner	Group Chief Operating Officer and Chief Executive Officer Corporate Center
Philip J. Lofts	Group Chief Risk Officer
Robert J. McCann	Chief Executive Officer Wealth Management Americas
Alexander Wilmot-Sitwell	co-CEO Investment Bank
Robert Wolf	Chairman and Chief Executive Officer, UBS Group Americas/ President Investment Bank
Chi-Won Yoon	Chairman and Chief Executive Officer Asia Pacific
Jürg Zeltner	Chief Executive Officer Wealth Management, Wealth Management & Swiss Bank

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

4.3 Potential conflicts of interest

Members of the BoD and GEB may act as directors or executive officers of other companies (for current positions outside UBS (if any) of BoD members, please see above under "Board of Directors of UBS AG") and may have economic or other private interests that differ from those of UBS. Potential conflicts of interest may arise from these positions or interests. UBS is confident that its internal corporate governance practices and its compliance with relevant legal and regulatory provisions reasonably ensure that any conflicts of interest of the type described above are appropriately managed, including through disclosure when appropriate.

5. Auditors

On 15 April 2009, the AGM of UBS AG re-elected Ernst & Young Ltd, Aeschengraben 9, 4002 Basel, Switzerland ("Ernst & Young") as auditors for the Financial Statements of UBS AG and the Consolidated Financial Statements of the UBS Group 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.

6. Major Shareholders of the Issuer

The ownership of UBS AG shares is broadly dispersed.

On 16 March 2010, The Capital Group Companies, Inc., Los Angeles, disclosed under the Swiss Stock Exchange Act a holding of 4.75% of the total share capital of UBS AG.

On 12 March 2010, Government of Singapore disclosed under the Swiss Stock Exchange Act a holding of 6.45% of the total share capital of UBS AG.

On 17 December 2009, BlackRock Inc., New York, disclosed under the Swiss Stock Exchange Act a holding of 3.45% of the total share capital of UBS AG.

As of 31 December 2009, the following shareholders, acting in their capacity as nominees for other investors or beneficial owners, were registered in the share register with 3% or more of the total share capital of UBS AG: Chase Nominees Ltd., London (11.63%); the US securities clearing organization DTC (Cede & Co.) New York, "The Depository Trust Company" (8.42%); Mellon Bank N.A., Everett (3.21%) and Nortrust Nominees Ltd, London (3.07%). Pursuant to UBS's provisions on registration of shares, voting rights of nominees are limited to 5%. This regulation does not apply to securities clearing and settlement organizations. Only shareholders registered in UBS AG's share register as shareholders with voting rights are entitled to exercise voting rights.

As of 31 December 2009, UBS held a stake of UBS AG's registered shares, which corresponded to less than 3.00% of its total share capital. On 11 March 2010 UBS AG disclosed disposal positions relating to 558,512,499 of its shares, corresponding to 14.58% of the total share capital. These positions included the number of shares that may be issued, upon certain conditions, out of conditional capital to the Swiss National Bank (SNB) in connection with the transfer of certain illiquid and other positions to a fund owned and controlled by the SNB.

Further details on the distribution of UBS AG's 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 2009, in English, on pages 187-190 (inclusive).

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

7.1 Historical Annual Financial Information

A description of the Issuer's assets and liabilities, financial position and profits and losses is available for financial year 2008 in the Annual Report 2008, published as a restatement on 20 May 2009, Financial Information, in English, and for financial year 2009 in the Annual Report 2009, Financial Information, in English. The Issuer's financial year is the calendar year.

In the case of financial year 2008 reference is made to

(i) the Consolidated Financial Statements of UBS Group , in particular to the Income Statement on page 256, the Balance Sheet on page 257, the Statement of Cash Flows on pages 261-262 (inclusive) and the Notes to the Consolidated Financial Statements on pages 263-370 (inclusive), and

(ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 372, the Balance Sheet on page 373, the Statement of Appropriation of Retained

Earnings on page 373, the Notes to the Parent Bank Financial Statements on pages 374-389 (inclusive) and to the Parent Bank Review on page 371, and

(iii) the sections entitled "Accounting Principles" on page 245 and "Critical Accounting Policies" on pages 246-250 (inclusive) in the Annual Report 2008 of UBS AG, as restated on 20 May 2009, Financial Information, in English.

In the case of financial year 2009 reference is made to

(i) the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 255, the Balance Sheet on page 257, the Statement of Cash Flows on pages 261-262 (inclusive) and the Notes to the Consolidated Financial Statements on pages 263-370 (inclusive), and

(ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 372, the Balance Sheet on page 373, the Statement of Appropriation of Retained Earnings on page 373, the Notes to the Parent Bank Financial Statements on pages 374-392 (inclusive) and to the Parent Bank Review on page 371, and

(iii) the sections entitled "Introduction and accounting principles" on page 244 and "Critical accounting policies" on pages 245-248 (inclusive) in the Annual Report 2009 of UBS AG, Financial Information, in English.

The annual financial reports form an essential part of UBS's reporting. They include the audited Consolidated Financial Statements of UBS Group, prepared in accordance with International Financial Reporting Standards and the audited Financial Statements of UBS AG (Parent Bank), prepared according to Swiss banking law provisions. The financial statements also include certain additional disclosures required under Swiss and US regulations. The annual reports also include discussions and analysis of the financial and business results of UBS, its business divisions and the Corporate Center.

7.2 Auditing of Historical Annual Financial Information

The Consolidated Financial Statements of UBS Group and the Financial Statements of UBS AG (Parent Bank) for financial years 2008 and 2009 were audited by Ernst & Young. The reports of the auditors on the Consolidated Financial Statements can be found on pages 254-255 (inclusive) of the Annual Report 2008, Financial Information, in English, and on pages 252-253 (inclusive) of the Annual Report 2009, Financial Information, in English. The reports of the auditors on the Financial Statements of UBS AG (Parent Bank) can be found on pages 390-391 of the Annual Report 2008, Financial Information, in English, and on pages 393-394 of the Annual Report 2009, Financial Information, in English.

7.3 Interim Financial Information

Reference is also made to UBS's first, second, third and fourth quarter 2009 reports, which contain information on the financial condition and the results of operation of UBS Group as of 31 March 2009, 30 June 2009, 30 September 2009 and 31 December 2009, respectively. The interim financial statements are not audited.

7.4 Legal and Arbitration Proceedings

The UBS Group operates in a legal and regulatory environment that exposes it to 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, including the impact on operations or on the financial statements, 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 into a settlement even though UBS denies any wrongdoing. The Group makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated.

Certain potentially significant legal proceedings within the last twelve months until the date of this document are described below:

a) Tax shelter investigation: UBS continues to cooperate with the US Internal Revenue Service (IRS) in civil litigation relating to various tax-oriented transactions in which UBS and others engaged between 1996 and 2000.

b) HealthSouth: With respect to two securities class actions brought in the United States District Court for the Northern District of Alabama, UBS and its insurers have reached an agreement in principle settling those actions with lead plaintiffs representing the stockholder and bondholder classes. This settlement is subject to notice to the classes and court approval, and is not expected to have any material impact on UBS's results.

c) Municipal Bonds: In November 2006, UBS and others received subpoenas from the US Department of Justice, Antitrust Division, and the US Securities and Exchange Commission (SEC) seeking information relating to the investment of proceeds of municipal bond issuances and associated derivative transactions. Both investigations are ongoing, and UBS is cooperating. In addition, various state Attorneys General have issued subpoenas seeking similar information. 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. The discussions with the SEC are ongoing.

d) Auction Rate Securities: UBS was the subject of an SEC investigation and state regulatory actions relating to the marketing and sale of auction rate securities (ARSs) to clients, and to UBS's role and participation in ARS auctions and underwriting of ARSs. UBS was also named in several putative class actions and individual civil suits and arbitrations. The regulatory actions and investigations and the civil proceedings followed the disruption in the markets for these securities and related auction failures since mid-February 2008. At the end of 2008 UBS entered into settlements with the SEC, the New York Attorney General (NYAG) and the Massachusetts Securities Division whereby UBS agreed to offer to buy back ARSs from eligible customers within certain time periods, the last of which begins on 30 June 2010, and to pay penalties of USD 150 million (USD 75 million to the NYAG, USD 75 million to the other states). UBS's settlement is largely in line with similar industry regulatory settlements. UBS is continuing to finalize agreements with other state regulators. The SEC continues to investigate individuals affiliated with UBS who traded in ARSs or who had responsibility for disclosures.

e) US Cross-Border: UBS AG has been the subject of a number of governmental inquiries and investigations relating to its cross-border private banking services to US private clients during the years 2000-2007. On 18 February 2009, UBS AG announced that it had entered into a Deferred Prosecution Agreement (DPA) with the US Department of Justice Tax Division (DOJ) and the United States Attorney's Office for the Southern District of Florida, and a Consent Order with the SEC relating to these investigations. As part of the settlement agreements UBS agreed to, among other things, (i) pay a total of USD 780 million to the United States, (ii) complete the exit of the US cross-border business out of non-SEC registered entities, and (iii) implement and maintain an effective program of internal controls with respect to compliance with its obligations under the Qualified Intermediary (QI) Agreement with the US Internal Revenue Service (IRS), as well as a revised legal and compliance governance structure in order to strengthen independent legal and compliance controls. Pursuant to the DPA, the DOJ agreed that any further prosecution of UBS will be deferred for a period of at least 18 months, subject to extension under certain circumstances such as UBS needing more time to complete the implementation of the exit of its US cross-border business. If UBS satisfies all of its obligations under the DPA, the DOJ will refrain permanently from pursuing charges against UBS relating to the investigation of its US cross-border business. As part of the resolution of an SEC claim that UBS acted as an unregulated broker dealer and investment advisor in connection with its US cross-border business, UBS consented to a settlement that provides, among other things, that: (i) UBS will pay USD 200 million to the SEC (included in the USD 780 million payment described above); and (ii) UBS will complete its exit of the US cross-border business and will be permanently enjoined from violating certain SEC registration requirements.

The agreements with the DOJ and SEC did not resolve the "John Doe" summons which the IRS served on UBS in July 2008. In this regard, on 19 February 2009, the Civil Tax Division of the DOJ filed a civil petition for enforcement of this summons in the US Federal District Court for the Southern District of Florida, through which it sought an order directing UBS to produce information located in Switzerland regarding US clients who have maintained accounts with UBS in Switzerland without providing a Form W-9.

On 19 August 2009, UBS executed a settlement agreement with the IRS and the DOJ, to resolve the "John Doe" summons litigation (UBS-US Settlement Agreement). At the same time, the United States and Switzerland entered into a separate but related agreement (Swiss-US Agreement). Among other things, these agreements provide that: (i) UBS and the IRS would promptly file a stipulation dismissing the "John Doe" summons enforcement action then pending in federal court in Miami, which occurred the same day; (ii) the IRS would submit a request for information regarding accounts of US clients maintained at UBS in Switzerland, on the basis that such clients appear to have committed tax fraud or the like within the meaning of the existing 1996 Swiss-US Double Taxation Treaty, to the Swiss Federal Tax Administration (SFTA), which it did on 31 August 2009; (iii) UBS would send a notice to US accountholders that appear to be within the scope of the treaty request and produce to the SFTA information on the corresponding accounts both in accordance with a specified schedule, which UBS has done in compliance with an order issued by the SFTA on 1 September 2009; and (iv) UBS and the IRS would agree to amend UBS's QI Agreement, whereupon the IRS would withdraw the previously disclosed QI Notice of Default dated 15 May 2008. The UBS-US Settlement Agreement does not call for any monetary payment by UBS.

Because UBS has complied with all of its obligations set forth in the UBS-US Settlement Agreement required to be completed by 31 December 2009, the IRS has withdrawn the summons with prejudice as to all accounts not covered by the treaty request.

Subject to UBS's compliance with its further notification and information processing obligations set forth in the UBS-US Settlement Agreement, the IRS will withdraw the "John Doe" summons with prejudice as to the remaining accounts — i.e. those subject to the treaty request — no later than 24 August 2010 upon the actual or anticipated delivery to the IRS of information relating to accounts covered by the treaty request that does not differ significantly from the expected results. Alternatively, the summons will be withdrawn with prejudice as to the remaining accounts if at any time on or after 1 January 2010 the IRS has received information from any source relating to at least 10,000 accounts of US persons maintained at UBS in Switzerland.

On 21 January 2010, the Swiss Federal Administrative Court ruled that the SFTA did not have a proper legal basis to grant the IRS request for information with respect to accounts of US persons who had failed to report substantial amounts of income over an extended period, but had not engaged in fraudulent activity within the meaning of Swiss law. The decision does not invalidate the UBS-US Settlement Agreement or the Swiss-US Agreement and it does not affect the treaty request to the extent it is directed at accounts in relation to which such fraudulent activity occurred. Following consultations with the US Government about measures to ensure the further implementation of the Swiss-US Settlement Agreement, the Swiss Government decided on 24 February 2010 that it will seek to amend the Swiss-US Agreement and submit it to Parliament for approval.

UBS continues, as in the past, to fulfill all of its obligations under the settlements, including, among other things, the exit of the US cross-border business out of non-SEC registered entities and the provision of relevant account information to the SFTA under the treaty process.

f) Inquiries Regarding Non-US Cross-Border Businesses: Following the disclosure of the US cross-border matter and the settlements with the DOJ and the SEC, tax and regulatory authorities in a number of countries have requested information relating to the cross-border wealth management services provided by UBS and other financial institutions. In particular, the revenue services of Canada, the UK and Australia have served requests upon, or made inquiries of, UBS and other Swiss and non-Swiss financial institutions providing cross-border wealth management services for information relating to such services that is located in their respective jurisdictions. UBS is cooperating with these requests strictly within the limits of financial privacy obligations under Swiss and other applicable laws. It is premature to speculate on the outcome of any such inquiries.

g) Matters Related to the Credit Crisis: UBS is responding to a number of governmental inquiries and investigations, and is involved in a number of litigations, arbitrations and disputes, related to the credit crisis and in particular mortgage-related securities and other structured transactions and derivatives. These matters concern, among other things, UBS's valuations, accounting classifications, disclosures, writedowns, and contractual obligations, as well as its role as underwriter in securities offerings for other issuers. In particular, UBS has communicated with and has responded to inquiries by FINMA, its home country consolidated regulator, as well as the SEC, the Financial Industry Regulatory Authority and the United States Attorney's Office for the Eastern District of New York, regarding some of these issues and others, including the role of internal control units, governance and processes around risk control and valuation of mortgage-related instruments, compliance with public disclosure rules, and the business rationales for the launching and the reintegration of Dillon Read Capital Management. FINMA concluded its investigation in October 2008.

h) Claims Related to UBS Disclosure: A putative consolidated class action has been filed against UBS and a number of current and former directors and senior officers in the Southern District of New York alleging securities fraud in connection with the firm's disclosures relating to its losses in the subprime mortgage markets, its losses and positions in auction rate securities, and its US cross-border business. Defendants have moved to dismiss the complaint for lack of jurisdiction and for failure to state a claim. UBS and a number of senior officers and directors have also been sued in a putative consolidated class action brought on behalf of holders of UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. UBS has moved to dismiss the ERISA complaint for failure to state a claim.

i) Madoff: In relation to the Madoff investment fraud, UBS, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including FINMA and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law substantially all assets of which were with Bernard L. Madoff Investment Securities LLC (BMIS), as well as certain funds established under offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. On 25 February 2009, the CSSF issued a communiqué with respect to the larger of the two funds, stating that UBS (Luxembourg) SA had failed to comply with its due diligence responsibilities as custodian bank. The CSSF ordered UBS (Luxembourg) SA to review its infrastructure and procedures relating to its supervisory obligations as custodian bank, but did not order it to compensate investors. On 25 May 2009, UBS (Luxembourg) SA submitted a comprehensive final report to the CSSF, which resulted in the CSSF publishing a new communiqué saying that UBS (Luxembourg) SA has provided evidence demonstrating that it has the infrastructure and internal organization in place in accordance with professional standards applicable to custodian banks in Luxembourg. In addition, on 17 December 2009, a claim in the amount of EUR 890 million was filed on behalf of the larger of the two Luxembourg funds by the liquidators of that fund against 15 defendants, including UBS entities, Access Management Luxembourg SA, Ernst & Young, the CSSF and various individuals. A large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. Further, certain clients of UBS in Germany are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany.

j) City of Milan Transactions: In January 2009, the City of Milan filed civil proceedings against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with the City of Milan between 2005 and 2007. The claim is to recover alleged damages in an amount which will compensate for terms of the related derivatives which the City claims to be objectionable. In the alternative, the City seeks to recover alleged hidden profits alleged to have been made by the banks in the amount of EUR 88 million (of which UBS Limited is alleged to have received EUR 16 million) together with further damages of not less than EUR 150 million. The claims are made against all of the banks on a joint and several basis. UBS is vigorously defending the claim. In addition, a criminal investigation by a Prosecutor in Milan has been ongoing in relation to the same transactions. In November 2009, the Prosecutor filed a request for committal for trial of two current UBS employees and one former UBS employee, together with employees from other banking institutions. The request alleges that the banks' employees engaged in criminal conduct in order to allow the banks to earn allegedly concealed profits on the June 2005 bond issue and related derivative transactions. The Prosecutor also requested committal for trial of UBS Limited and the other banks in relation to the administrative charge of failing to have in place a business organization model to prevent crime. Preliminary court hearings are taking place through March 2010.

Besides the proceedings specified above under (a) through (j) no governmental, legal or arbitration proceedings, which may significantly affect the Issuer's financial position, are or have been pending during the last twelve months until the date of this document, nor is the Issuer aware that any such governmental, legal or arbitration proceedings are threatened.

7.5 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.

7.6 Significant Changes in the Financial Situation of the Issuer

There has been no material change in the financial position of the Issuer since the publication of UBS's Annual Report 2009 (audited) for the period ending on 31 December 2009.

8. Documents on Display

- The restated Annual Report of UBS AG as of 31 December 2008, comprising (i) Strategy, performance and responsibility, (ii) UBS business divisions and Corporate Center (iii) Risk and treasury management, (iv) Corporate governance and compensation, (v) Financial information (including the "Report of the Statutory Auditor and the Independent Registered Public Accounting Firm on the Consolidated Financial Statements" and the "Report of the Statutory Auditor on the Financial Statements");

- The Annual Report of UBS AG as of 31 December 2009, comprising (i) Strategy, performance and responsibility, (ii) UBS business divisions and Corporate Center (iii) Risk and treasury management, (iv) Corporate governance and compensation, (v) Financial information (including the "Report of the Statutory Auditor and the Independent Registered Public Accounting Firm on the Consolidated Financial Statements" and the "Report of the Statutory Auditor on the Financial Statements");

- the Review 2008 and 2009 and the Compensation Report 2008 and 2009;

- The quarterly reports of UBS AG as at 31 March 2009, 30 June 2009, 30 September 2009 and 31 December 2009; and

- The Articles of Association of UBS AG, as the Issuer,

shall be maintained in printed format, for free distribution, at the offices of the Issuer for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports of UBS AG (and related review and compensation report) are published on UBS's website, at www.ubs.com/investors or a successor address. UBS AG's Articles of Association are also available on UBS's Corporate Governance website, at www.ubs.com/governance.

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 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

In respect of American style Structured Products and 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

In respect of American style Structured Products and 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 4 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;

(d) for compliance with any mandatory provisions under Hong Kong laws or regulations; or

(e) considered appropriate by the Issuer and is approved by the Stock Exchange.

Possible early termination for illegality

If we determine that, for reasons beyond our control, the performance of our obligations under the Structured Products has become illegal (or in the case of CBBCs only, it is no longer desirable or practical for us to maintain our hedging arrangement with respect to the CBBCs), we may terminate early such Structured Products. If we terminate early the Structured Products, 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 hedging disruption) less the cost to us of unwinding any related hedging arrangements.

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

In the case of Structured Products relating to a single equity or a unit trust ("**Security**"), certain corporate events relating to the Security 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, the Exercise Price (if applicable), the Call Price (if applicable), the Strike Price (if applicable) or any other terms (including without limitation the Closing Price of the Security) of any series of Structured Product for events such as rights issue, bonus issue, subdivision, consolidation, cash distribution or restructuring event. However, we are not required to make an adjustment for every event that may affect a Security, 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 addition, if the Security ceases to be listed on the Stock Exchange during the term of the Structured Products, we may make adjustments and/or amendments to the rights attaching to the Structured Products pursuant to the Conditions of the Structured Products. Such adjustments and/or amendments will be conclusive and binding on you.

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 the underlying shares or units 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 manner 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.

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.

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, cash distribution 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, cash distribution 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;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**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, 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) 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 sixth Business Day prior to 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. (Hong Kong time) 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 or deemed delivery to occur 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

(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 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:

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 (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**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollars 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken 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) *Cash Distribution*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) ("**Ordinary Dividend**"). 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 Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

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

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing 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-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

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 Distribution Adjustment Date.

(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 (including the events as contemplated in Conditions 6(A) to 6(E)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(E) 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.

(G) *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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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. Illegality

The Issuer shall have the right to terminate the Warrants 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 under 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 Warrantholder in respect of each Warrant held by such Warrantholder an amount calculated by it as the fair market value of the Warrant 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 Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15. 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.

16. 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.

17. 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:

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

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

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

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;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**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, cash distribution 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 sixth Business Day prior to 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. (Hong Kong time) 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 or deemed delivery to occur 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

(A) *Right*s *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 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**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas 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 takes effect (each of which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price and any Periodic Reference Price which has or have been determined on a date prior to the date on which the Consolidation takes effect (each of which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken 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) *Cash Distribution*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) ("**Ordinary Dividend**"). 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 Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing 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-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

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 Distribution 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 Distribution Adjustment Date.

(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 (including the events as contemplated in Conditions 6(A) to 6(E)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(E) 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.

(G) *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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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. Illegality

The Issuer shall have the right to terminate the Warrants 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 under 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 Warrantholder in respect of each Warrant held by such Warrantholder an amount calculated by it as the fair market value of the Warrant 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 Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15. 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.

16. 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.

17. 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, cash distribution 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, cash distribution 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;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**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 sixth

Business Day prior to 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. (Hong Kong time) 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 or deemed delivery to occur 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

(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:

Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Rights Offer = Adjustment Factor x E

Where:

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

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 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 new 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:

Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Bonus Issue = Adjustment Factor x E

Where:

Adjustment Factor = (1 + N)

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**"), then:

(i) in the case of a Subdivision, the relevant Basket Component, insofar as it relates to the Share(s) of the Company making the Subdivision, in effect immediately prior thereto shall be increased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the relevant Basket Component, insofar as it relates to the Share(s) of the Company making the Consolidation, in effect immediately prior thereto shall be decreased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) shall have taken 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) *Cash Distribution*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by any of the Companies, 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 that Company.

If and whenever any of the Companies shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Basket Component relating to the Share(s) of the Company making the Cash Distribution shall be adjusted to take effect on the Business Day on which trading in those Share(s) becomes ex-entitlement in respect of the relevant Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Basket Component insofar as it relates to the Share(s) of the Company making the Cash Distribution = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

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

S: Cum-Cash Distribution Share price being the closing price of an existing Share of the Company making the Cash Distribution 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-Cash Distribution basis

CD: The Cash Distribution per Share of the Company making the Cash Distribution

OD: The Ordinary Dividend per Share of the Company making the Cash Distribution, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

(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 (including the events as contemplated in Conditions 6(A) to 6(E)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(E) 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.

(G) *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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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. Illegality

The Issuer shall have the right to terminate the Warrants 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 under 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 Warrantholder in respect of each Warrant held by such Warrantholder an amount calculated by it as the fair market value of the Warrant 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 Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15. 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.

16. 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.

17. 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;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**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 cease 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 10:00 a.m. (Hong Kong time) 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 or deemed delivery to occur 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 (including the events as contemplated in Conditions 6(A) to 6(B)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(B) 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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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. Illegality

The Issuer shall have the right to terminate the Warrants 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 under 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 Warrantholder in respect of each Warrant held by such Warrantholder an amount calculated by it as the fair market value of the Warrant 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 Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

13. 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.

14. 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.

15. 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, cash distribution 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, cash distribution 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;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**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 sixth Business Day prior to 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. (Hong Kong time) 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 or deemed delivery to occur 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

(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 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**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken 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) *Cash Distribution*. No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a script alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Unit price being the closing 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-Cash Distribution basis

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Distribution and the Cash Distribution have different ex-entitlement dates

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 Distribution Adjustment Date.

(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 (including the events as contemplated in Conditions 6(A) to 6(E)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(E) 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.

(G) *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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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. Illegality

The Issuer shall have the right to terminate the Warrants 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 under 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 Warrantholder in respect of each Warrant held by such Warrantholder an amount calculated by it as the fair market value of the Warrant 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 Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 10.

15. 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.

16. 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.

17. 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.

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;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**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, cash distribution 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 CCASS Settlement 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 (if applicable) 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 (if applicable), 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; and

"**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 under 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 a.m. (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 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

(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 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**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken 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 Distribution*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) ("**Ordinary Dividend**"). 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 Entitlement shall be adjusted to take effect on the Trading Day on which trading in the Shares becomes ex-entitlement in respect of the Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing 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-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

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 Distribution Adjustment Date.

(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 (including the events as contemplated in Conditions 6(A) to 6(E)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(E) 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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**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:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level - Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of callable bear contracts:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level - Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

"**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 CCASS Settlement 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 compiled 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; and

"**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 under 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 a.m. (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,

and 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 (including the events as contemplated in Conditions 6(A) to 6(B)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(B) 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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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

PART C — TERMS AND CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS 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 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 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 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;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the official closing price of the 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, subdivision, consolidation, restructuring event, cash distribution or the like) on the Valuation Date;

"**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 Units 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 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;

"**Maximum Trade Price**" means the highest Spot Price of the Units 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 Units 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 Units 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 Units 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 Units 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 CCASS Settlement Day following (i) the Valuation Date or (ii) the end of the MCE Valuation Period, as the case may be;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit 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 (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), 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;

"**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, 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 Unit 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 Units;

(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 under 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 a.m. (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 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 Units.

(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

(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 Trading 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 price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Trading 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 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 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 Trading 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 Unit 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 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**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken 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 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 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 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 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) *Cash Distribution*. No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a script alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Trading Day on which trading in the Units becomes ex-entitlement in respect of the Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

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

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Distribution and the Cash Distribution have different ex-entitlement dates

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 Distribution Adjustment Date.

(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 (including the events as contemplated in Conditions 6(A) to 6(E)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(A) to 6(E) 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; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below); or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. 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. 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 CBBCs will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the Termination, in the case of a 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 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 be 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 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 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 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 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 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

APPENDIX 3 — AUDITOR'S REPORT AND OUR CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2009

This information in this Appendix 3 has been extracted from our Annual Report 2009 as at and for the year ended 31 December 2009. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 3.

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 4 March 2010

Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements

As statutory auditor, we have audited the financial statements of UBS AG which are comprised of the consolidated balance sheets as of 31 December 2009 and 2008, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows, and notes thereto, for each of the three years in the period ended 31 December 2009 on pages 255 to 370.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UBS AG at 31 December 2009 and 2008, and the consolidated results of operations and the cash flows for each of the three years in the period ended 31 December 2009 in accordance with IFRS, as issued by the International Accounting Standards Board, and comply with Swiss law.

Report on other legal and regulatory requirements

We confirm that we meet the Swiss legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements in accordance with the instructions of the Board of Directors.

In accordance with Swiss law, we recommend that the consolidated financial statements submitted to you be approved.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), UBS AG's internal control over financial reporting as of 31 December 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated 4 March 2010 expresses an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

Ernst & Young Ltd

Andrew McIntyre	Dr. Andreas Blumer
Licensed Audit Expert	Licensed Audit Expert
(Auditor in Charge)	

Income statement

		For the year ended			% change from
CHF million, except per share data	Note	31.12.09	31.12.08	31.12.07	31.12.08
Continuing operations					
Interest income	3	23,461	65,679	109,112	(64)
Interest expense	3	(17,016)	(59,687)	(103,775)	(71)
Net interest income	3	6,446	5,992	5,337	8
Credit loss (expense) / recovery		(1,832)	(2,996)	(238)	(39)
Net interest income after credit loss expense		4,614	2,996	5,099	54
Net fee and commission income	4	17,712	22,929	30,634	(23)
Net trading income	3	(324)	(25,820)	(8,353)	99
Other income	5	599	692	4,341	(13)
Total operating income		22,601	796	31,721	
Personnel expenses	6	16,543	16,262	25,515	2
General and administrative expenses	7	6,248	10,498	8,429	(40)
Depreciation of property and equipment	15	1,048	1,241	1,243	(16)
Impairment of goodwill	16, 38	1,123	341	0	229
Amortization of intangible assets		200	213	276	(6)
Total operating expenses		25,162	28,555	35,463	(12)
Operating profit from continuing operations before tax		(2,561)	(27,758)	(3,742)	91
Tax expense	22	(443)	(6,837)	1,369	94
Net profit from continuing operations		(2,118)	(20,922)	(5,111)	90
Discontinued operations					
Profit from discontinued operations before tax	37	(7)	198	145	
Tax expense	22	0	1	(258)	(100)
Net profit from discontinued operations		(7)	198	403	
Net profit		(2,125)	(20,724)	(4,708)	90
Net profit attributable to minority interests		610	568	539	7
from continuing operations		600	520	539	15
from discontinued operations		10	48	0	(79)
Net profit attributable to UBS shareholders		(2,736)	(21,292)	(5,247)	87
from continuing operations		(2,719)	(21,442)	(5,650)	87
from discontinued operations		(17)	150	403	
Earnings per share (CHF)					
Basic earnings per share	8	(0.75)	(7.63)	(2.40)	90
from continuing operations		(0.74)	(7.68)	(2.59)	90
from discontinued operations		0.00	0.05	0.18	(100)
Diluted earnings per share	8	(0.75)	(7.63)	(2.41)	90
from continuing operations		(0.74)	(7.69)	(2.59)	90
from discontinued operations		0.00	0.05	0.18	(100)

Statement of comprehensive income

	For the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Net profit	**(2,125)**	(20,724)	(4,708)
Other comprehensive income			
Foreign currency translation			
Foreign currency translation movements, before tax	**(35)**	(4,509)	(1,405)
Foreign exchange amounts reclassified to the income statement from equity	**(259)**	202	108
Income tax relating to foreign currency translation movements	**22**	(17)	39
Subtotal foreign currency translation movements, net of tax	**(272)**	(4,324)	(1,258)
Financial investments available-for-sale			
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	**157**	(903)	1,578
Impairment charges reclassified to the income statement from equity	**70**	47	14
Realized gains reclassified to the income statement from equity	**(147)**	(645)	(3,423)
Realized losses reclassified to the income statement from equity	**1**	6	7
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	**(54)**	341	421
Subtotal net unrealized gains / (losses) on financial investments available-for-sale, net of tax	**27**	(1,154)	(1,403)
Cash flow hedges			
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	**78**	2,001	369
Net unrealized (gains) / losses reclassified to the income statement from equity	**(756)**	178	172
Income tax effects relating to cash flow hedges	**257**	(520)	(130)
Subtotal changes in fair value of derivative instruments designated as cash flow hedges	**(421)**	1,659	411
Total other comprehensive income	**(667)**	(3,818)	(2,250)
Total comprehensive income	**(2,792)**	(24,542)	(6,958)
Total comprehensive income attributable to minority interests	**484**	(77)	269
Total comprehensive income attributable to UBS shareholders	**(3,276)**	(24,465)	(7,227)

Balance sheet

CHF million	Note	31.12.09	31.12.08	% change from 31.12.08
Assets				
Cash and balances with central banks		**20,899**	32,744	(36)
Due from banks	9	**46,574**	64,451	(28)
Cash collateral on securities borrowed	10	**63,507**	122,897	(48)
Reverse repurchase agreements	10	**116,689**	224,648	(48)
Trading portfolio assets	11	**188,037**	271,838	(31)
Trading portfolio assets pledged as collateral	11	**44,221**	40,216	10
Positive replacement values	23	**421,694**	854,100	(51)
Financial assets designated at fair value	12	**10,223**	12,882	(21)
Loans	9	**306,828**	340,308	(10)
Financial investments available-for-sale	13	**81,757**	5,248	
Accrued income and prepaid expenses		**5,816**	6,141	(5)
Investments in associates	14	**870**	892	(2)
Property and equipment	15	**6,212**	6,706	(7)
Goodwill and intangible assets	16	**11,008**	12,935	(15)
Deferred tax assets	22	**8,868**	8,880	0
Other assets	17	**7,336**	9,931	(26)
Total assets		**1,340,538**	2,014,815	(33)
Liabilities				
Due to banks	18	**65,166**	125,628	(48)
Cash collateral on securities lent	10	**7,995**	14,063	(43)
Repurchase agreements	10	**64,175**	102,561	(37)
Trading portfolio liabilities	11	**47,469**	62,431	(24)
Negative replacement values	23	**409,943**	851,864	(52)
Financial liabilities designated at fair value	19	**112,653**	101,546	11
Due to customers	18	**410,475**	465,741	(12)
Accrued expenses and deferred income		**8,689**	10,196	(15)
Debt issued	19	**131,352**	197,254	(33)
Other liabilities	20, 21, 22	**33,986**	42,998	(21)
Total liabilities		**1,291,905**	1,974,282	(35)
Equity				
Share capital		**356**	293	22
Share premium		**34,786**	25,250	38
Net income recognized directly in equity, net of tax		**(4,875)**	(4,335)	(12)
Revaluation reserve from step acquisitions, net of tax		**38**	38	0
Retained earnings		**11,751**	14,487	(19)
Equity classified as obligation to purchase own shares		**(2)**	(46)	96
Treasury shares		**(1,040)**	(3,156)	67
Equity attributable to UBS shareholders		**41,013**	32,531	26
Equity attributable to minority interests		**7,620**	8,002	(5)
Total equity		**48,633**	40,533	20
Total liabilities and equity		**1,340,538**	2,014,815	(33)

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares
Balance at 1 January 2007	**211**	**12,640**	**(10,214)**	**(185)**
Issuance of share capital				
Acquisition of treasury shares			(7,169)	
Disposition of treasury shares			4,605	
Cancellation of second trading line treasury shares	(4)		2,415	
Net premium / (discount) on treasury share and own equity derivative activity		(560)		
Premium on shares issued and warrants exercised		12		
Employee share and share option plans		898		
Tax benefits from deferred compensation awards		(557)		
Dividends				
Equity classified as obligation to purchase own shares – movements				111
Preferred securities				
New consolidations and other increases				
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance at 31 December 2007	**207**	**12,433**	**(10,363)**	**(74)**
Issuance of share capital	86			
Acquisition of treasury shares			(367)	
Disposition of treasury shares			7,574	
Net premium / (discount) on treasury share and own equity derivative activity		(4,626)		
Premium on shares issued and warrants exercised		20,003		
Employee share and share option plans		(1,961)		
Tax benefits from deferred compensation awards		(176)		
Transaction costs related to share issuances, net of tax		(423)		
Dividends				
Equity classified as obligation to purchase own shares – movements				28
Preferred securities				
New consolidations and other increases				
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance at 31 December 2008	**293**	**25,250**	**(3,156)**	**(46)**
Issuance of share capital	63			
Acquisition of treasury shares			(476)	
Disposition of treasury shares			2,592	
Net premium / (discount) on treasury share and own equity derivative activity		(1,268)		
Premium on shares issued and warrants exercised		10,599		
Employee share and share option plans		291		
Tax benefits from deferred compensation awards		1		
Transaction costs related to share issuances, net of tax		(87)		
Dividends[1]				
Equity classified as obligation to purchase own shares – movements				44
Preferred securities				
New consolidations and other increases				
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance at 31 December 2009	**356**	**34,786**	**(1,040)**	**(2)**

1 Includes dividend payment obligations for preferred securities.

Retained earnings	Foreign currency translation	Financial investments available-for-sale	Cash flow hedges	Revaluation reserve from step acquisitions	Total equity attributable to UBS shareholders	Minority interests	Total equity
47,728	**(1,614)**	**2,876**	**(443)**	**38**	**51,037**	**6,089**	**57,126**
					0		0
					(7,169)		(7,169)
					4,605		4,605
(2,411)					0		0
					(560)		(560)
					12		12
					898		898
					(557)		(557)
(4,275)					(4,275)	(400)	(4,675)
					111		111
					0	996	996
					0	101	101
					0	(104)	(104)
(5,247)	(986)	(1,405)	411		(7,227)	269	(6,958)
35,795	**(2,600)**	**1,471**	**(32)**	**38**	**36,875**	**6,951**	**43,826**
					86		86
					(367)		(367)
					7,574		7,574
					(4,626)		(4,626)
					20,003		20,003
					(1,961)		(1,961)
					(176)		(176)
					(423)		(423)
(16)					(16)	(361)	(377)
					28		28
					0	1,618	1,618
					0	12	12
					0	(141)	(141)
(21,292)	(3,709)	(1,124)	1,659		(24,465)	(77)	(24,542)
14,487	**(6,309)**	**347**	**1,627**	**38**	**32,531**	**8,002**	**40,533**
					63		63
					(476)		(476)
					2,592		2,592
					(1,268)		(1,268)
					10,599		10,599
					291		291
					1		1
					(87)		(87)
					0	(849)	(849)
					44		44
					0	(7)	(7)
					0	3	3
					0	(13)	(13)
(2,736)	(136)	17	(421)		(3,276)	484	(2,792)
11,751	**(6,445)**	**364**	**1,206**	**38**	**41,013**	**7,620**	**48,633**

Statement of changes in equity (continued)

Preferred securities[1]

	For the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Balance at the beginning of the year	**7,381**	6,381	5,633
Issuances		1,618	996
Redemptions	**(7)**		
Foreign currency translation	**(120)**	(618)	(248)
Balance at the end of the year	**7,254**	7,381	6,381

1 Represents equity attributable to minority interests. Increases and offsetting decreases of equity attributable by minority interests due to dividends are excluded from this table.

	For the year ended			% change from
Number of shares	**31.12.09**	31.12.08	31.12.07	31.12.08
Shares issued				
Balance at the beginning of the year	**2,932,580,549**	2,073,547,344	2,105,273,286	41
Issuance of share capital	**625,532,204**	859,033,205	1,294,058	(27)
Cancellation of second trading line treasury shares			(33,020,000)	
Balance at the end of the year	**3,558,112,753**	2,932,580,549	2,073,547,344	21
Treasury shares				
Balance at the beginning of the year	**61,903,121**	158,105,524	164,475,699	(61)
Acquisitions	**33,566,097**	13,398,118	102,074,942	151
Disposals	**(57,915,346)**	(109,600,521)	(75,425,117)	47
Cancellation of second trading line treasury shares			(33,020,000)	
Balance at the end of the year	**37,553,872**	61,903,121	158,105,524	(39)

Shares issued

On 25 June 2009, UBS increased its share capital by issuing 293,258,050 new registered shares. The shares were placed with a small number of large institutional investors. The shares were issued out of authorized capital which had been approved at the Annual General Meeting of shareholders (AGM) on 15 April 2009.

On 19 August 2009, the Swiss Confederation announced the conversion of its UBS mandatory convertible notes (MCNs). Upon conversion on 25 August 2009, UBS issued 332,225,913 new shares from existing conditional capital.

On 27 February 2008 the extraordinary general meeting of shareholders approved the creation of a maximum of CHF 10,370,000 in authorized capital allowing the distribution of a stock dividend. That resulted in the issuance of 98,698,754 shares.

On 23 April 2008, the AGM of shareholders approved a capital increase that resulted in the issuance of 760,295,181 fully paid registered shares.

All issued shares are fully paid.

For further information on the capital increase and the conversion of the MCNs in 2009, refer to "Note 26 Capital increases and mandatory convertible notes" in the financial statements.

Conditional share capital

On 31 December 2009, a maximum of 29,350 shares could have been issued against the future exercise of options from former PaineWebber employee option plans and 149,994,296 shares could have been issued to fund UBS's employee share option programs. In addition, conditional capital of up to 277,750,000 shares was available for the UBS share delivery obligation due to the issuance of the March 2008 mandatory convertible notes (MCNs) and conditional capital of up to 100,000,000 shares is available in connection with the transaction with the Swiss National Bank (SNB). These shares are shown as conditional share capital in the UBS AG (Parent Bank) disclosure.

Statement of cash flows

CHF million	For the year ended 31.12.09	31.12.08	31.12.07
Cash flow from / (used in) operating activities			
Net profit	(2,125)	(20,724)	(4,708)
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	1,048	1,241	1,253
Impairment of goodwill / amortization of intangible assets	1,323	554	282
Credit loss expense / (recovery)	1,832	2,996	238
Share of net profits of associates	(37)	6	(120)
Deferred tax expense / (benefit)	(960)	(7,020)	(371)
Net loss / (gain) from investing activities	425	(797)	(4,085)
Net loss / (gain) from financing activities	8,355	(47,906)	3,779
Net (increase) / decrease in operating assets:			
Net due from / to banks	(57,328)	(16,561)	(60,762)
Reverse repurchase agreements and cash collateral on securities borrowed	162,822	236,497	173,433
Trading portfolio, net replacement values and financial assets designated at fair value	11,118	350,099	60,729
Loans / due to customers	(23,705)	(183,476)	36,168
Accrued income, prepaid expenses and other assets	2,214	7,512	(2,408)
Net increase / (decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	(41,351)	(220,935)	(271,060)
Accrued expenses, deferred income and other liabilities	(8,629)	(23,592)	19,217
Income taxes paid	(505)	(887)	(3,663)
Net cash flow from / (used in) operating activities	54,497	77,007	(52,078)
Cash flow from / (used in) investing activities			
Purchase of subsidiaries and associates	(42)	(1,502)	(2,337)
Disposal of subsidiaries and associates	296	1,686	885
Purchase of property and equipment	(854)	(1,217)	(1,910)
Disposal of property and equipment	163	69	134
Net (investment in) / divestment of financial investments available-for-sale	(20,127)	(712)	5,981
Net cash flow from / (used in) investing activities	(20,563)	(1,676)	2,753
Cash flow from / (used in) financing activities			
Net money market papers issued / (repaid)	(60,040)	(40,637)	32,672
Net movements in treasury shares and own equity derivative activity	673	623	(2,771)
Capital issuance	3,726	23,135	0
Dividends paid	0	0	(4,275)
Issuance of long-term debt, including financial liabilities designated at fair value	67,062	103,087	110,874
Repayment of long-term debt, including financial liabilities designated at fair value	(65,024)	(92,894)	(62,407)
Increase in minority interests[1]	3	1,661	1,094
Dividends paid to / decrease in minority interests	(583)	(532)	(619)
Net cash flow from / (used in) financing activities	(54,183)	(5,557)	74,568
Effects of exchange rate differences	5,529	(39,186)	(12,228)
Net increase / (decrease) in cash and cash equivalents	(14,721)	30,588	13,015
Cash and cash equivalents at the beginning of the year	179,693	149,105	136,090
Cash and cash equivalents at the end of the year	164,973	179,693	149,105
Cash and cash equivalents comprise:			
Cash and balances with central banks	20,899	32,744	18,793
Money market papers[2]	98,432	86,732	77,215
Due from banks with original maturity of less than three months	45,642	60,217	53,097
Total	164,973	179,693	149,105

1 Includes issuance of preferred securities of CHF 1,617 million and CHF 996 million for the years ended 31 December 2008 and 31 December 2007, respectively. 2 Money market papers are included in the balance sheet under "Trading portfolio assets", "Trading portfolio assets pledged as collateral" and "Financial investments available-for-sale". CHF 57,116 million, CHF 19,912 million and CHF 7,881 million were pledged at 31 December 2009, 31 December 2008 and 31 December 2007, respectively. The previously disclosed amounts of pledged money market papers have been adjusted to include positions recognized in the balance sheet under "Trading portfolio assets pledged as collateral".

Statement of cash flows (continued)

	For the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Additional information			
Cash received as interest	**23,844**	68,232	103,828
Cash paid as interest	**19,597**	62,284	97,489
Cash received as dividends on equities (incl. associates)	**1,090**	2,779	5,313

Significant non-cash investing and financing activities

	For the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Deconsolidation of UBS Pactual			
Financial investments available -for-sale	**14**		
Property and equipment	**31**		
Goodwill and intangible assets	**731**		
Debt issued	**1,393**		
Deconsolidation of private equity investments			
Property and equipment		33	24
Goodwill and intangible assets		22	
Acquisition of Caisse Centrale de Réescompte Group (CCR)			
Property and equipment		5	
Goodwill and intangible assets		405	
Debt issued		114	
Acquisition of VermogensGroep			
Property and equipment		2	
Goodwill and intangible assets		173	
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 consolidated financial statements

Note 1 Summary of significant accounting policies

a) Significant accounting policies

The principal accounting policies applied in preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 4 March 2010, 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 parts of the "Risk and treasury management" section. Several IFRS 7 credit risk related disclosures are provided in Note 29c and several market risk related disclosures are provided in Note 27c.

2) Use of estimates in the preparation of Financial Statements

In preparing the Financial Statements in conformity with IFRS, 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

The Financial Statements comprise those of the parent company (UBS AG) and its subsidiaries, including special purpose entities (SPEs), presented as a single economic entity. UBS controls an entity if it has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. Subsidiaries, including special purpose entities, that are directly or indirectly controlled by the Group are consolidated from the date on which 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 profit attributable to minority interests* is shown separately in the income statement.

When UBS acquires a subsidiary, the purchase method of accounting is used to account for the acquisition of a subsidiary. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange, together with costs directly attributable to that acquisition. The acquired identifiable assets or liabilities and contingent liabilities are measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of UBS's share of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the fair value of UBS's share of identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognized immediately 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. UBS also has employee benefit trusts that are used in connection with share-based payment arrangements and deferred compensation schemes. Such trusts and other special purpose entities 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.

The following circumstances may indicate a relationship in which, in substance, UBS controls and consequently consolidates the SPE:

– the activities of the SPE are being conducted on behalf of UBS according to its specific business needs so that UBS obtains benefits from the SPE's operations;

- UBS has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, UBS has delegated these decision making powers;
- UBS has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- UBS retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

UBS continuously evaluates whether triggering events require the reconsideration of the consolidation conclusions made at inception of its involvement with special purpose entities, especially securitization vehicles and collateralized debt obligations (CDOs). Triggering events generally include items such as restructurings, the vesting of potential rights and acquisition, disposal or expiration of interests. In these circumstances, special purpose entities may be consolidated depending on how the conditions have changed.

Intercompany transactions, balances and unrealized gains or losses on transactions between the Group companies are eliminated.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Assets and liabilities of subsidiaries are classified as "held for sale" if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – see parts 19) and 28). Major lines of business and subsidiaries that were acquired exclusively with the intent for resale are presented as discontinued operations in the statement of comprehensive income in the period when the sale occurred or it becomes highly probable that a sale will occur within 12 months – see part 28).

4) Associates and jointly controlled entities

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 between 20% to 50% 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.

Investments in associates and interests in jointly controlled entities are classified as "held for sale" if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – see parts 19) and 28).

5) 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.

Financial assets

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 13) and 14). 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.

Financial liabilities

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. Where an existing financial liability is exchanged for a new one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

UBS acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising therefrom are excluded from UBS's financial statements, as they are not assets of UBS, provided the recognition criteria are not satisfied.

6) Determination of fair value

The fair value principles applied when determining fair value are considered significant accounting policies. 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. Details of the determination of fair value of financial instruments, fair value hierarchy, valuation techniques and inputs by products, day 1 profit or loss and other related fair value disclosures are disclosed in Note 27.

7) Trading portfolio assets and liabilities

Trading portfolio assets consist of debt instruments (including those in the form of securities, money market paper, traded corporate and bank loans), equity instruments (including those in the form of securities), assets held under unit-linked contracts and precious metals and other commodities owned by the Group ("long" positions). Trading portfolio liabilities consist of obligations to deliver financial instruments such as debt and equity instruments which the Group has sold to third parties but does not own ("short" positions). The trading portfolio includes non-derivative financial instruments (including those with embedded derivatives) and commodities. Financial instruments which are considered derivatives in their entirety are generally presented on the balance sheet as *Positive and Negative replacement values,* refer to part 15). UBS's trading portfolio assets and liabilities (refer to Note 11) include proprietary positions, hedge positions and client business-related positions (provided the recognition criteria mentioned in part 5) are satisfied).

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.*

An acquired non-derivative financial asset or liability is classified at acquisition as held for trading and presented in the trading portfolio if it is (a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or (b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group uses settlement date accounting when recording trading financial asset transactions. From the date the purchase 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 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, unrealized profits and losses are no longer recognized from the date the sales transaction is entered into (trade date) and 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 5)) 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.

Following an amendment to IAS 39 in 2008 (refer to Note 1b and Note 29b), subject to certain conditions being met, financial assets may be reclassified from the "*Held for trading"* category to the *"Loans and receivables"* category if the firm has the intent and ability to hold them for the foreseeable future or until maturity. UBS applied this option in fourth quarter 2008 and first quarter 2009 and reclassified several illiquid financial assets (such as purchased asset-backed securities, including mortgage-backed securities (MBS), originated by third parties) to the category "loans and receivables", as a result of which these instruments to be no longer fair valued through profit or loss but rather accounted for at amortized cost less impairment.

8) 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 (refer to Note 12) and financial liabilities (refer to Note 19) 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 when

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, for example, refer to an underlying equity price, interest rate, commodities price or index.

UBS has designated most of its issued hybrid debt instruments as *Financial liabilities designated at fair value* through profit or loss. These instruments include predominantly the following categories of underlyings:

- *Credit-linked:* bonds, notes linked to the performance (coupon and/or redemption amount) of single names (such as a company or a country) or a basket of reference entities.
- *Equity-linked:* bonds, notes that are linked to a single stock, a basket of stocks or an equity index.
- *Rates-linked:* bonds, notes linked to a reference interest rate, interest rate spread or formula.

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 9)), whereas the hedging credit protection is accounted for as a derivative instrument at fair value through profit or loss.

UBS has also applied the fair value option to a hedge fund investment and structured reverse repurchase agreement which are part of portfolios 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 income and interest expense on financial assets and liabilities designated at fair value through profit or loss are included in Interest income on financial assets designated at fair value or Interest on financial liabilities designated at fair value. Refer to Note 3.

UBS applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments held for trading (refer to parts 5) and 7)).

9) 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 highly liquid short term debt securities, strategic equity investments, certain investments in real estate funds 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 highly liquid short term debt securities issued by government and government-controlled institutions, generally with residual maturities of less than three months. In addition, certain equity instruments, including private equity investments as well as 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 initially recognized at fair value including direct transaction costs and are subsequently measured at 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 and are included in the income statement.

Interest and dividend income on financial investments available-for-sale are included in *Interest and dividend income* from financial investments available-for-sale.
UBS assesses at each balance sheet date whether there are indicators of impairment of an available-for-sale investment. An available-for-sale investment is impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the investment, the estimated future cash flows of the investment have been affected. For equity investments available-for-sale, a significant or prolonged decline in fair value below its original cost is considered to be objective evidence of impairment. For debt investments available-for-sale, objective evidence of impairment includes for example a significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or probability that the borrower will enter bankruptcy or financial re-organization. If a financial investment available-for-sale is determined to be impaired, the cumulative net unrealized loss previously recognized in *Equity* is included in *Net profit* for the period and reported as a deduction from Other income. To the extent impairments of financial investments available-for-sale are covered by fair value decreases of the current year-to-date period, impairments are directly recognized in the income statement. To the extent impairments relate to fair value decreases of previous periods, amounts are released from other comprehensive income to the income statement and separately presented in the statement of comprehensive income.

After the recognition of impairment on a financial investment available-for-sale, increases in fair value of equity instruments are reported in *Equity* and 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).

UBS applies the same recognition and derecognition principles to financial assets available-for-sale as *"Financial instruments designated at fair value"* or *"Held-for-trading",* except that unrealized gains or losses between trade date and settlement date recognized in *Equity* (refer to parts 5) and 7)).

10) Loans and receivables

For an overview of financial assets and financial liabilities accounted for as *"Loans and receivables",* refer to the measurement categories presented in Note 29.

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments which are not classified as held-for-trading, not designated as at fair value through P&L or available-for-sale and are not those for which the Group may not recover substantially all of its initial net investment, other than because of credit deterioration.

"Loans and receivables" include:

- originated loans where money is provided directly to the borrower, participation in a loan from another lender and purchased loans (certain purchased non-performing loans are also classified as financial investment available-for-sale at inception) initially classified as "loans and receivables";
- securities initially classified as *"Loans and receivables"* due to illiquid markets such as Auction Rate Securities;
- reclassified securities previously *"Held-for-trading"* (refer to Note 29b; and
- reclassified loans such as leverage finance loans previously "held-for-trading" (refer to Note 29b).

In fourth quarter 2008 and first quarter 2009, UBS reclassified certain debt financial assets from the category *"Held-for-trading"* to *"Loans and receivables",* mainly due to illiquid markets for these instruments (refer to Note 1b, Note 29b and Note 9a and 9b). When a financial asset is reclassified from "held-for-trading" to "loans and receivables", the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss recognized in the income statement before reclassification is not reversed. The fair value of a financial asset on the date of reclassification becomes its cost basis or amortized cost basis, as applicable.

Loans are recognized when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate or purchase the loan, plus any direct 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.

Renegotiated loans

Subject to assessment on a case by case basis, UBS may either restructure a loan or take possession of collateral. Restructuring may involve extending the payment arrangements and agreeing to new loan conditions. Once the terms have been renegotiated any impairment is measured using the effective interest rate (EIR) as calculated before the modification of terms and the loan is not considered as past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to impairment assessment, calculated using the loan's original EIR.

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 Note 29c, with their gross maximum exposure to credit risk less provisions.

11) Allowance and provision for credit losses

An allowance or provision for credit losses (refer to Note 9b) 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.

Objective evidence of impairment include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- probability that the borrower will enter bankruptcy or financial re-organization.

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 restructuring of a financial asset could result in the original loan being derecognized and a new loan being recognized. The new loan is measured at fair value at initial recognition. Any allowance taken against the original loan is removed by increasing write-offs. The gross counterparty exposure, however, may remain unaffected, if the rights existing prior to the restructuring have not been legally waived.

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, insolvency proceedings have commenced against the firm, or obligations have been restructured on concessionary terms.

Collectively: All loans for which no impairment is identified on a counterparty-specific level are grouped into subportfolios 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.

Reclassified securities: UBS periodically revises its estimated cash flows associated with the portfolio of reclassified securities backed by multiple assets. Adverse revisions in cash flows estimates related to credit events are recognized in profit or loss as credit loss expenses. Increases in estimated future cash receipts as a result of increased recoverability are recognized as an adjustment to the effective interest rate on the loan from the date of change.

12) Securitization structures set up by UBS

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's involvement in securitization structures significantly declined in 2008 and remained low in 2009. UBS applies the policies set out in part 3) in determining whether the respective special purpose entity must be consolidated and those set out in part 5) 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. Synthetic securitization structures typically involve derivative financial instruments for which the principles set out in part 15) apply.

UBS acts as structurer and placement agent in various MBS and other ABS securitizations. In such capacity, UBS purchases collateral on its own behalf or on behalf of customers during the period prior to securitization. UBS typically sold the collateral into designated trusts at the close of the securitization and underwrites the offerings to investors, earning fees for its placement and structuring services. Consistent with the valuation of similar inventory, fair value of retained tranches 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. Where possible, assumptions based on observable transactions are used to determine the fair value of retained tranches, but for several of them, substantially no observable information is available.

13) 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.

14) 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 a reverse repurchase agreement, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded in the balance sheet line R*everse repurchase agreements,* recognizing UBS's right to receive it back. In a Repurchase agreement, the cash received is recognized and a corresponding obligation, including accrued interest, is recorded in the balance sheet line *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.

15) Derivative instruments and hedge accounting

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to fair value. The resulting gain or loss is recognized in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivative instruments are reported on the balance sheet as Positive replacement values or Negative replacement values (except for futures, 100% daily-margined exchange traded options and London Clearing House (LCH) interest rate swaps). Where the Group enters into derivatives for trading purposes, 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.*

Futures and LCH Interest rate swaps with daily margining and 100% daily margined exchange traded options are transacted and measured at fair value. They do not have a replacement value as the variation margin, expressing the cumulative market movements each day, is settled daily on a cash basis. Any unpaid variation margin represents a receivable or payable with fixed amount and settlement date and is presented on the balance sheet under *Due from banks and loans or Due to banks and customers.* The daily cash settlement (i.e. change in market value) is booked to *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 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.*

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 profit or loss.

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 profit or loss.

Hedges of net investments in foreign operations
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in *Equity* (and presented in the statement of equity and statement of comprehensive income under Foreign currency translation), while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in *Equity* is reclassified 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. Refer to Note 23 for more information on "economic hedges".

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 standalone 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 29 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 8)), in which case bifurcation of an embedded derivative component is not required.

16) Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which customers can borrow money at defined terms and conditions.

Loan commitments that can be cancelled by UBS at any time (without giving a reason) according to their general terms and conditions are neither recognized on-balance sheet nor off-balance sheet. Upon a loan draw down by the counterparty, the amount of the loan is accounted for as *"Loans and receivables"* (refer to part 10).

Irrevocable loan commitments (where UBS has no right to withdraw the loan commitment once communicated to the beneficiary or that is revocable only due to automatic cancellation upon the deterioration in a borrower's creditworthiness) are classified into the following categories:

– *Derivative loan commitments* (loan commitments that can be settled net in cash or by delivering or issuing another financial instrument) or if there is evidence that UBS is selling similar loans resulting from its loan commitments before or shortly after origination (refer to part 15).
– *Loan commitments designated at fair value through profit and loss ("Fair value option")* (refer to part 8).
– *Below market loan commitments*. Below market loan commitments are recognized at fair value and subsequently measured at the higher of the initially recognized liability at fair value less cumulative amortization and a provision (refer to part 26). UBS uses them only in specific situations (e.g. restructuring, insolvency).
– *Other loan commitments*. Other loan commitments are not recorded in the balance sheet. However, a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made (refer to part 26).

17) Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash and non-restricted balances with central banks, treasury bills, balances included in *Due from banks,* as well as money market paper included in *Trading portfolio assets* and *Financial investments available-for-sale.*

18) 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 recognized within the *Trading portfolio.* Changes in fair value less costs to sell are recorded in *Net trading income.*

19) Property and equipment

Property and equipment includes own-used properties, investment properties, leasehold improvements, IT, software and communication 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 lives.

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 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 and for which sale within 12 months is highly probable 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 net realizable value. 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 book value 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.

Estimated useful life of property and equipment
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

20) 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 business combinations and certain purchased trademarks and similar items. Intangible assets are recognized at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized. Generally, 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. An impairment loss is recognized 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.

21) 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, and 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.

22) Debt issued

Money Market paper

Money market paper 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.

Debt without embedded derivative

Issued debt instruments without embedded derivatives are accounted for at amortized cost. However, it is the Group's policy to apply fair value hedge accounting to its fixed-rate debt instruments when the interest rate risk is managed on a mark-to-market basis. When fair value hedge accounting is applied to fixed-rate debt instruments, the carrying values of debt issued are adjusted for changes in fair value related to the hedged exposure rather than carried at amortized cost – refer to part 15) for further discussion.

Debt with embedded derivatives (related to UBS AG shares)

Debt instruments issued with embedded derivatives that are related to UBS AG shares (e.g. mandatory convertible notes) are separated into a liability and an equity component at issue date if the derivative is settled by UBS receiving or delivering a fixed number of its own shares in exchange for a fixed amount of cash or another financial asset. When a 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 or at fair value through profit or loss, if the fair value option is applied. 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 debt instrument or the embedded derivative related to UBS AG shares is to be cash settled or if it contains a cash or net share 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 ("Fair Value Option") – refer to part 8).

Debt with embedded derivatives (not related to UBS AG shares)

Debt instruments issued with embedded derivatives that are related to non-UBS AG equity instruments, foreign exchange, interest rate, credit instruments or indices are considered structured debt instruments. UBS has designated most of its structured debt instruments at fair value through profit or loss ("Fair Value Option") – see part 8). 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. 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.

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. Refer to Note 19 for further details on debt issued.

23) Post-employment benefits

UBS sponsors a number of post-employment benefit plans for its employees worldwide, which include defined benefit and defined contribution plans, and other post-retirement benefits such as medical and life insurance benefits.

Defined benefit plans

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit liability recognized in the balance sheet is the present value of the defined obligation at the balance sheet date less the fair value of the plan assets at the balance sheet date, together with adjustments for any unrecognized actuarial gains and losses and unrecognized past service cost. If the defined benefit liability is negative (i.e. a defined benefit asset) measurement of the asset is limited to the lower of the defined benefit asset and the total of any cumulative unrecognized net actuarial losses plus unrecognized past service cost plus the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. UBS applies the projected unit credit method to determine the present value of its defined benefit obligation and the related current service cost and, where applicable, past service cost. These amounts are calculated annually by independent actuaries. The principal actuarial assumptions used are set out in Note 30.

UBS 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 the present value of the defined benefit obligation at that date (before deducting the fair value of 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.

UBS recognizes curtailments on its defined benefit plans when the reductions in expected future service and in the defined benefit obligation are 10% or more. Reductions in expected future service and in the defined benefit obligation of between 5% and 10% are recognized if deemed material, and reductions of less than 5% are generally not recognized.

Defined contribution plans
A defined contribution plan is a pension plan under which UBS pays fixed contributions into a separate entity. UBS has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. UBS's contributions are expensed when the employees have rendered services in exchange for such contributions; this is generally in the year of contribution. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-retirement benefits
UBS also provides post-retirement medical and life insurance benefits to retirees in the US and the UK. The expected costs of these benefits are recognized over the period of employment using the same accounting methodology used for the defined benefit plans.

24) Equity participation and other compensation plans

Equity participation plans
UBS has established several equity participation plans in the form of share plans, option plans and share-settled stock appreciation right (SAR) plans. UBS's equity participation plans are mandatory, discretionary, or voluntary plans. UBS recognizes the fair value of share, option and SAR awards, determined at the date of grant, as compensation expense over the period that the employee is required to provide active services in order to earn the award.

Plans containing voluntary termination non-compete provisions (i.e. good leaver clauses) and no vesting conditions are considered vested at the grant date because no future service is required. Compensation expense is fully recognized on the grant date or is recognized in a period prior to the grant date if the bank can substantiate that the award is attributable to past service and the amount of the award can be reasonably and reliably estimated. The awards remain forfeitable until the legal vesting date if certain conditions are not met. Forfeiture events occurring after the grant date do not result in a reversal of compensation expense because the related services have been received. Forfeiture events occurring before the grant date result in the reversal of compensation expense.

Plans containing vesting conditions have either a tiered vesting structure, which vest in increments over that period or a cliff vesting structure, which vest at the end of the period. Such plans may contain provisions that shorten the required service period due to retirement eligibility. In such instances, UBS recognizes compensation expense over the shorter of the legal vesting period and the period from grant to the retirement eligibility date of the employee. Forfeiture of these awards during the service period results in a reversal of compensation expense.

The fair value of a share is determined as the average of the high and low UBS share price at the date of grant adjusted, where applicable, for an employee's non-entitlement to dividends during the vesting period, any post-vesting sale and hedge restrictions, and non-vesting conditions. The fair value of an option and a SAR is determined by means of a Monte Carlo simulation which takes into account the specific terms and conditions under which the options and SARs are granted.

Equity settled awards are classified as equity instruments. The fair value of an equity-settled award is 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 the award is 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.

Other compensation plans
UBS has established other fixed and variable deferred cash compensation plans, the value of which is not linked to UBS's own equity. UBS's deferred cash compensation plans are mandatory or discretionary plans.

The grant date fair value of fixed deferred cash awards is recognized as compensation expense over the service period, which is the period the employee is obligated to work in order to become entitled to the award.

Variable deferred cash compensation is generally awarded in the form of alternative investment vehicles (AIVs). The grant date fair value for AIVs is based on the fair value of the underlying assets (i.e. money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds) on grant date and is subsequently marked-to-market at each reporting date until the award is distributed. Forfeiture of these awards results in the reversal of expense. Refer to Note 31 for further details on equity participation and other compensation plans.

25) Amounts due under unit-linked investment contracts

UBS'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.

Assets held under unit-linked investment contract are presented as trading portfolio assets.

26) Provisions

Provisions are recognized when UBS has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. 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 and restructuring costs. 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.

27) 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 cost. Treasury shares are deducted from total shareholders' equity until they are cancelled or reissued. The difference between the proceeds from sales of *Treasury shares* and their weighted average cost (net of tax, if any) is reported as *Share premium.*

Contracts with gross physical settlement (except physically settled written put options and forward share purchase contracts)

Contracts that require gross physical settlement in UBS AG shares are classified in *Equity* as *Share premium* (provided a fixed amount of shares are exchanged against a fixed amount of cash) and accounted for at cost. They are added to or deducted from equity until settlement of such contracts. Upon settlement of such contracts, the difference between the proceeds received and their cost (net of tax, if any) are reported as *Share premium.*

Transaction cost related to share issuance of equity instruments

Incremental costs directly attributable to the issue of new shares or contracts with physical settlement (classified as equity instruments) are shown in equity as "transaction cost related to share issuance" and are a deduction of equity, net of tax, from the proceeds.

Contracts with net cash settlement or net cash settlement option

Contracts on UBS AG shares that require net cash settlement, or provide the counterparty or UBS with a settlement option which includes a choice of settling net in cash are classified as trading instruments, with changes in fair value reported in the income statement as "net trading income", except for written put options and forward share purchase contracts.

Physically settled written put options and forward share purchase contracts

Physically settled written put options and forward share purchase contracts, including contracts where physical settlement is a settlement alternative, result in the recognition of a financial liability. At inception of the contract, the present value of the obligation to purchase own shares in exchange for cash is transferred out of *Equity* and recognized as a liability. 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 the contract, the liability is derecognized, and the amount of equity originally recognized as a 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. Equity* is split into *Equity* attributable to UBS shareholders and *Equity* 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 held by third parties and treated as minority interests in UBS's consolidated financial statements. The full dividend payment obligation on these trust preferred securities issued is reclassified from *Equity* to a corresponding liability once a coupon payment becomes mandatory, i.e. when it is triggered by a contractually determined event. In the income statement the full dividend payment is reclassified from *Net profit* attributable to UBS shareholders to *Net profit* attributable to minority interests at that time. UBS bonds held by preferred funding trusts are eliminated in consolidation.

28) 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 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, management is committed to a plan to sell such assets and is actively looking for a buyer, the assets are being actively marketed at a reasonable sales price in relation to their fair value, the sale is expected to be completed within one year, 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, b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale (e.g. certain private equity investments). *Net profit* from discontinued operations includes the net total of operating profit and loss before tax from operations, including net gain or loss on sale before tax or measurement to fair value less costs to sell and discontinued operations tax expense. 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. Refer to Note 37 for details.

29) Leasing

UBS enters into lease contracts, predominantly of premises and equipment, as a lessor and 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; and e) whether the asset is of a specialized nature that only the lessee can use without major modifications being made. If one or more of the conditions are 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. 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.

UBS recognizes a provision for a lease contract of office space if the unavoidable costs of a contract exceed the benefits to be received under it, which requires that a lease contract is considered onerous in its entirety. A provision for onerous lease contracts often includes significant vacant rental space.

30) 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. Loan commitment fees on lending arrangements where the initial expectation is that the loan will be drawn down at some point are deferred until the loan is drawn down, and then recognized as an adjustment to the effective yield over the life of the loan.

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 commissions received up-front. Fees predominantly earned from providing transaction-type services include underwriting fees, corporate finance fees and brokerage fees.

31) Foreign currency translation

Transactions denominated in foreign currency are translated into the functional currency of the reporting unit at the spot exchange rate on the date of the transaction. At the balance sheet date, all assets and liabilities denominated in foreign currency except non-monetary items are translated using the closing exchange rate. Non-monetary items measured in terms of historical cost are translated at the exchange rate at the date of the transaction. Resulting foreign exchange differences are recognized in *Net trading income,* except for non-monetary financial investments available-for-sale which are recorded directly in *Equity* until the asset is sold or becomes impaired.

Upon consolidation, assets and liabilities of foreign operations are translated into Swiss francs (CHF) – UBS's presentation currency – at the closing exchange rate at the balance sheet date, and income and expense items are translated at the average rate for the period. Differences resulting from the use of different exchange rates are recognized directly in Foreign currency translation within *Equity.* Upon disposal of foreign operations the related foreign currency translation impact previously deferred in equity is reclassified to *Other income.*

32) 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 and adjusting the net profit or loss for the period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding 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.

33) Segment reporting

In 2009, UBS's businesses, i.e. wealth management and Swiss banking business, asset management and investment banking were organized on a worldwide basis into four business divisions and the Corporate Center, taken into consideration the economic characteristics of the businesses. The four business divisions, also known as the operating segments or reportable segments, were Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and Investment Bank. In the internal management report to the Group Executive Board (GEB) or the chief operating decision maker, the financial information about the four reportable segments and Corporate Center was separately presented. This internal management view was the basis for the external segment reporting. Corporate Center predominantly includes certain costs relating to Group functions and elimination items and it is not considered an operating segment under IFRS 8. The costs of shared service functions like risk management and control, finance, legal and compliance, marketing and communications, human resources, information technology infrastructure and service centres are charged out to the business divisions based on internal accounting policies.

UBS's internal accounting policies determine the revenues and expenses directly attributable to each business division. Internal charges and transfer pricing adjustments are reflected in the business division performances.

Revenue-sharing agreements are used to allocate external customer revenues to business divisions on a reasonable basis. Due to the present arrangement of revenue-sharing agreements, the total intersegment revenues for UBS are immaterial.

The costs of shared services and control functions managed by Corporate Center are allocated to the direct cost lines of personnel expenses, general and administrative expenses and depreciation in the respective business division income statements, based on internally determined allocation keys.

Net interest income is allocated to the business divisions based on their balance sheet positions. Assets and liabilities of the business divisions are funded through and invested with the central treasury department, with the net margin reflected in the results of each business division. To complete the allocation, Corporate Center transfers interest income earned from managing UBS's consolidated equity back to the reportable segments based on the average attributed equity.

Commissions are credited to the business division based on the corresponding customer relationship. Revenue-sharing agreements are used for the allocation of customer revenues where several business divisions are involved in the value-creation chain.

In line with the internal management reporting, segment assets are reported without intercompany balances or on a third-party view basis. Refer to Note 2a "Segment reporting". For the purpose of segment reporting under IFRS 8, the non-current assets consist of investment in associates and joint ventures, goodwill, other intangible assets as well as plant, property and equipment.

34) Netting

UBS nets assets and liabilities in its balance sheet if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Netted positions include positive and negative replacement values of OTC interest rate swaps transacted with London Clearing House. The positions are netted by currency and across maturities. Furthermore, amounts included in *Loans and Due* to customers related to UBS's Prime Brokerage Business have been netted, where possible.

b) Changes in accounting policies, comparability and other adjustments

Restatements made to the financial statements 2008

UBS has restated its 2008 financial statements to correct identified accounting errors related to the 2008 financial statements. These errors were not material to the annual or quarterly 2008 financial statements, but related corrections would have been material to first quarter 2009 financial statements. On 21 May 2009, UBS re-filed its US Form 20-F for the year 2008, which included the restated 2008 financial statements. The restatement comprises three items in excess of CHF 100 million as follows:

The fair value of auction rate securities purchase commitments at 31 December 2008, which are recognized as negative replacement values on UBS's balance sheet, was increased by CHF 112 million, resulting in a corresponding charge to net trading income.

For certain assets reclassified from *"Held-for-trading"* to *"Loans and receivables"* in fourth quarter 2008, recognition of interest income based on the effective interest rate method was reduced by CHF 180 million. Other assets were reduced accordingly as of 31 December 2008.

The partial disposals of an investment in a consolidated investment fund in 2008 gave rise to the realization of the related foreign currency translation loss deferred in shareholders' equity. This adjustment reduced other income for the year 2008 by CHF 192 million but did not have a net impact on UBS's equity. In addition to the abovementioned items, a number of misstatements individually below CHF 65 million were adjusted. The aggregate net effect of these items on net profit attributable to UBS shareholders was an increase of net profit attributable to shareholders of CHF 79 million.

The total net impact of all restated items on the 2008 results was a reduction of net profit and net profit attributable to UBS shareholders of CHF 405 million, a reduction of equity and equity attributable to UBS shareholders of CHF 269 million, and a reduction of basic and diluted earnings per share by CHF 0.15 and CHF 0.14 respectively. There was no effect on income tax expense.

Effective 2009

IAS 1 (revised) Presentation of Financial Statements
Effective 1 January 2009, the revised International Accounting Standard (IAS) 1 affected the presentation of owner changes in equity and of comprehensive income. UBS continued to present owner changes in equity in the "statement of changes in equity", but detailed information relating to non-owner changes in equity, such as foreign exchange translation, cash flow hedges and financial investments available-for-sale, were presented in the "Statement of comprehensive income".

When implementing these amendments effective 1 January 2009, UBS also adjusted the format of its "statement of changes in equity" and replaced the "statement of recognized income and expense" in the financial statements of previous years with a "statement of comprehensive income". Preferred securities issued by consolidated trusts are reported as "equity attributable to minority interests", as they are equity instruments held by third parties. As these securities make up the largest part of UBS's equity attributable to minority interests, UBS discloses movement information in a separate table.

UBS also re-assessed its accounting treatment of dividends from trust preferred securities. In line with the classification of trust preferred securities as equity instruments, UBS recognizes liabilities for the full dividend payment obligation once a coupon payment becomes mandatory, i.e., when it is triggered by a contractually determined event. In the income statement, the same amount is reclassified from net profit attributable to UBS shareholders to net profit attributable to minority interests.

IAS 1 (revised) Presentation of Financial Statements, and IAS 32 (revised) Financial Instruments: Presentation
The IASB issued a further amendment to IAS 1 and an amendment to IAS 32 regarding puttable financial instruments and obligations arising on liquidation. The IAS 32 amendment clarifies under which circumstances puttable financial instruments and obligations arising on liquidation 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 adopted the amendments on 1 January 2009. The adoption of the amendments did not have a significant impact on UBS's Financial Statements.

IFRS 8 Operating Segments
Effective as of 1 January 2009, UBS adopted IFRS 8 *Operating Segments* which replaced IAS 14 *Segment Reporting*. Under the requirements of the new standard, UBS's external segmental reporting is now based on the internal management reporting to the Group Executive Board (or the "chief operating decision maker"), which makes decisions on the allocation of resources and assesses the performance of the reportable segments.

In accordance with the new UBS structure announced in February 2009, UBS disclosed four reportable segments. These segments are the business divisions – Wealth Management & Swiss Bank, Wealth Management Americas, Global

Asset Management and Investment Bank. While the Corporate Center does not meet the requirements of an operating segment, it is also shown separately. Segment information from prior periods in Note 2a has been restated to conform to the requirements of this new standard. In addition, goodwill and intangible assets presented in Note 16 have also been reallocated in order to reflect the revised segment reporting structure.

As UBS's reportable segment operations are mainly financial, the total interest income and expense for all reportable segments are presented on a net basis. Based on the present arrangement of revenue-sharing agreements, the total intersegment revenues for UBS are immaterial. Apart from that, the segment assets are disclosed without the intercompany balances and this basis is in line with the internal management reporting. For more details on the basis on which the segment information is prepared and reconciled to the amounts presented in UBS's income statement and balance sheet, refer to Note 2a.

IFRS 7 (revised) Financial Instruments: Disclosures
This standard was revised in March 2009 when the International Accounting Standards Board (IASB) published the amendment "Improving Disclosures about Financial Instruments". Effective 1 January 2009, the amendment requires enhanced disclosures about fair value measurements and liquidity risk.

The enhanced fair value measurement disclosure requirements include: a fair value hierarchy (i.e. categorization of all financial instruments into levels 1, 2 and 3 based on the relevant definitions); significant transfers between level 1 and level 2; reconciliation of level 3 instruments at the beginning of the period to the ending balance (level 3 movement table); level 3 profit or loss for positions still held at balance sheet date; and sensitivity information for the total position of level 3 instruments and the basis for the calculation of such information.

The amended liquidity risk disclosure requirements largely confirm the previous rules for providing maturity information for non-derivative financial liabilities, but amend the rules for providing maturity information for derivative financial liabilities.

Reassessment of Embedded Derivatives
The International Financial Reporting Interpretations Committee (IFRIC) issued in March 2009 the supplement Embedded Derivatives: Amendments to IFRIC 9 and IAS 39. This guidance amends IFRIC 9 Reassessment of Embedded Derivatives, and IAS 39 Financial Instruments: Recognition and Measurement. The amendments clarify that on reclassification of a financial asset out of the *"Held for trading"* category, all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. The application of this guidance did not materially impact UBS's financial statements.

IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 15 was issued on 3 July 2008 and is effective for annual periods beginning on or after 1 January 2009. IFRIC 15 provides guidance on the accounting for agreements for the construction of real estate where entities enter into agreements with buyers before construction has been completed and the timing of revenue recognition. The application of this guidance did not materially impact UBS's financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRIC 16 was issued on 1 October 2008 and became effective on 1 January 2009. IFRIC 16 provides guidance in identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation; where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting, and how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The impact of this interpretation on UBS's financial statements was immaterial.

IAS 24 Related Party Disclosures
In November 2009, the IASB amended IAS 24 *Related Party Disclosures* with latest possible effective date 1 January 2011. UBS has early adopted the revised requirements in its annual financial statements 2009. The revised standard amends the definition of related parties, in particular the relationship between UBS and associated companies of UBS's key management personnel or their close family members. Transactions between UBS and associated companies of UBS key management personnel over which UBS key management personnel does not have control or joint control are no longer considered related party transactions. Due to the application of the revised guidance, related party transactions disclosed in Note 32e of the annual financial statements 2008 have been significantly reduced. Balances and movements of loans to related parties have been reduced by CHF 668 million at 31 December 2008 and CHF 530 million at 31 December 2007; and fees received for services provided by UBS have been reduced by CHF 11 million in 2008 and CHF 10 million in 2007.

Allocation of Shared Services Costs in Segment Disclosures
From 2009 onwards, ITI and Group Off-shoring costs managed by the Corporate Center are allocated to the direct cost lines personnel expenses, general and administrative expenses, and depreciation, in the respective business division income statements, based on appropriate internally determined allocation keys. In the Corporate Center income statement, costs allocated to the business divisions are deducted from the respective cost lines. In previous reports, these costs were presented as an expense on the line *"Services (to)/from other business divisions"* within each

Impact on income statement lines

For the comparative 12-month period in 2008, the following allocations were made:

CHF million	Wealth Management & Swiss Bank	Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center
Personnel expenses	228	85	20	300	(633)
General and administrative expenses	328	121	28	431	(909)
Depreciation of property and equipment	163	60	15	216	(455)
Services (to)/from other business divisions	(719)	(267)	(62)	(949)	1,997

business division and an offsetting corresponding amount on that line in the Corporate Center. The new presentation format provides greater transparency by allocating shared service costs to direct cost lines in divisional income statements. Comparative periods have been adjusted.

Group results and business division performance before tax in previous periods were not impacted by this policy change.

Unit-linked Investment Contracts
In fourth quarter 2009, UBS decided to present Wealth Management & Swiss Banking's obligations under unit-linked investment contracts under *Other liabilities* in order to align the treatment with similar contracts issued by Global Asset Management. In the past, the respective obligations of Wealth Management & Swiss Banking have been reported under *Due to customers.* UBS has retrospectively applied this change in presentation. The change in presentation resulted in the following effects on the balance sheet for 1 January 2008 and 31 December 2008: a decrease of *Due to customers* and a corresponding increase in amounts due under *Other liabilities* on the balance sheet (unit-linked investment contracts) of CHF 11,787 million and CHF 9,033 million, respectively. The change in presentation did not impact UBS's total liabilities, income statements or earnings per share for these periods.

Effective in 2008 and earlier

IFRS 2 Share-based Payment:
Vesting Conditions and Cancellations
On 1 January 2008, UBS adopted an amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations and fully restated the two comparative prior years. The amended standard clarifies the definition of vesting conditions and the accounting treatment of cancellations. 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.

The impact of this change is that UBS compensation awards are expensed over the period that the employee is required to provide active services in order to earn the award. Post-vesting sale and hedge restrictions and non-vesting conditions are considered when determining grant date fair value. The effect of the restatement on the opening balance sheet at 1 January 2006 was as follows: reduction of retained earnings by approximately CHF 2.3 billion, increase of share premium by approximately CHF 2.3 billion, increase of liabilities (including deferred tax liabilities) by approximately CHF 0.5 billion, and increase of deferred tax assets by approximately CHF 0.5 billion. *Net profit* attributable to UBS shareholders declined by CHF 863 million in 2007 and by CHF 730 million in 2006. Additional compensation expenses of CHF 797 million and CHF 516 million was recognized in 2007 and 2006, respectively. These additional compensation expenses include awards granted in 2008 for the performance year 2007. The impact of the restatement on total equity as of 31 December 2007 was a decrease of CHF 366 million. Retained earnings at 31 December 2007 decreased by approximately CHF 3.9 billion, share premium increased by approximately CHF 3.5 billion, liabilities (including deferred tax liabilities) increased by approximately CHF 0.6 billion and deferred tax assets increased by approximately CHF 0.2 billion. The restatement decreased basic and diluted earnings per share for the year ended 31 December 2007 by CHF 0.40 each and for the year ended 31 December 2006 by CHF 0.33 and CHF 0.31, respectively. In order to provide comparative information, these amounts also reflect the retrospective adjustments to shares outstanding in 2007 due to the capital increase and the share dividend paid in 2008.

The additional compensation expense is attributable to the acceleration of expenses related to share-based awards as well as for certain alternative investment vehicle awards and deferred cash compensation awards which contain non-compete provisions and sale and hedge restrictions that no longer qualify as vesting conditions under the amended standard.

Reclassifications of Financial Assets
The International Accounting Standards Board published an amendment to International Accounting Standard 39 (IAS 39 *Financial Instruments: Recognition and Measurement*) on 13 October 2008, under which eligible financial assets, subject to certain conditions being met, may be reclassified out of the *"Held for trading"* category if the firm had the intent and ability to hold them for the foreseeable future or until maturity.

Although the amendment could have been applied retrospectively from 1 July 2008, UBS decided at the end of October 2008 to apply the amendment with effect from 1 October 2008 following an assessment of the implications on its financial statements. Refer to Note 29b for further details on reclassification of financial assets.

Changes to segment reporting
UBS has continuously reduced its private equity business in Industrial Holdings over the last three years. The business no longer includes consolidated industrial private equity investments. Starting first quarter 2008, UBS presented the remaining activities from this business, mainly financial investments available-for-sale, under Corporate Center.

c) International Financial Reporting Standards and Interpretations to be adopted in 2010 and later

Effective in 2010

Improvements to IFRS 2009
The International Accounting Standards Board issued amendments to twelve IFRS standards as part of its annual improvements project in April 2009. The adoption of the amendments could result in accounting changes for presentation, recognition or measurement purposes. The improvements to IFRS 2009 will be adopted by UBS as of 1 January 2010. UBS does not expect these amendments to have a significant impact on UBS's financial statements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment to IAS 39 was issued in July 2008. The amendments provide additional guidance on the designation of a hedged item. The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations: a) a one-sided risk in a hedged item and b) inflation in a financial hedged item. The amendments to IAS 39 will be adopted by UBS as of 1 January 2010. UBS does not expect the amendments to 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 will have to be expensed as incurred.

The revised IFRS 3 and IAS 27 are effective for annual periods beginning on 1 January 2010 and have to be applied prospectively from the date of adoption. Business combinations consummated prior to that date will not be impacted.

The amendments to IAS 27 (including the consequential amendments to IAS 21) require the effects (including foreign exchange translation) of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The standards also specify the accounting when control is lost: any remaining interest in the entity is remeasured to fair value, and a gain or loss (including foreign exchange translation) is recognized in profit or loss. The amendments to IAS 21 further clarify that no deferred foreign currency translation gains and losses are to be released upon a partial repayment of share capital of a subsidiary without a loss of control. The IAS 21 amendments are effective on 1 January 2010 and have to be applied prospectively from the date of adoption.

Effective in 2011 and later, if not adopted early

IFRS 9 Financial Instruments
In November 2009, the IASB issued IFRS 9 *Financial instruments,* which includes revised guidance on the classification and measurement of financial assets. The publication of IFRS 9 represents the completion of the first part of a multi-stage project to replace IAS 39 *Financial instruments: recognition and measurement.* Under the revised guidance, a financial asset is to be accounted for at amortized cost only if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Non-traded equity instruments may be accounted for at fair value through equity, but the subsequent release of amounts booked directly to equity into the income state-

ment is no longer permitted. All other financial assets are measured at fair value through profit or loss. UBS is currently assessing the impact of the new standard on its financial statements. It is likely that a number of financial assets currently accounted for at amortized cost will be accounted for at fair value through profit or loss under the new standard because a) their contractual cash flows do not comprise solely payments of principal and interest on the principal, and/or b) UBS does not hold the assets with the intention to collect contractual cash flows they generate. Certain debt securities currently classified as available-for-sale may satisfy the criteria for "amortized cost" accounting; debt securities available-for-sale failing these criteria will be accounted for at fair value. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. UBS did not adopt IFRS 9 for the year ended 31 December 2009.

IFRIC 14 Prepayments of a Minimum Funding Requirement
In November 2009, the IASB issued the amended IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* which itself is an interpretation of IAS 19 *Employee Benefits.* The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits an entity to treat the benefit of such an early payment as an asset. The amendment is effective on 1 January 2011. Early application is permitted. UBS does not expect to have an impact from this interpretation on its financial statements.

Note 2a Segment reporting

In 2009, UBS's businesses were reorganized on a worldwide basis into four business divisions and the Corporate Center. The business divisions Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank constitute one segment each. In total, UBS reports four business segments and the Corporate Center in 2009. The Corporate Center includes all corporate functions, elimination items as well as the remaining industrial holdings activities and is not considered a business segment.

Wealth Management & Swiss Bank

Wealth Management & Swiss Bank focuses on delivering comprehensive financial services to high net worth and ultra high net worth individuals around the world – except to those served by Wealth Management Americas – as well as private and corporate clients in Switzerland. UBS provides clients in over 40 countries, including Switzerland, with financial advice, products and tools to fit their individual needs. UBS has a leading position across all client segments in Switzerland.

Wealth Management Americas

Wealth Management Americas provides advice-based relationships through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth, high net worth and core affluent individuals and families. It includes the former Wealth Management US business unit, as well as the domestic Canadian business and the international business booked in the United States.

Global Asset Management

Global Asset Management is a large-scale asset manager with well diversified businesses across regions, capabilities and distribution channels. It offers investment capabilities and investment styles across all major traditional and alternative asset classes. These include equities, fixed income, currency, hedge fund, real estate, infrastructure and private equity investment capabilities that can also be combined in multi-asset strategies.

Investment Bank

The Investment Bank provides securities and other financial products and research in equities, fixed income, rates, foreign exchange and precious metals. It also provides advisory services and access to the world's capital markets for corporate, institutional, intermediary and alternative asset management clients.

Corporate Center

The Corporate Center seeks to ensure that the business divisions operate as a coherent and effective whole by providing and managing support and control functions for the business divisions and the Group in such areas as risk control, finance, legal and compliance, funding, capital and balance sheet management, management of foreign currencies, communication and branding, human resources, information technology, real estate, procurement, corporate development and service centres.

Note 2a Segment reporting (continued)

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 division on a reasonable basis. Transactions between business divisions are conducted at internally agreed transfer prices or at arm's length.

CHF million	Wealth Management & Swiss Bank	Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center	UBS
For the year ended 31 December 2009						
Net interest income[1]	4,533	800	2	2,339	(1,229)	6,446
Non-interest income	6,989	4,746	2,134	2,494	1,623	17,987
Income[2]	11,523	5,546	2,137	4,833	394	24,433
Credit loss (expense) / recovery	(133)	3	0	(1,698)	(5)	(1,832)
Total operating income	11,390	5,550	2,137	3,135	389	22,601
Personnel expenses	5,197	4,231	996	5,568	551	16,543
General and administrative expenses	2,017	1,017	387	2,628	199	6,248
Services to / from other business divisions	(90)	4	(74)	(147)	306	0
Depreciation of property and equipment	289	170	36	360	193	1,048
Impairment of goodwill[3]	0	34	340	749	0	1,123
Amortization of intangible assets[3]	67	62	13	59	0	200
Total operating expenses	7,480	5,518	1,698	9,216	1,250	25,162
Performance from continuing operations before tax	**3,910**	**32**	**438**	**(6,081)**	**(860)**	**(2,561)**
Performance from discontinued operations before tax	0	0	0	0	(7)	(7)
Performance before tax[4]	**3,910**	**32**	**438**	**(6,081)**	**(867)**	**(2,569)**
Tax expense on continuing operations						(443)
Tax expense on discontinued operations						0
Net profit						**(2,125)**
Additional information[5]						
Total assets	248,140	53,197	20,238	991,964	26,999	1,340,538
Additions to non-current assets	43	59	11	81	745	939

1 Net interest income is disclosed to comply with the IFRS requirements. Refer to "Note 3 Net interest and trading income" for the information which corresponds to the view of management. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2009 were as follows: Wealth Management & Swiss Bank CHF 158 million; Global Asset Management CHF 20 million; Investment Bank CHF 142 million; Corporate Center CHF 29 million. The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. 3 Refer to "Note 16 Goodwill and intangible assets" of this report for further information regarding goodwill and other intangible assets by business division. 4 Refer to "Note 38 Reorganizations and disposals" for further information on the impact on performance before tax of the disposal of UBS Pactual and restructuring charges, and to "Note 27 Fair value of financial instruments" for further information on the allocation on own credit charges. 5 The segment assets are based on a third-party view and this is in line with the reporting to the management, i.e. the amounts do not include inter-company balances.

Note 2a Segment reporting (continued)

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 division on a reasonable basis. Transactions between business divisions are conducted at internally agreed transfer prices or at arm's length.

CHF million	Wealth Management & Swiss Bank	Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center	UBS
For the year ended 31 December 2008						
Net interest income	5,424	938	(2)	2,007	(2,375)	5,992
Non-interest income	9,989	5,340	2,906	(23,808)	3,373	(2,200)
Income[1]	15,413	6,278	2,905	(21,800)	998	3,792
Credit loss (expense) / recovery	(392)	(29)	0	(2,575)	0	(2,996)
Total operating income	15,021	6,249	2,904	(24,375)	998	796
Personnel expenses	5,430	4,271	946	5,182	433	16,262
General and administrative expenses	3,295	2,558	462	3,830	353	10,498
Services to / from other business divisions	(73)	16	88	41	(73)	0
Depreciation of property and equipment	323	162	44	447	265	1,241
Impairment of goodwill[2]	0	0	0	341	0	341
Amortization of intangible assets[2]	33	65	33	83	0	213
Total operating expenses	9,008	7,072	1,572	9,925	979	28,555
Performance from continuing operations before tax	**6,013**	**(823)**	**1,333**	**(34,300)**	**19**	**(27,758)**
Performance from discontinued operations before tax	0	0	0	0	198	198
Performance before tax	**6,013**	**(823)**	**1,333**	**(34,300)**	**217**	**(27,560)**
Tax expense on continuing operations						(6,837)
Tax expense on discontinued operations						1
Net profit						**(20,724)**
Additional information[3]						
Total assets	251,487	39,039	24,640	1,680,257	19,392	2,014,815
Additions to non-current assets	275	135	430	809	961	2,609

1 Impairments of financial investments available-for-sale for the year ended 31 December 2008 were as follows: Wealth Management & Swiss Bank CHF 19 million; Wealth Management Americas CHF 1 million; Global Asset Management CHF 22 million; Investment Bank CHF 121 million; Corporate Center CHF 40 million. 2 Refer to "Note 16 Goodwill and intangible assets" of this report for further information regarding goodwill and other intangible assets by business division. 3 The segment assets are based on a third-party view and this is in line with the reporting to the management, i.e. the amounts do not include inter-company balances.

Note 2a Segment reporting (continued)

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 division on a reasonable basis. Transactions between business divisions are conducted at internally agreed transfer prices or at arm's length.

CHF million	Wealth Management & Swiss Bank	Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center[1]	UBS
For the year ended 31 December 2007						
Net interest income	5,600	824	(76)	209	(1,220)	5,337
Non-interest income	12,089	6,329	4,170	(747)	4,782	26,622
Income[2]	17,689	7,153	4,094	(538)	3,562	31,959
Credit loss (expense) / recovery	30	(2)	0	(266)	(0)	(238)
Total operating income	17,718	7,151	4,094	(804)	3,562	31,721
Personnel expenses	6,356	5,060	1,883	11,633	583	25,515
General and administrative expenses	2,514	1,209	593	3,800	312	8,429
Services to / from other business divisions	(43)	28	73	(171)	114	0
Depreciation of property and equipment	334	163	72	431[3]	243	1,243
Amortization of intangible assets[4]	15	70	19	172	0	276
Total operating expenses	9,176	6,530	2,640	15,865	1,252	35,463
Performance from continuing operations before tax	**8,543**	**621**	**1,454**	**(16,669)**	**2,310**	**(3,742)**
Performance from discontinued operations before tax	0	0	0	0	145	145
Performance before tax	**8,543**	**621**	**1,454**	**(16,669)**	**2,455**	**(3,597)**
Tax expense on continuing operations						1,369
Tax expense on discontinued operations						(258)
Net profit						**(4,708)**
Additional information[5]						
Total assets	256,738	34,730	43,500	1,922,815	17,109	2,274,891
Additions to non-current assets	223	416	553	1,111	1,927	4,230

1 Includes data from Industrial Holdings which was considered a reportable segment in 2007. Results of Industrial Holdings: Total operating income CHF 689 million, total operating expenses CHF 163 million, performance from continuing operations before tax CHF 526 million, profit from discontinued operations before tax CHF 138 million. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2007 were as follows: Wealth Management & Swiss Bank CHF 11 million; Global Asset Management CHF 39 million; Investment Bank CHF 22 million; Corporate Center CHF 2 million. 3 Includes CHF 34 million for impairments of leasehold improvements and other machines and equipment. 4 Refer to "Note 16 Goodwill and intangible assets" of this report for further information regarding goodwill and other intangible assets by business division. 5 The segment assets are based on a third-party view and this is in line with the reporting to the management, i.e. the amounts do not include inter-company balances.

Note 2b Segment reporting by geographic location

The geographic analysis of operating income and non-current assets is based on the location of the entity in which the transactions and assets are recorded. The divisions of the Group are managed on an autonomous basis worldwide with a focus on cross-divisional collaboration and the interest of UBS's clients to yield the maximum possible profitability by product line for the Group. The geographical analysis of operating income and non-current assets is provided in order to comply with IFRS.

For the year ended 31 December 2009

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	11,939	53	5,137	28
United Kingdom	(3,999)	(18)	743	4
Rest of Europe	1,264	6	1,266	7
United States	9,333	41	9,928	55
Asia Pacific	3,770	17	451	3
Rest of the world	294	1	565	3
Total	**22,601**	**100**	**18,090**	**100**

For the year ended 31 December 2008

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	11,564	1,453	5,207	25
United Kingdom	(9,219)	(1,158)	805	4
Rest of Europe	6,132	770	1,337	7
United States	(10,519)	(1,321)	10,505	51
Asia Pacific	3,122	392	495	2
Rest of the world	(284)	(36)	2,184	11
Total	**796**	**100**	**20,533**	**100**

For the year ended 31 December 2007

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	18,787	59	5,355	22
United Kingdom	(1,671)	(5)	2,336	10
Rest of Europe	2,541	8	1,006	4
United States	880	3	11,686	49
Asia Pacific	6,393	20	388	2
Rest of the world	4,791	15	2,980	13
Total	**31,721**	**100**	**23,751**	**100**

Income statement notes

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 considers it to be more meaningful to analyze net interest and trading income according to the businesses that drive it. The second table below ("Breakdown by businesses") provides information that corresponds to this view: "Net income from trading businesses" includes both interest and trading income generated by the Investment Bank, including its lending activities, and trading income generated by the other business divisions; "Net income from interest margin businesses" comprises interest income from the loan portfolios of Wealth Management & Swiss Bank and Wealth Management Americas; "Net income from treasury activities and other" reflects all income from the Group's centralized treasury function.

	For the year ended			% change from
CHF million	**31.12.09**	31.12.08	31.12.07	31.12.08
Net interest and trading income				
Net interest income	**6,446**	5,992	5,337	8
Net trading income	**(324)**	(25,820)	(8,353)	99
Total net interest and trading income	**6,122**	(19,828)	(3,016)	
Breakdown by businesses				
Net income from trading businesses[1]	**382**	(27,203)	(10,658)	
Net income from interest margin businesses	**5,053**	6,160	6,230	(18)
Net income from treasury activities and other	**687**	1,214	1,412	(43)
Total net interest and trading income	**6,122**	(19,828)	(3,016)	
Net interest income[2]				
Interest income				
Interest earned on loans and advances[3]	**13,202**	20,213	21,263	(35)
Interest earned on securities borrowed and reverse repurchase agreements	**2,629**	22,521	48,274	(88)
Interest and dividend income from trading portfolio	**7,150**	22,397	39,101	(68)
Interest income on financial assets designated at fair value	**316**	404	298	(22)
Interest and dividend income from financial investments available-for-sale	**164**	145	176	13
Total	**23,461**	65,679	109,112	(64)
Interest expense				
Interest on amounts due to banks and customers	**3,873**	18,150	29,318	(79)
Interest on securities lent and repurchase agreements	**2,179**	16,123	40,581	(86)
Interest and dividend expense from trading portfolio	**3,878**	9,162	15,812	(58)
Interest on financial liabilities designated at fair value	**2,855**	7,298	7,659	(61)
Interest on debt issued	**4,231**	8,954	10,405	(53)
Total	**17,016**	59,687	103,775	(71)
Net interest income	**6,446**	5,992	5,337	8

1 Includes lending activities of the Investment Bank. 2 Interest includes forward points on foreign exchange swaps used to manage short-term interest rate risk on foreign currency loans and deposits. 3 Includes interest income on impaired loans and advances of CHF 95 million for 2009, CHF 99 million for 2008 and CHF 110 million for 2007.

Note 3 Net interest and trading income (continued)

Net trading income[1]

	For the year ended			% change from
CHF million	31.12.09	31.12.08	31.12.07	31.12.08
Investment Bank equities	2,462	4,694	9,048	(48)
Investment Bank fixed income, currencies and commodities	(5,455)	(35,040)	(21,424)	84
Other business divisions	2,668	4,525	4,023	(41)
Net trading income	(324)	(25,820)	(8,353)	99
of which: net gains/(losses) from financial assets designated at fair value	*678*	*(974)*	*(30)*	
of which: net gains/(losses) from financial liabilities designated at fair value[2]	*(6,741)*	*44,284*	*(3,779)*	

1 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 Financial liabilities designated at fair value are to a large extent economically hedged with derivatives and other instruments whose change in fair value is also reported in *Net trading income*. Refer to Note 27 for further information.

Significant impacts on net trading income

Net trading income in 2009 includes a loss of CHF 0.8 billion from credit valuation adjustments for monoline credit protection (CHF 8.2 billion loss in 2008); refer to the "Risk management and control" section of this report for more information on exposure to monolines. Additional losses of CHF 23.7 billion related to positions previously considered risk concentrations were included in 2008.

The SNB transaction resulted in gains of CHF 0.1 billion from the valuation of UBS's option to acquire the SNB StabFund's equity and losses of CHF 0.2 billion due to price adjustments for positions transferred to the fund (losses of CHF 5.2 billion in 2008).

A gain of CHF 0.3 billion (CHF 4.6 billion gain in 2008) was recorded on the valuation of the embedded derivative of the MCNs issued in 2008.

Note 4 Net fee and commission income

	For the year ended			% change from
CHF million	31.12.09	31.12.08	31.12.07	31.12.08
Equity underwriting fees	1,590	1,138	2,564	40
Debt underwriting fees	796	818	1,178	(3)
Total underwriting fees	2,386	1,957	3,742	22
M&A and corporate finance fees	881	1,662	2,768	(47)
Brokerage fees[1]	6,217	8,209	10,211	(24)
Investment fund fees	4,000	5,583	7,422	(28)
Portfolio management and advisory fees[2]	5,863	7,667	9,454	(24)
Insurance-related and other fees	264	317	423	(17)
Total securities trading and investment activity fees	19,611	25,394	34,020	(23)
Credit-related fees and commissions	339	273	279	24
Commission income from other services	878	1,010	1,017	(13)
Total fee and commission income	20,827	26,677	35,316	(22)
Brokerage fees paid[1]	1,748	1,763	2,540	(1)
Other	1,368	1,984	2,142	(31)
Total fee and commission expense	3,116	3,748	4,682	(17)
Net fee and commission income	17,712	22,929	30,634	(23)
of which: net brokerage fees	*4,469*	*6,445*	*7,671*	*(31)*

1 In 2009, UBS restated the amounts presented in previous periods on the lines *Brokerage fees* and *Brokerage fees paid*. Amounts previously disclosed for both lines have been decreased by CHF 146 million for the year ended 31 December 2008 and by CHF 70 million for the year ended 31 December 2007. *Net fee and commission income* is not affected. 2 Includes fiduciary and custodian fees, which were presented as separate lines in previous reports.

Note 5 Other income

	For the year ended			% change from
CHF million	31.12.09	31.12.08	31.12.07	31.12.08
Associates and subsidiaries				
Net gains from disposals of consolidated subsidiaries[1]	96	(184)	(70)	
Net gains from disposals of investments in associates	(1)	199	28	
Share of net profits of associates	37	(6)	145	
Total	133	9	103	
Financial investments available-for-sale				
Net gains from disposals	110	615[2]	3,338[3]	(82)
Impairment charges	(349)[4]	(202)	(71)	(73)
Total	(239)	413	3,267	
Net income from investments in property[5]	72	88	108	(18)
Net gains from investment properties[6]	(39)	0	31	
Other income from Industrial Holdings	0	0	689	
Other	672[7]	183	143	267
Total other income	599	692	4,341	(13)

1 Includes foreign exchange amounts reclassified from equity upon disposal or deconsolidation of subsidiaries. 2009 includes a loss of CHF 498 million on sale of UBS Pactual. 2 Includes a gain of approximately CHF 360 million for the disposal of UBS's equity stake in Bank of China. 3 Includes a pre-tax gain of CHF 1,950 million from UBS's sale of its 20.7% stake in Julius Baer. 4 Includes impairments for a global real estate fund of CHF 155 million, Asian debt instruments of CHF 86 million and private equity investments of CHF 55 million. 5 Includes net rent received from third parties and net operating expenses. 6 Includes unrealized and realized gains from investment properties at fair value and foreclosed assets. 7 Includes a gain of CHF 304 million from the public tender offer for four subordinated bonds of UBS.

Note 6 Personnel expenses

	For the year ended			% change from
CHF million	31.12.09	31.12.08	31.12.07	31.12.08
Salaries and variable compensation	12,801	12,207	20,715	5
Contractors	275	423	630	(35)
Insurance and social security contributions	851	706	1,290	21
Contribution to retirement plans	941	926	922	2
Other personnel expenses	1,675	2,000	1,958	(16)
Total personnel expenses	16,543	16,262	25,515	2
of which: share-based personnel expense	*913*	*(94)*	*3,173*	

Note 7 General and administrative expenses

	For the year ended			% change from
CHF million	31.12.09	31.12.08	31.12.07	31.12.08
Occupancy	1,420	1,516	1,569	(6)
Rent and maintenance of IT and other equipment	623	669	701	(7)
Telecommunications and postage	697	888	948	(22)
Administration	695	926	991	(25)
Marketing and public relations	225	408	585	(45)
Travel and entertainment	412	728	1,029	(43)
Professional fees	830	1,085	1,106	(24)
Outsourcing of IT and other services	836	1,029	1,233	(19)
Other	512	3,249[1]	267	(84)
Total general and administrative expenses	6,248	10,498	8,429	(40)

1 Includes an amount of CHF 1,464 million for the expected costs associated with the repurchase of auction rate securities from clients and CHF 917 million in connection with UBS's US cross-border case.

Note 8 Earnings per share (EPS) and shares outstanding

	As of or for the year ended			% change from
	31.12.09	31.12.08	31.12.07	31.12.08
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	(2,736)	(21,292)	(5,247)	87
from continuing operations	(2,719)	(21,442)	(5,650)	87
from discontinued operations	(17)	150	403	
Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	(2,736)	(21,292)	(5,247)	87
Less: (profit)/loss on equity derivative contracts	(5)	(28)	(16)	82
Net profit attributable to UBS shareholders for diluted EPS	(2,741)	(21,320)	(5,263)	87
from continuing operations	(2,724)	(21,470)	(5,666)	87
from discontinued operations	(17)	150	403	
Weighted average shares outstanding				
Weighted average shares outstanding for basic EPS	3,661,086,266	2,792,023,098	2,182,836,078	31
Potentially dilutive ordinary shares resulting from unvested exchangeable shares, in-the-money options and warrants outstanding[1]	754,948	1,151,556	1,467,326[2]	(34)
Weighted average shares outstanding for diluted EPS	3,661,841,214	2,793,174,654	2,184,303,404	31
Potential ordinary shares from unexercised employee shares and in-the-money options not considered due to the anti-dilutive effect	20,166,373	27,909,964	53,668,047	(28)
Earnings per share (CHF)				
Basic	(0.75)	(7.63)	(2.40)	90
from continuing operations	(0.74)	(7.68)	(2.59)	90
from discontinued operations	0.00	0.05	0.18	(100)
Diluted	(0.75)	(7.63)	(2.41)	90
from continuing operations	(0.74)	(7.69)	(2.59)	90
from discontinued operations	0.00	0.05	0.18	(100)
Shares outstanding				
Ordinary shares issued	3,558,112,753	2,932,580,549	2,073,547,344	21
Treasury shares	37,553,872	61,903,121	158,105,524	(39)
Shares outstanding	3,520,558,881	2,870,677,428	1,915,441,820	23
Retrospective adjustments for stock dividend[3]			95,772,091	
Retrospective adjustments for rights issue[2]			141,850,917	
Retrospective adjustment for capital increase[4]		23,252,487	17,439,825	
Mandatory convertible notes and exchangeable shares[5]	273,264,461	605,547,748	518,711	(55)
Shares outstanding for EPS	3,793,823,342	3,499,477,663	2,171,023,364	8

1 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 288,915,585; 283,263,330 and 119,309,645 for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 respectively. An additional 100 million ordinary shares ("contingent share issue") related to the SNB transaction were not dilutive for the years ended 31 December 2009 and 31 December 2008 but could potentially dilute earnings per share in the future. 2 Shares outstanding and potentially dilutive ordinary shares are increased by 7.053% due to the rights issue carried out in 2008. 3 Shares outstanding are increased by 5% to reflect the 1:20 ratio of the stock dividend distributed in 2008 for the financial year 2007. 4 Shares outstanding increased by 0.81% due to the capital increase in 2009. 5 31 December 2009 and 31 December 2008 include 272,651,005 shares for the mandatory convertible notes issued to two investors in March 2008. 31 December 2008 includes 332,225,913 shares for the mandatory convertible notes issued to the Swiss Confederation in December 2008. Remaining amounts related to exchangeable shares. All adjusted for the dilution effect of the stock dividend, the rights issue and the capital increase where applicable.

Balance sheet notes: assets

Note 9a Due from banks and loans (held at amortized cost)

CHF million	31.12.09	31.12.08
By type of exposure		
Banks, gross	46,606	64,473
Allowance for credit losses	(32)	(22)
Net due from banks	46,574	64,451
Loans, gross		
Residential mortgages	121,031	121,811
Commercial mortgages	19,970	21,270
Other loans[1]	141,237	173,812
Securities[2]	27,237	26,320
Subtotal	309,475	343,213
Allowance for credit losses	(2,648)	(2,905)
of which: related to securities	*(179)*	*(126)*
Net loans	306,828	340,308
Net due from banks and loans (held at amortized cost)	353,402	404,759
By geographical region (based on the location of the borrower)		
Switzerland	163,397	166,798
United Kingdom	24,038	30,540
Rest of Europe	35,482	47,724
United States	85,411	105,907
Asia Pacific	19,531	23,279
Rest of the world	32,231	38,590
Subtotal	360,090	412,838
Allowance for credit losses	(2,680)	(2,927)
Net due from banks, loans (held at amortized cost) and loans designated at fair value[3]	357,410	409,911
By type of collateral		
Secured by real estate	142,617	145,491
Collateralized by securities	56,783	56,312
Guarantees and other collateral	75,589	113,032
Unsecured	85,101	98,003
Subtotal	360,090	412,838
Allowance for credit losses	(2,680)	(2,927)
Net due from banks, loans (held at amortized cost) and loans designated at fair value[3]	357,410	409,911

1 Includes current accounts, loans and cash collateral for derivatives. 2 On 31 December 2009, includes reclassified US student loan auction rate securities (ARS) of CHF 7.8 billion (CHF 8.4 billion on 31 December 2008), other reclassified securities of CHF 11.5 billion (CHF 13.4 billion on 31 December 2008) and CHF 8.0 billion ARS acquired from clients (CHF 4.5 billion on 31 December 2008). 3 Includes loans designated at fair value of CHF 4.0 billion on 31 December 2009 and CHF 5.2 billion on 31 December 2008. For further details refer to "Note 12 Financial assets designated at fair value".

Note 9b Allowances and provisions for credit losses

CHF million	Specific allowances and provisions	Collective loan loss allowances and provisions	Total 31.12.09	Total 31.12.08
Balance at the beginning of the year	3,047	23	3,070	1,164
Write-offs	(2,046)	0	(2,046)	(868)
Recoveries	52	0	52	44
Increase / (decrease) in credit loss allowances and provisions recognized in the income statement	1,806	26	1,832	2,996
Disposals	(51)	0	(51)	(223)
Foreign currency translation and other adjustments	(37)	0	(37)	(43)
Balance at the end of the year	2,771[1]	49	2,820	3,070

CHF million	Specific allowances and provisions	Collective loan loss allowances and provisions	Total 31.12.09	Total 31.12.08
As a reduction of due from banks	32	0	32	22
As a reduction of loans[1]	2,598	49	2,648	2,905
As a reduction of securities borrowed	51	0	51	112
Subtotal	2,681	49	2,730	3,039
Included in other liabilities related to provisions for contingent claims	90	0	90	31
Total allowances and provisions for credit losses	2,771	49	2,820	3,070

1 CHF 1,192 million are related to reclassified assets on 31 December 2009 and CHF 1,331 million on 31 December 2008.

Note 10 Cash collateral on securities borrowed and lent, 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 31.12.09	Reverse repurchase agreements 31.12.09	Cash collateral on securities borrowed 31.12.08	Reverse repurchase agreements 31.12.08
By counterparty				
Banks	17,143	71,051	17,523	110,254
Customers	46,364	45,638	105,374	114,393
Total	63,507	116,689	122,897	224,648

Balance sheet liabilities

CHF million	Cash collateral on securities lent 31.12.09	Repurchase agreements 31.12.09	Cash collateral on securities lent 31.12.08	Repurchase agreements 31.12.08
By counterparty				
Banks	7,268	26,167	12,181	36,088
Customers	727	38,008	1,881	66,473
Total	7,995	64,175	14,063	102,561

Note 11 Trading portfolio

The Group trades in debt instruments (including money market papers and tradeable loans), equity instruments, precious metals, other commodities and derivatives to meet the financial needs of its clients and to generate revenue. Non-derivative traded instruments are included in the table below. For derivative instruments, refer to "Note 23 Derivative instruments and hedge accounting". The table below represents an IFRS accounting view. It does not reflect hedges and other risk mitigating factors, and the amounts therefore may not be reflective for risk exposures.

	31.12.09				31.12.08
CHF million	**Level 1**	**Level 2**	**Level 3**	**Total**	
Trading portfolio assets					
Debt instruments					
Government and government agencies	59,731	21,656	742	82,129	115,696
of which: Switzerland				*155*	*121*
of which: United States				*22,498*	*31,366*
of which: Japan				*25,795*	*46,049*
Banks	578	13,768	678	15,024	23,175
Corporates and other	3,293	28,123	10,462	41,878	85,991
Total debt instruments	63,601	63,546	11,882	139,030	224,862
of which: pledged as collateral				*46,348*	*62,153*
of which: pledged as collateral and can be repledged or resold by counterparty				*30,622*	*30,903*
Equity instruments	61,788	14,317	258	76,364	77,258
of which: pledged as collateral				*18,400*	*15,849*
of which: pledged as collateral and can be repledged or resold by counterparty				*13,599*	*9,312*
Subtotal	125,389	77,864	12,141	215,393	302,120
Precious metals and other commodities				16,864	9,934
Total trading portfolio assets				232,258	312,054
Trading portfolio liabilities					
Debt instruments					
Government and government agencies	20,389	5,917	0	26,306	34,043
of which: Switzerland				*85*	*129*
of which: United States				*10,351*	*18,914*
of which: Japan				*3,384*	*2,344*
Banks	753	2,617	102	3,472	4,354
Corporates and other	298	4,989	161	5,447	10,945
Total debt instruments	21,441	13,523	262	35,226	49,342
Equity instruments	12,014	70	160	12,243	13,089
Total trading portfolio liabilities	33,454	13,593	422	47,469	62,431

Note 12 Financial assets designated at fair value

CHF million	**31.12.09**	31.12.08
Loans	**3,052**	4,500
Structured loans	**957**	653
Reverse repurchase and securities borrowing agreements		
Banks	**3,712**	4,321
Customers	**1,662**	2,329
Other financial assets	**840**	1,079
Total financial assets designated at fair value	**10,223**	12,882

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 9,383 million at 31 December 2009 and CHF 11,803 million at 31 December 2008). 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 2009 and 31 December 2008 is mitigated by collateral of CHF 4,845 million and CHF 6,335 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	**31.12.09**	31.12.08
Notional amount of loans and structured loans	**4,224**	6,186
Credit derivatives related to loans and structured loans – notional amounts[1]	**2,699**	4,314
Credit derivatives related to loans and structured loans – fair value[1]	**90**	547

Additional Information

	For the year ended		Cumulative from inception until the year ended	
CHF million	**31.12.09**	31.12.08	**31.12.09**	31.12.08
Change in fair value of loans and structured loans designated at fair value, attributable to changes in credit risk[2]	**530**	(668)	**(128)**	(659)
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[2]	**(435)**	486	**90**	547

1 Credit derivatives contracts include credit default swaps, total return swaps, 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 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 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

	31.12.09				31.12.08
CHF million	**Level 1**	**Level 2**	**Level 3**	**Total**	
Debt instruments					
Government and government agencies	**72,510**	**3,591**	**41**	**76,142**	2,349
of which: Switzerland				***232***	*3*
of which: United States				***46,906***	*281*
of which: Germany				***7,958***	*0*
of which: France				***7,936***	*0*
of which: United Kingdom				***4,774***	*2,014*
of which: Japan				***3,950***	*0*
Banks	**1,748**	**1,981**	**4**	**3,732**	180
Corporates and other	**14**	**95**	**422**	**531**	1,038
Total debt instruments[1]	**74,271**	**5,667**	**467**	**80,406**	3,567
Equity instruments	**35**	**405**	**910**	**1,351**	1,681
Total financial investments available-for-sale	**74,307**	**6,073**	**1,378**	**81,757**	5,248
Net unrealized gains (losses) – before tax				**500**	403
Net unrealized gains (losses) – after tax				**391**	349

1 The increase in 2009 is mainly related to UBS's strategic decision to rebalance its liquidity reserve which led to a shift from reverse repurchase agreements and trading portfolio assets into debt instruments available-for-sale. These instruments include high quality liquid short-term securities issued by governments and government-controlled institutions in various currencies, mainly US dollar and euro.

Note 14 Investments in associates

CHF million	**31.12.09**	31.12.08
Carrying amount at the beginning of the year	**892**	1,979
Additions	**14**	807
Disposals	**(38)**	(1,307)
Transfers	**(1)**	(422)
Income	**42**	12
Impairments	**(4)**	(18)
Dividends paid	**(30)**	(34)
Foreign currency translation	**(5)**	(125)
Carrying amount at the end of the year	**870**	892

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. Refer to "Note 34 Significant subsidiaries and associates".

CHF million	**31.12.09**	31.12.08
Assets	**5,155**	4,272
Liabilities	**3,248**	3,448
Revenues	**1,468**	1,211
Net profit	**319**	198

Note 15 Property and equipment

At historical cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improve-ments	IT, software and com-munication	Other machines and equipment	Projects in progress	31.12.09	31.12.08
Historical cost							
Balance at the beginning of the year	9,289	3,393	4,086	867	317	17,952	18,723
Additions	259	77	265	24	229	854	1,181
Additions from acquired companies	0	0	0	0	0	0	7
Disposals / write-offs[1]	(15)	(309)	(346)	(65)	0	(736)	(792)
Reclassifications	(78)	76	132	(34)	(323)	(227)	(222)
Foreign currency translation	13	(10)	12	(7)	(6)	2	(945)
Balance at the end of the year	9,468	3,227	4,150	784	217	17,846	17,952
Accumulated depreciation							
Balance at the beginning of the year	5,272	2,031	3,612	546	0	11,461	11,679
Depreciation[2]	247	358	371	72	0	1,048	1,241
Disposals / write-offs[1]	(13)	(263)	(325)	(42)	0	(644)	(697)
Reclassifications	(94)	3	2	(14)	0	(104)	(164)
Foreign currency translation	6	(20)	9	(7)	0	(12)	(598)
Balance at the end of the year	5,417	2,109	3,669	555	0	11,750	11,461
Net book value at the end of the year[3]	4,051	1,118	481	229	217	6,096	6,491

1 Includes write-offs of fully depreciated assets. 2 In 2009, amounts include CHF 26 million impairments of own-used property, CHF 30 million impairments of leasehold improvements and CHF 2 million impairments of IT, software and communication. 3 Fire insurance value of property and equipment is CHF 13,800 million (2008: CHF 14,166 million).

Investment properties at fair value

CHF million	31.12.09	31.12.08
Balance at the beginning of the year	215	189
Additions	0	37
Sales	(60)	0
Revaluations	(37)	(6)
Foreign currency translation	(2)	(5)
Balance at the end of the year	116	215

Note 16 Goodwill and intangible assets

Introduction

At 31 December 2009, the following four segments carried goodwill: Wealth Management & Swiss Bank (CHF 1.5 billion), Wealth Management Americas (CHF 3.7 billion), Global Asset Management (CHF 1.6 billion), and Investment Bank (CHF 3.3 billion). For the purpose of testing goodwill for impairment, UBS considers each of these segments as separate cash-generating units, and determines the recoverable amount of a segment on the basis of value in use.

At 31 December 2009, equity attributable to UBS shareholders stood at CHF 41 billion, up from CHF 33 billion at 31 December 2008. UBS's market capitalization, excluding the shares to be issued upon conversion of the MCNs, amounted to CHF 57 billion at 31 December 2009 compared with CHF 44 billion at 31 December 2008. On the basis of the impairment testing methodology described below, UBS concluded that the year-end 2009 balances of goodwill allocated to its segments remain recoverable.

Methodology for goodwill impairment testing

The recoverable amount is determined using a proprietary model based on discounted cash flows, 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 five years, discounted to their present values. The terminal value reflecting all periods beyond the fifth year is calculated on the basis of the forecast of fifth-year profit, the cost of equity and the long-term growth rate. During the year 2009, the discount rates used to calculate the present values were reduced to reflect the improved capital basis and the realized de-risking of the balance sheet, and the long-term growth rate was also marginally reduced. The recoverable amount of a segment is the sum of earnings available to shareholders from the first five individually forecast years and the terminal value.

The carrying amount for each segment is determined by a roll-forward of historic carrying amounts based on the equity attributed to UBS shareholders, as full balance sheets are not available for the segments. For each segment the beginning-of-the-period balance of equity is rolled forward by accounting for the items that affect a segment's carrying amount, e.g. allocation of transactions with shareholders at Group level, to arrive at the end-of-the-period balance.

Assumptions

The model to determine the recoverable amount is most sensitive to changes in the forecast earnings available to shareholders in years one to five, the cost of equity and changes in the long-term growth rate. The applied long-term growth rate is based on real growth rates and expected inflation. Earnings available to shareholders are estimated based on forecast results, which take into account business initiatives and planned capital investments, and returns to shareholders, which take into account amounts of capital that could be distributed or used for share buybacks. Valuation parameters used in the Group's impairment test model are linked to external market information, where applicable. Management believes that reasonable changes in key assumptions used to determine the recoverable amounts of all segments will not result in an impairment situation.

Discount and growth rates

	Discount rates		Growth rates	
In %	**31.12.09**	31.12.08	**31.12.09**	31.12.08
Wealth Management & Swiss Bank	**9.0**	9.5	**1.2**	1.3
Wealth Management Americas	**9.0**	11.5	**2.4**	2.6
Global Asset Management	**9.0**	11.0	**2.4**	2.6
Investment Bank	**11.0**	13.0	**2.4**	2.6

Note 16 Goodwill and intangible assets (continued)

Investment Bank/Wealth Management Americas
On 31 December 2009, the assessment of the goodwill of the Investment Bank and Wealth Management Americas continued to be a key focus. Goodwill allocated to the Investment Bank amounted to CHF 3.3 billion at 31 December 2009 (CHF 4.3 billion at 31 December 2008). The reduction is due to the derecognition of CHF 0.9 billion goodwill related to UBS Pactual, of which CHF 749 million was subject to an impairment (refer to Note 38 for details). Goodwill allocated to Wealth Management Americas amounted to CHF 3.7 billion at 31 December 2009 (CHF 3.8 billion at 31 December 2008). In 2009, CHF 40 million goodwill related to UBS Pactual was derecognized, of which CHF 34 million was subject to an impairment (refer to Note 38 for details).

In its review of the year-end 2009 goodwill balance, UBS considered the performance outlook of its Investment Bank and Wealth Management Americas business divisions and the underlying business operations to resolve whether the recoverable amounts for these units covers their carrying amounts, based on the methodology described above. On this basis, UBS concluded that goodwill allocated to the Investment Bank and Wealth Management Americas remained recoverable at 31 December 2009. The conclusion was reached based on the current forecast results and the underlying assumption that the economic environment will gradually improve over the next three years and reach an average growth level thereafter. 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 percentage points. The stress values so obtained covered the book values of the Investment Bank and Wealth Management Americas. However, if the regulatory pressure on the banking industry intensifies and conditions in the financial markets turn out to be worse than anticipated in UBS's performance forecasts, the goodwill carried in the Investment Bank and Wealth Management Americas business divisions might need to be impaired in future quarters.

Recognition of any impairment of goodwill would reduce IFRS Equity attributable to UBS shareholders and net profit but it would not impact cash flows, as well as the BIS tier 1 capital, BIS total capital, and capital ratios of the UBS Group, as goodwill is required to be deducted from capital under the Basel II capital framework.

	Goodwill	Intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.09**	31.12.08
Historical cost						
Balance at the beginning of the year	11,585	824	1,308	2,131	**13,716**	15,324
Additions and reallocations	32	0	38	38	**70**	585
Disposals	(1,631)	(13)	(546)	(559)	**(2,190)**	(33)
Write-offs [1]	0	0	0	0	**0**	(472)
Foreign currency translation	128	(24)	95	71	**199**	(1,688)
Balance at the end of the year	10,115	787	894	1,680	**11,795**	13,716
Accumulated amortization and impairment						
Balance at the beginning of the year	0	337	444	781	**781**	786
Amortization	0	42	102	144	**144**	193
Impairment of goodwill and intangible assets	1,123 [2]	0	57	57	**1,180**	361
Disposals	(1,199)	(6)	(211)	(217)	**(1,416)**	(7)
Write-offs [1]	0	0	0	0	**0**	(472)
Foreign currency translation	76	(12)	34	23	**99**	(80)
Balance at the end of the year	0	361	426	787	**787**	781
Net book value at the end of the year	10,115	425	468	893	**11,008**	12,935

1 Represents write-offs of fully amortized intangible assets. 2 Represents goodwill impairment related to UBS Pactual.

Note 16 Goodwill and intangible assets (continued)

The following table presents goodwill and intangible assets by business unit for the year ended 31 December 2009.

CHF million	Balance at the beginning of the year	Additions and reallocations	Disposals	Amortization	Impairment	Foreign currency translation	Balance at the end of the year
Goodwill							
Wealth Management & Swiss Bank	1,523[1]	(2)	0		0	(11)	1,510
Weath Management Americas	3,803[1]	(1)	(14)		(34)	(100)	3,655
Global Asset Management	1,982	4	(130)		(340)	94	1,610
Investment Bank	4,277	31	(287)		(749)	68	3,341
UBS	**11,585**	**32**	**(432)**		**(1,123)**	**52**	**10,115**
Intangible assets							
Wealth Management & Swiss Bank	203[1]	0	0	(11)	(56)	1	137
Weath Management Americas	674[1]	0	(83)	(61)	(1)	(4)	526
Global Asset Management	186	0	(160)	(13)	0	36	49
Investment Bank	286	38	(99)	(59)	0	15	182
UBS	**1,350**	**38**	**(342)**	**(144)**	**(57)**	**48**	**893**

1 Goodwill of CHF 125 million and intangible assets of CHF 48 million have been reallocated from Wealth Management & Swiss Bank to Wealth Management Americas due to the restructuring announced in February 2009.

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

CHF million	Intangible assets
Estimated, aggregated amortization expenses for:	
2010	105
2011	103
2012	97
2013	89
2014	82
2015 and thereafter	417
Total	893

Note 17 Other assets

CHF million	**31.12.09**	31.12.08
Settlement and clearing accounts	**915**	1,203
VAT and other tax receivables	**209**	330
Prepaid pension costs	**3,053**	2,922
Properties held for sale	**568**	981
Other receivables	**2,590**	4,495
Total other assets	**7,336**	9,931

Balance sheet notes: liabilities

Note 18 Due to banks and customers

CHF million	31.12.09	31.12.08
Due to banks	65,166	125,628
Due to customers in savings and investment accounts	101,573	91,614
Other amounts due to customers	308,903	374,127
Total due to customers	410,475	465,741
Total due to banks and customers	475,641	591,369

Note 19 Financial liabilities designated at fair value and debt issued

Financial liabilities designated at fair value

CHF million	31.12.09	31.12.08
Bonds and compound debt instruments issued		
Equity linked	54,856	
Credit linked	25,663	
Rates linked	16,367	
Other	2,286	
Total	99,173	92,446[1]
Compound debt instruments – OTC	13,306	7,468
Loan commitments[2]	174	1,632
Total	112,653	101,546

1 Breakdown by product type has been implemented with the 2009 disclosure. 2 Loan commitments recognized as *Financial liabilities designated at fair value*, until drawn down by counterparty and recognized as loans. See Note 1a) 8) for additional information.

At 31 December 2009, the contractual redemption amount at maturity of Financial liabilities designated at fair value through profit or loss was CHF 7.6 billion higher than the carrying value. At 31 December 2008, the contractual redemption amount at maturity of such liabilities was CHF 12.2 billion higher than the carrying value. Refer to Note 1a) 8) for details.

Debt issued (held at amortized cost)

CHF million	31.12.09	31.12.08
Money market papers	51,579	111,619
Debt:		
Senior bonds	57,653	67,298
Subordinated bonds	11,244	12,769
Bonds issued by the central bond institutions of the Swiss regional or cantonal banks	7,909	2,418
Medium-term notes	2,967	3,150
Total	131,352	197,254

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 certain cases, the Group applies hedge accounting for interest rate risk as discussed in Note 1a) 15) and "Note 23 Derivative Instruments and Hedge Accounting". As a result of applying hedge accounting, at 31 December 2009 and 31 December 2008, the carrying value of debt issued was CHF 600 million higher and CHF 904 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 2009 and 31 December 2008, the Group had CHF 11,244 million and CHF 12,769 million, respectively, in subordinated debt. Subordinated debt usually pays fixed interest annually or floating rate interest based on three-month or six-month London Interbank Offered Rate (LIBOR) and provides for single principal payments upon maturity.

At 31 December 2009 and 31 December 2008, the Group had CHF 167,702 million and CHF 165,312 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	2010	2011	2012	2013	2014	2015–2019	Thereafter	**Total 31.12.09**	Total 31.12.08
UBS AG (Parent Bank)									
Senior debt									
Fixed rate	66,450	13,600	7,839	10,609	8,132	17,517	6,209	**130,356**	103,579
Interest rates (range in %)[1]	0–10.46	0–10.00	0–7.0	0–9.44	0–8.84	0–9.5	0–8.0		
Floating rate	16,341	11,154	10,463	5,653	4,368	8,631	11,765	**68,375**	81,000
Subordinated debt									
Fixed rate	0	0	0	0	397	5,488	1,282	**7,167**	8,875
Interest rates (range in %)					3.34	2.38–7.38	6.38–8.75		
Floating rate	0	0	0	0	0	3,578	499	**4,077**	3,820
Subtotal	82,792	24,754	18,303	16,262	12,897	35,214	19,754	**209,975**	197,274
Subsidiaries									
Senior debt									
Fixed rate	8,335	1,012	308	340	180	944	8,375	**19,494**	83,003
Interest rates (range in %)[1]	0–9.0	0–9.49	0–7.74	0–9.0	0–7.63	0–5.54	0–12.0		
Floating rate	1,160	1,451	1,354	1,108	713	4,650	4,102	**14,537**	18,449
Subordinated debt									
Fixed rate	0	0	0	0	0	0	0	**0**	74
Interest rates (range in %)									
Floating rate	0	0	0	0	0	0	0	**0**	0
Subtotal	9,495	2,463	1,661	1,448	893	5,594	12,476	**34,030**	101,526
Total	**92,287**	**27,217**	**19,964**	**17,710**	**13,789**	**40,808**	**32,230**	**244,005**	298,800

1 The contractual interest rates on some minor positions of structured products were not considered in the interest rate ranges. The interest rate of these products is up to 69.5%.

The table above indicates fixed interest rate coupons 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	31.12.09	31.12.08
Provisions	21	2,311	2,727
Provisions for contingent claims	9b	90	31
Current tax liabilities		1,082	1,192
Deferred tax liabilities	22	142	1,470
VAT and other tax payables		612	1,022
Settlement and clearing accounts		1,430	3,089
Amounts due under unit-linked investment contracts		21,740	22,084
Other payables[1]		6,579	11,384
Total other liabilities		**33,986**	42,998

1 Includes third-party interest of consolidated limited partnerships of CHF 1.6 billion (2008 CHF 3.1 billion) and liabilities from cash settled employee compensation plans of CHF 2.5 billion (2008 CHF 3.6 billion). Contingent payments (net present value as of 31 December 2008 CHF 1.4 billion) for the acquisition of Pactual in 2006 were finally derecognized in 2009 due to the sale of UBS Pactual in September 2009.

Note 21 Provisions and litigation

CHF million	Operational[1]	Litigation[2]	Restructuring	Other[4]	Total 31.12.09	Total 31.12.08[3]
Balance at the beginning of the year	270	1,418	183	856	2,727	1,716
Additions from acquired companies	0	0	0	0	0	1
Increase in provisions recognized in the income statement	293	265	649	139	1,346	4,002
Release of provisions recognized in the income statement	(94)	(22)	(6)	(187)	(309)	(528)
Provisions used in conformity with designated purpose	(352)	(516)	(415)	(92)	(1,375)	(1,381)
Capitalized reinstatement costs	0	0	0	3	3	(21)
Disposal of subsidiaries	(32)	(3)	0	0	(35)	0
Reclassifications	0	0	92	(1)	90	(979)
Foreign currency translation	(3)	(113)	(14)	(5)	(135)	(83)
Balance at the end of the year	82	1,028	488	713	**2,311**	2,727

1 Includes provisions for litigation resulting from security risks and transaction processing risks. 2 Includes litigation resulting from legal, liability and compliance risks. 3 In 2008 Global Wealth Management & Business Banking made a provision of CHF 1,464 million (USD 1,363 million) for the expected costs of the repurchase of auction rate securities (ARS), including fines. In fourth quarter 2008, after the provision was partially applied for repurchases of ARS, an amount of CHF 968 million (USD 908 million), excluding fines, was reclassified to Negative replacement values. In addition, a provision of CHF 917 million (USD 780 million) was made in connection with UBS's US cross-border case. 4 Includes reinstatement costs for leasehold improvement which amounted to CHF 161 million on 31 December 2009 (CHF 167 million on 31 December 2008), provisions for onerous lease contracts, provisions for employee benefits (service anniversaries and sabbatical leave) and other items.

Litigation

The UBS Group operates in a legal and regulatory environment that exposes it to 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, including the impact on operations or on the financial statements, 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 into a settlement even though UBS denies any wrongdoing. The Group makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated.

Certain potentially significant legal proceedings as of 31 December 2009 are described below:

a) Municipal Bonds: In November 2006, UBS and others received subpoenas from the US Department of Justice, Antitrust Division, and the US Securities and Exchange Commission (SEC) seeking information relating to the investment of proceeds of municipal bond issuances and associated derivative transactions. Both investigations are ongoing, and UBS is cooperating. In addition, various state Attorneys General have issued subpoenas seeking similar information. 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. The discussions with the SEC are ongoing.

b) Auction Rate Securities: UBS was the subject of an SEC investigation and state regulatory actions relating to the marketing and sale of auction rate securities (ARSs) to clients, and to UBS's role and participation in ARS auctions and underwriting of ARSs. UBS was also named in several putative class actions and individual civil suits and

Financial information

Note 21 Provisions and litigation (continued)

arbitrations. The regulatory actions and investigations and the civil proceedings followed the disruption in the markets for these securities and related auction failures since mid-February 2008. At the end of 2008 UBS entered into settlements with the SEC, the New York Attorney General (NYAG) and the Massachusetts Securities Division whereby UBS agreed to offer to buy back ARSs from eligible customers within certain time periods, the last of which begins on 30 June 2010, and to pay penalties of USD 150 million (USD 75 million to the NYAG, USD 75 million to the other states). UBS's settlement is largely in line with similar industry regulatory settlements. UBS is continuing to finalize agreements with other state regulators. The SEC continues to investigate individuals affiliated with UBS who traded in ARSs or who had responsibility for disclosures.

c) US Cross-Border: UBS AG has been the subject of a number of governmental inquiries and investigations relating to its cross-border private banking services to US private clients during the years 2000–2007. On 18 February 2009, UBS AG announced that it had entered into a Deferred Prosecution Agreement (DPA) with the US Department of Justice Tax Division (DOJ) and the United States Attorney's Office for the Southern District of Florida, and a Consent Order with the SEC relating to these investigations. As part of the settlement agreements UBS agreed to, among other things, (i) pay a total of USD 780 million to the United States, (ii) complete the exit of the US cross-border business out of non-SEC registered entities, and (iii) implement and maintain an effective program of internal controls with respect to compliance with its obligations under the Qualified Intermediary (QI) Agreement with the US Internal Revenue Service (IRS), as well as a revised legal and compliance governance structure in order to strengthen independent legal and compliance controls. Pursuant to the DPA, the DOJ agreed that any further prosecution of UBS will be deferred for a period of at least 18 months, subject to extension under certain circumstances such as UBS needing more time to complete the implementation of the exit of its US cross-border business. If UBS satisfies all of its obligations under the DPA, the DOJ will refrain permanently from pursuing charges against UBS relating to the investigation of its US cross-border business. As part of the resolution of an SEC claim that UBS acted as an unregulated broker dealer and investment advisor in connection with its US cross-border business, UBS consented to a settlement that provides, among other things, that: (i) UBS will pay USD 200 million to the SEC (included in the USD 780 million payment described above); and (ii) UBS will complete its exit of the US cross-border business and will be permanently enjoined from violating certain SEC registration requirements.

The agreements with the DOJ and SEC did not resolve the "John Doe" summons which the IRS served on UBS in July 2008. In this regard, on 19 February 2009, the Civil Tax Division of the DOJ filed a civil petition for enforcement of this summons in the US Federal District Court for the Southern District of Florida, through which it sought an order directing UBS to produce information located in Switzerland regarding US clients who have maintained accounts with UBS in Switzerland without providing a Form W-9.

On 19 August 2009, UBS executed a settlement agreement with the IRS and the DOJ, to resolve the "John Doe" summons litigation (UBS-US Settlement Agreement). At the same time, the United States and Switzerland entered into a separate but related agreement (Swiss-US Agreement). Among other things, these agreements provide that: (i) UBS and the IRS would promptly file a stipulation dismissing the "John Doe" summons enforcement action then pending in federal court in Miami, which occurred the same day; (ii) the IRS would submit a request for information regarding accounts of US clients maintained at UBS in Switzerland, on the basis that such clients appear to have committed tax fraud or the like within the meaning of the existing 1996 Swiss-US Double Taxation Treaty, to the Swiss Federal Tax Administration (SFTA), which it did on 31 August 2009; (iii) UBS would send a notice to US accountholders that appear to be within the scope of the treaty request and produce to the SFTA information on the corresponding accounts both in accordance with a specified schedule, which UBS has done in compliance with an order issued by the SFTA on 1 September 2009; and (iv) UBS and the IRS would agree to amend UBS's QI Agreement, whereupon the IRS would withdraw the previously disclosed QI Notice of Default dated 15 May 2008. The UBS-US Settlement Agreement does not call for any monetary payment by UBS.

Because UBS has complied with all of its obligations set forth in the UBS-US Settlement Agreement required to be completed by 31 December 2009, the IRS has withdrawn the summons with prejudice as to all accounts not covered by the treaty request.

Subject to UBS's compliance with its further notification and information processing obligations set forth in the UBS-US Settlement Agreement, the IRS will withdraw the "John Doe" summons with prejudice as to the remaining accounts – i.e. those subject to the treaty request – no later than 24 August 2010 upon the actual or anticipated delivery to the IRS of information relating to accounts covered by the treaty request that does not differ significantly from the expected results. Alternatively, the summons will be withdrawn with prejudice as to the remaining accounts if at any time on or after 1 January 2010 the

IRS has received information from any source relating to at least 10,000 accounts of US persons maintained at UBS in Switzerland.

On 21 January 2010, the Swiss Federal Administrative Court ruled that the SFTA did not have a proper legal basis to grant the IRS request for information with respect to accounts of US persons who had failed to report substantial amounts of income over an extended period, but had not engaged in fraudulent activity within the meaning of Swiss law. The decision does not invalidate the UBS-US Settlement Agreement or the Swiss-US Agreement and it does not affect the treaty request to the extent it is directed at accounts in relation to which such fraudulent activity occurred. Following consultations with the US Government about measures to ensure the further implementation of the Swiss-US Settlement Agreement, the Swiss Government decided on 24 February 2010 that it will seek to amend the Swiss-US Agreement and submit it to Parliament for approval.

UBS continues, as in the past, to fulfill all of its obligations under the settlements, including, among other things, the exit of the US cross-border business out of non-SEC registered entities and the provision of relevant account information to the SFTA under the treaty process.

d) Inquiries Regarding Non-US Cross-Border Businesses: Following the disclosure of the US cross-border matter and the settlements with the DOJ and the SEC, tax and regulatory authorities in a number of countries have requested information relating to the cross-border wealth management services provided by UBS and other financial institutions. In particular, the revenue services of Canada, the UK and Australia have served requests upon, or made inquiries of, UBS and other Swiss and non-Swiss financial institutions providing cross-border wealth management services for information relating to such services that is located in their respective jurisdictions. UBS is cooperating with these requests strictly within the limits of financial privacy obligations under Swiss and other applicable laws. It is premature to speculate on the outcome of any such inquiries.

e) Matters Related to the Credit Crisis: UBS is responding to a number of governmental inquiries and investigations, and is involved in a number of litigations, arbitrations and disputes, related to the credit crisis and in particular mortgage-related securities and other structured transactions and derivatives. These matters concern, among other things, UBS's valuations, accounting classifications, disclosures, writedowns, and contractual obligations, as well as its role as underwriter in securities offerings for other issuers. In particular, UBS has communicated with and has responded to inquiries by FINMA, its home country consolidated regulator, as well as the SEC, the Financial Industry Regulatory Authority and the United States Attorney's Office for the Eastern District of New York, regarding some of these issues and others, including the role of internal control units, governance and processes around risk control and valuation of mortgage-related instruments, compliance with public disclosure rules, and the business rationales for the launching and the reintegration of Dillon Read Capital Management. FINMA concluded its investigation in October 2008.

f) Claims Related to UBS Disclosure: A putative consolidated class action has been filed against UBS and a number of current and former directors and senior officers in the Southern District of New York alleging securities fraud in connection with the firm's disclosures relating to its losses in the subprime mortgage markets, its losses and positions in auction rate securities, and its US cross-border business. Defendants have moved to dismiss the complaint for lack of jurisdiction and for failure to state a claim. UBS and a number of senior officers and directors have also been sued in a putative consolidated class action brought on behalf of holders of UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. UBS has moved to dismiss the ERISA complaint for failure to state a claim.

g) Madoff: In relation to the Madoff investment fraud, UBS, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including FINMA and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law substantially all assets of which were with Bernard L. Madoff Investment Securities LLC (BMIS), as well as certain funds established under offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses. The last reported net asset value of the two Luxembourg funds before the revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. On 25 February 2009, the CSSF issued a communiqué with respect to the larger of the two funds, stating that UBS (Luxembourg) SA had failed to comply with its due diligence responsibilities as custodian bank. The CSSF ordered UBS (Luxembourg) SA to review its infrastructure and procedures relating to its supervisory obligations as custodian bank, but did not order it to compensate investors. On 25 May 2009, UBS (Luxembourg) SA submitted a comprehensive final report to the CSSF, which resulted in the CSSF publishing a new communiqué saying that UBS (Luxembourg) SA has provided evidence demonstrating that it has the infrastructure and

Note 21 Provisions and litigation (continued)

internal organization in place in accordance with professional standards applicable to custodian banks in Luxembourg. In addition, on 17 December 2009, a claim in the amount of EUR 890 million was filed on behalf of the larger of the two Luxembourg funds by the liquidators of that fund against 15 defendants, including UBS entities, Access Management Luxembourg SA, Ernst & Young, the CSSF and various individuals. A large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. Further, certain clients of UBS in Germany are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany.

h) City of Milan Transactions: In January 2009, the City of Milan filed civil proceedings against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with the City of Milan between 2005 and 2007. The claim is to recover alleged damages in an amount which will compensate for terms of the related derivatives which the City claims to be objectionable. In the alternative, the City seeks to recover alleged hidden profits alleged to have been made by the banks in the amount of EUR 88 million (of which UBS Limited is alleged to have received EUR 16 million) together with further damages of not less than EUR 150 million. The claims are made against all of the banks on a joint and several basis. UBS is vigorously defending the claim. In addition, a criminal investigation by a Prosecutor in Milan has been ongoing in relation to the same transactions. In November 2009, the Prosecutor filed a request for committal for trial of two current UBS employees and one former UBS employee, together with employees from other banking institutions. The request alleges that the banks' employees engaged in criminal conduct in order to allow the banks to earn allegedly concealed profits on the June 2005 bond issue and related derivative transactions. The Prosecutor also requested committal for trial of UBS Limited and the other banks in relation to the administrative charge of failing to have in place a business organization model to prevent crime. Preliminary court hearings are taking place through March 2010.

Note 22 Income taxes

CHF million	For the year ended 31.12.09	31.12.08	31.12.07
Tax expense from continuing operations			
Domestic			
Current	55	(336)	409
Deferred	23	(7,282)	(25)
Foreign			
Current	462	519	1,061
Deferred	(983)	262	(76)
Total income tax expense from continuing operations	(443)	(6,837)	1,369
Tax expense from discontinued operations			
Domestic	0	1	(258)
Total income tax expense from discontinued operations	0	1	(258)
Total income tax expense	(443)	(6,836)	1,111

The deferred tax benefit reflects the recognition of additional deferred tax assets in respect of tax losses and temporary differences in a number of locations including the US (CHF 373 million) and Japan (CHF 127 million), taking into account updated forecast profit assumptions over the five-year horizon used for recognition purposes. In addition, it reflects the release of a deferred tax liability of CHF 243 million relating to UBS Pactual prior to its sale during the year. The current tax charge mainly relates to tax expenses in respect of entities with taxable profits.

The current tax expense for 2009 includes tax costs related to prior years of CHF 50 million. In addition, there was a tax benefit of CHF 116 million relating to prior years in respect of the release of a net deferred tax liability. The net tax benefits relating to prior years were therefore CHF 65 million.

The Group made net corporate income tax payments, including domestic and foreign taxes, of CHF 505 million, CHF 887 million and CHF 3,663 million in 2009, 2008 and 2007 respectively.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Swiss statutory rate, are as follows:

CHF million	For the year ended 31.12.09	31.12.08	31.12.07
Operating profit from continuing operations before tax	(2,561)	(27,758)	(3,742)
Domestic	4,871	3,269	10,337
Foreign	(7,433)	(31,027)	(14,079)
Income taxes at Swiss statutory rate of 21.5% for 2009, 22% for 2008 and 2007	(551)	(6,107)	(823)
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	(1,636)	(7,056)	(3,054)
Tax effects of losses not recognized	1,188	7,412	6,327
Previously unrecorded tax losses now utilized	(79)	(10)	(257)
Non-taxable and lower taxed income	(932)	(773)	(1,587)
Non-deductible goodwill and intangible asset amortization	7	160	15
Non-deductible expenses	1,005	737	227
Adjustments related to prior years	(65)	(490)	(72)
Change in deferred tax valuation allowance	552	(692)	279
Other items	69	(17)	314
Income tax expense from continuing operations	(443)	(6,837)	1,369

Note 22 Income taxes (continued)

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

CHF million	31.12.09			31.12.08		
Deferred tax assets	Gross	Valuation allowance	Recognized	Gross	Valuation allowance	Recognized
Compensation and benefits	1,782	(1,561)	221	1,534	(1,213)	321
Tax loss carry-forwards	32,505	(24,259)	8,246	32,834	(24,708)	8,126
Trading assets	561	(403)	158	608	(365)	243
Other	2,458	(2,215)	243	258	(69)	190
Total deferred tax assets	37,305	(28,437)	8,868	35,234	(26,354)	8,880

Deferred tax liabilities	31.12.09	31.12.08
Compensation and benefits	5	111
Property and equipment	1	29
Financial investments and associates	60	206
Trading assets	0	244
Goodwill and intangible assets	61	289
Other	15	591
Total deferred tax liabilities	142	1,470

The change in the net of deferred tax assets and liabilities in 2009 and 2008 does not equal the deferred tax benefit in those years. This is because certain deferred tax asset and liability movements are recognized directly in the statement of changes in equity and also because of the effects of exchange rate changes on tax assets and liabilities denominated in currencies other than Swiss francs.

During the year, deferred tax liabilities of CHF 0.7 billion were offset against deferred tax assets in accordance with IAS 12.

In the table above, the valuation allowance represents amounts that are not expected to provide future benefits due to insufficiency of future taxable income (and at 31 December 2008, also amounts offset against potential tax adjustments).

UBS AG Switzerland and certain overseas branches and subsidiaries of the Group have deferred tax assets related to tax loss carry-forwards and other items. For entities that incurred losses in either the current or preceding year, an amount of CHF 8,773 million is recognized as deferred tax assets at 31 December 2009 (CHF 8,463 million at 31 December 2008). These deferred tax assets mainly relate to Swiss tax losses (primarily due to the write-down of investments in US subsidiaries in 2007 and 2008) and US tax losses. Swiss tax losses can be carried forward for seven years and US federal tax losses for 20 years.

The deferred tax assets recognized at 31 December 2009 in respect of tax losses have been based on profitability assumptions over a five-year horizon. The expected future profitability is based on business plan assumptions, as adjusted to take into account the recognition criteria of IAS 12. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of deferred tax assets may need to be adjusted in the future.

At 31 December 2009, tax losses totaling CHF 72,313 million which are not recognized as deferred tax assets are available to be offset against potential tax adjustments or future taxable income.

The tax losses expire as follows:

CHF million	31.12.09
Within 1 year	1
From 2 to 4 years	4
After 4 years	72,308
Total	72,313

The Group provides for deferred income taxes on undistributed earnings of subsidiaries except to the extent that those earnings are indefinitely invested. At 31 December 2009, no such earnings were treated as indefinitely invested.

Note 23 Derivative instruments and hedge accounting

A derivative is a financial instrument, the value of which is derived from the value of another ("underlying") financial instrument, an index or some other variable. Typically, the underlying is a share, commodity or bond price, an index value or an exchange or interest rate.

The majority of derivative contracts are negotiated as to amount ("notional"), tenor, price and how the trade is to be settled in the future between UBS and its counterparties, which may be other professionals or customers (over-the-counter (OTC) contracts).

OTC contracts are usually traded under an International Swaps and Derivatives Association (ISDA) master trading agreement (MTA) between UBS and its counterparties. Other derivative contracts are standardized in terms of their amounts and settlement dates and are bought and sold on organized exchanges (exchange-traded contracts (ETD)). With ETDs, the exchange also acts as a central counterparty. 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 necessarily any measure of risk.

Derivative instruments are carried at fair value (refer to Note 27 for fair value measurement of derivative instruments), shown in the balance sheet as *Separate totals of Positive replacement values* (assets) and *Negative replacement values (liabilities),* except for futures, 100% daily margined exchange traded options and interest rate swaps with the London Clearing house (LCH) with daily margining, which are presented on the balance sheet as *Due from banks, Loans and Due to banks* and customers.

Positive replacement values represent the cost to the Group of replacing all transactions with a fair value in the Group's favor, 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. *Positive and Negative replacement values* on different transactions are only netted if the transactions are with the same counterparty with a legally enforceable right to set off. *Positive and Negative replacement values* are denominated in the same currency, and the cash flows are intended to 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 1a) 15) *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 a 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. An elaboration of credit derivatives is included in a separate section below.
- 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.
- Metal swaps (precious metal swaps and base metal swaps) involve the purchase and sale of specific metals. A precious metal swap involves the purchase and sale of a specified metal with fixed notional amount and fixed price but different settlement dates. A base metal swap is the simultaneous purchase and sale of a specified metal with same settlement dates but different pricing terms.

Options and warrants 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.

Note 23 Derivative instruments and hedge accounting (continued)

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).

Credit derivatives

UBS's credit derivative portfolio consists of credit default swaps, total return swaps and options and warrants. As of 31 December 2009, the total notional value of protection bought was CHF 1,288 billion (CHF 56 billion and CHF 23 billion *Positive replacement values* and *Negative replacement values,* respectively) and the total notional value of protection sold was CHF 1,187 billion (CHF 23 billion and CHF 47 billion *Positive replacement values* and *Negative replacement values,* respectively), in 2009. UBS's credit derivatives are usually traded as OTC contracts. During 2009 a number of initiatives were launched in both the US and Europe to establish centralized clearing solutions for OTC CDS contracts (exchange cleared derivatives), with the aim of reducing counterparty risk. UBS, along with other dealer members, has been an active participant in these initiatives.

A significant portion of UBS's credit derivatives are traded under an ISDA MTA between UBS and its counterparty. UBS's CDS trades are also documented using industry standard forms of documentation published by ISDA or equivalent terms documented in a bespoke (i.e. tailored) agreement. Those forms and agreements use standardized terms that form the basis for market conventions related to the types of credit events that would trigger performance (i.e. payment) under a CDS.

The types of credit events that would require UBS to perform under a CDS contract are subject to agreement between the parties at the time of the transaction. However, nearly all transactions are traded using credit events that are applicable under certain market conventions based on the type of reference entity to which the transaction relates. Applicable credit events by market conventions include "bankruptcy", "failure to pay", "restructuring", "obligation acceleration" and "repudiation/moratorium".

Recourse provisions

UBS uses standardized agreements and forms as the basis for its credit derivative contracts. Those agreements and forms do not contain recourse provisions that would enable UBS to recover from third parties any amounts paid out by UBS (i.e. this is the case where a credit event occurs and UBS is required to make payment under a CDS).

Economic hedges and strategy

UBS actively utilizes CDS to economically hedge specific counterparty credit risks in its banking book loans portfolio (including loan commitments) with the aim of reducing concentrations in individual names, sectors or specific portfolios. In addition, UBS actively utilizes CDS to economically hedge specific counterparty credit risks in its OTC derivative portfolios.

UBS is an active dealer in fixed income instruments and CDS and related products with respect to a large number of securities issuers. The primary purpose of these activities is for the benefit of UBS's clients (market making) and to a lesser extent creating new credit exposures taken for UBS's own trading purposes (proprietary trading).

Market making activity consists of buying and selling single-name CDS, index CDS, loan CDS and related referenced cash instruments to facilitate client trading activity. Proprietary trading consists of trading in single-name CDS, index CDS and loan CDS to capitalize on pricing discrepancies between various credit instruments (bonds, loans and equities) across investment grade, high-yield and emerging markets.

As a general matter, risk to the relevant issuers arising from fixed income instruments, CDS and related products are reviewed and risk-managed on a net exposure basis (i.e. taking into account all exposures to a particular issuer arising from fixed income instruments, CDS and related products) across market making and proprietary trading activities.

UBS's strategy with respect to CDS trading was the reduction in scope and scale of the firm's structured credit, proprietary credit and asset securitization (including synthetic securitization) activities during 2009 and 2008.

Contingent features of derivative liabilities

Based on UBS's credit ratings as of 31 December 2009, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately CHF 1.2 billion and CHF 2.8 billion would have been required in the event of a one-notch and two-notch reduction, respectively, in UBS's long-term credit ratings. In evaluating UBS's liquidity requirements, UBS considers additional collateral or termination payments that would be required in the event of a reduction in UBS's long-term credit ratings.

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 activities include 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 1a) 15) *Derivative instruments and hedge accounting,* where terms used in the following sections are explained.

The Group has also entered into 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 Group has also used equity futures, options and, to a lesser extent, swaps for economically hedging in a variety of equities trading strategies to offset underlying equity and equity volatility exposure.

The Group has also entered into CDS's that provide economic hedges for credit risk exposures (refer to the credit derivatives section).

Fair value changes of derivatives that are part of economic relationships, but do not qualify for hedge accounting treatment, 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 (e.g. long-term-fixed rate debt issues) due to movements in market interest rates. The fair values of outstanding interest rate derivatives designated as fair value hedges were CHF 526 million and CHF 71 million *Positive replacement values* and *Negative replacement values,* respectively, at 31 December 2009 and a CHF 883 million net Positive replacement values at 31 December 2008.

Fair value hedges of interest rate risk

	For the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Gains / (losses) on hedging instruments	**(171)**	778	15
Gains / (losses) on hedged items attributable to the hedged risk	**182**	(796)	(11)
Net gains / (losses) representing ineffective portions of fair value hedges	**11**	(18)	4

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 and is included in *Other assets* on the balance sheet. The fair value of derivatives designated for this hedge method at 31 December 2009 was CHF 956 million *Negative replacement value,* 31 December 2008 was a CHF 765 million net *Negative replacement value.*

During 2008, UBS expanded the use of Fair Value hedge accounting for portfolio interest rate risk to include other Swiss mortgage loan portfolios. In 2009 no further scope expansion was made.

Fair value hedge of portfolio of interest rate risk[1]

	For the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Gains / (losses) on hedging instruments	**(48)**	(644)	(37)
Gains / (losses) on hedged items attributable to the hedged risk	**11**	688	30
Net gains / (losses) representing ineffective portions of fair value hedges	**(37)**	44	(7)

1 Hedge effectiveness is calculated on a cumulative basis.

Note 23 Derivative instruments and hedge accounting (continued)

Cash flow hedges of forecasted 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 19 years.

The schedule of forecasted principal balances on which the expected interest cash flows arise as of 31 December 2009 is shown below.

Forecasted cash flows

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows (assets)	205	352	202	141	20
Cash outflows (liabilities)	69	136	96	78	4
Net cash flows	**136**	**216**	**106**	**63**	**16**

Gains and losses on the effective portions of derivatives designated as cash flow hedges of forecasted transactions are initially recorded in *Equity* as *Net income* recognized directly in equity and are transferred to current period earnings when the forecasted 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 183 million loss, a CHF 108 million loss and a CHF 443 million gain was recognized in 2009, 2008 and 2007, respectively, due to hedge ineffectiveness.

As of 31 December 2009, the fair values of outstanding derivatives designated as cash flow hedges of forecasted transactions were CHF 5,180 million and CHF 2,736 million *Positive replacement values* and *Negative replacement values,* respectively, and as of 31 December 2008 the amount was CHF 2,539 million net *Positive replacement values.*

At the end of 2009 and 2008, gains of CHF 46 million and CHF 86 million associated with de-designated interest rate swaps were deferred in *Equity.* They will be removed *from Equity* when the previously hedged forecasted cash flows have an impact on net profit or loss, or when the forecasted cash flows are no longer expected to occur. Amounts reclassified from *Equity* to *Net interest income* of de-designated swaps were CHF 40 million net gain in 2009, CHF 49 million net gain in 2008 and CHF 79 million net gain in 2007.

In 2008, due to reductions in the volume of short-term financial instruments, some of the forecasted cash flows previously included in the hedge relationships were determined to no longer be expected to occur.

Hedges of net investments in foreign operations

The Group applies hedge accounting for certain consolidated net investments in USD-denominated operations. At 31 December 2009 the fair values of the financial liabilities (predominantly structured products issued by UBS) designated as hedging instruments in net investment hedges was CHF 2.5 billion. Gains or losses on the translation of these hedging instruments are transferred directly to Equity to offset any gains or losses on translation of the net investments in the subsidiaries, which are also recognized in Equity. No ineffectiveness from hedges of net investments in foreign operations was recognized in the income statements during 2009.

Contractual maturities of derivatives designated as hedging instruments in hedge accounting relationships

The contractual maturities of derivatives designated as hedging instruments in hedge accounting relationships are considered "essential" for an understanding of the timing of their cash flows.

Derivatives designated in hedge accounting relationships (undiscounted cash flows)

CHF billion	On demand	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Interest rate swaps[1]							
Cash outflows	0	0	(0)	(1)	(3)	(15)	(19)
Cash inflows	0	0	0	0	2	18	20
Total 31.12.09	**0**	**0**	**(0)**	**(1)**	**(1)**	**3**	**1**

1 Interest rate swaps are gross settled. The table includes all cash inflows and outflows of interest rate swaps with *Positive and Negative replacement values*.

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 predominantly 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 of this report.

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 of this report. 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, for example, 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.

The replacement values presented on UBS's balance sheet and in the tables on the next two pages include netting in accordance with IFRS requirements (refer to Note 1a) 34), which is more restrictive than netting in accordance with Swiss Federal Banking law. The main difference of Swiss Federal Banking law to IFRS is that Swiss Federal Banking law netting is generally based on close-out netting arrangements which are enforceable in case of insolvency. The *Positive and Negative replacement values* based on netting in accordance with Swiss Federal Banking law (factoring in cash collateral) are presented on the bottom of the tables on the next two pages.

Note 23 Derivative instruments and hedge accounting[1] (continued)

As of 31 December 2009	Term to maturity												
	Within 3 months		3–12 months		1–5 years		over 5 years			Notional values		Notional values	Other
CHF billion	PRV[2]	NRV[3]	PRV	NRV	PRV	NRV	PRV	NRV	Total PRV	related to PRVs	Total NRV	related to NRVs	notional values[4]
Interest rate contracts													
Over-the-counter (OTC) contracts													
Forward contracts	1.8	1.6	0.7	0.8	0.1	0.1	0.0	0.0	2.5	1,343.7	2.5	1,286.5	0.0
Swaps	8.2	6.8	18.7	16.9	89.7	82.6	69.5	65.0	186.2	7,110.7	171.4	6,802.7	15,949.2
Options	1.0	1.1	3.5	3.0	10.1	11.9	11.3	13.5	25.9	543.2	29.4	611.8	0.0
Exchange-traded contracts[5]													
Futures													271.9
Options	0.1	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.5	3.9	0.4	3.5	0.0
Total	**11.1**	**9.6**	**23.1**	**20.8**	**100.0**	**94.8**	**80.8**	**78.6**	**215.1**	**9,001.5**	**203.7**	**8,704.5**	**16,221.2**
Credit derivative contracts													
Over-the-counter (OTC) contracts													
Credit default swaps	0.1	0.3	0.9	0.9	33.1	32.1	42.9	36.4	77.1	1,254.7	69.7	1,208.9	0.0
Total rate of return swaps	0.1	0.1	0.0	0.0	1.0	0.3	0.4	0.4	1.5	5.7	0.9	5.4	0.0
Options and warrants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.3	0.0	6.6	0.0
Total	**0.2**	**0.4**	**1.0**	**0.9**	**34.1**	**32.4**	**43.3**	**36.9**	**78.6**	**1,269.6**	**70.6**	**1,220.9**	**0.0**
Foreign exchange contracts													
Over-the-counter (OTC) contracts													
Forward contracts	7.5	6.3	2.4	2.6	0.8	0.6	0.0	0.0	10.6	453.2	9.5	403.7	0.0
Interest and currency swaps	31.2	30.3	13.1	15.3	18.9	23.5	17.3	16.8	80.5	2,279.8	85.8	2,209.6	0.0
Options	1.8	1.7	2.1	2.0	1.2	1.2	0.9	0.8	5.9	609.7	5.7	560.2	0.0
Exchange-traded contracts[5]													
Futures													1.5
Options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.5	0.1	0.1	0.0
Total	**40.4**	**38.3**	**17.6**	**20.0**	**20.9**	**25.2**	**18.2**	**17.6**	**97.1**	**3,344.2**	**101.1**	**3,173.5**	**1.5**
Equity/index contracts													
Over-the-counter (OTC) contracts													
Forward contracts	0.9	0.8	1.1	1.2	0.5	0.8	0.4	0.9	2.9	56.6	3.7	46.9	0.0
Options	0.4	0.9	2.1	2.7	2.4	4.1	2.1	1.7	7.0	60.9	9.5	73.7	0.0
Exchange-traded contracts[5]													
Futures													6.8
Options	4.9	4.6	4.7	4.9	5.2	5.8	0.2	0.1	15.1	30.5	15.5	36.2	0.0
Total	**6.2**	**6.3**	**8.0**	**8.8**	**8.1**	**10.7**	**2.7**	**2.8**	**25.1**	**148.0**	**28.7**	**156.8**	**6.8**
Commodities contracts													
Over-the-counter (OTC) contracts													
Forward contracts	0.6	0.6	0.7	0.6	0.7	0.7	0.1	0.1	2.0	20.6	2.0	15.0	0.0
Options	0.3	0.2	0.7	0.6	0.9	0.9	0.1	0.2	1.9	21.7	1.9	23.6	0.0
Exchange-traded contracts[5]													
Futures													2.7
Options	0.4	0.4	0.7	0.7	0.8	0.8	0.0	0.0	1.9	0.6	1.9	2.0	0.0
Total	**1.3**	**1.2**	**2.0**	**1.9**	**2.4**	**2.4**	**0.2**	**0.4**	**5.9**	**42.9**	**5.8**	**40.7**	**2.7**
Total derivative instruments, based on IFRS netting	**59.3**	**55.9**	**51.7**	**52.4**	**165.5**	**165.5**	**145.2**	**136.2**	**421.7**	**13,806.2**	**409.9**	**13,296.5**	**16,232.2**
Replacement value netting, based on capital adequacy rules									(313.2)		(313.2)		
Cash collateral netting									(37.2)		(32.7)		
Total derivative instruments, based on capital adequacy netting[6]									71.3		64.1		

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. PRVs and NRVs are categorized in different time bands on the basis of the maximal duration of the derivative contract. 2 PRV: Positive replacement value. 3 NRV: Negative replacement value. 4 Receivables resulting from derivatives are recognized on UBS's balance sheet under Due from banks and Loans: CHF 1.6 billion. Payables resulting from these derivatives are recognized on UBS's balance sheet under Due to banks and Due to customers: CHF 1.6 billion. 5 Notional values of exchange-traded products include own account trades only. 6 Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking Law, based on the IFRS scope of consolidation.

Note 23 Derivative instruments and hedge accounting[1] (continued)

As of 31 December 2008	Term to maturity												
	Within 3 months		3–12 months		1–5 years		over 5 years						
CHF billion	PRV[2]	NRV[3]	PRV	NRV	PRV	NRV	PRV	NRV	**Total PRV**	Notional values related to PRVs	**Total NRV**	Notional values related to NRVs	Other notional values[4]
Interest rate contracts													
Over-the-counter (OTC) contracts													
Forward contracts	2.1	2.2	3.8	4.1	0.3	0.4	0.0	0.0	**6.2**	1,544.9	**6.7**	1,584.5	0.0
Swaps	9.5	9.9	23.6	24.3	152.1	140.5	144.8	142.9	**330.0**	8,543.3	**317.6**	8,260.0	15,002.0
Options	4.0	3.7	6.6	7.0	14.3	15.7	12.6	16.5	**37.4**	498.4	**43.0**	595.5	0.0
Exchange-traded contracts[5]													
Futures													527.5
Options	0.8	0.8	0.5	0.5	0.1	0.1	0.0	0.0	**1.4**	6.4	**1.4**	8.7	0.0
Total	**16.4**	**16.6**	**34.5**	**36.0**	**166.8**	**156.7**	**157.4**	**159.5**	**375.1**	**10,593.1**	**368.7**	**10,448.7**	**15,529.6**
Credit derivative contracts													
Over-the-counter (OTC) contracts													
Credit default swaps	0.5	0.3	3.4	3.5	95.4	91.2	89.8	88.2	**189.1**	1,856.1	**183.3**	1,754.0	0.0
Total rate of return swaps	3.4	0.4	0.2	0.1	3.1	0.5	1.6	0.5	**8.3**	31.2	**1.5**	12.6	0.0
Options and warrants													
Total	**3.9**	**0.7**	**3.6**	**3.6**	**98.4**	**91.7**	**91.4**	**88.8**	**197.4**	**1,887.2**	**184.8**	**1,766.7**	**0.0**
Foreign exchange contracts													
Over-the-counter (OTC) contracts													
Forward contracts	21.0	22.8	8.4	10.6	1.6	1.1	0.1	0.1	**31.2**	468.1	**34.5**	485.6	0.0
Interest and currency swaps	72.1	74.5	36.2	33.8	34.9	39.2	27.1	26.5	**170.3**	2,047.4	**173.9**	1,868.4	0.0
Options	7.5	7.6	10.0	9.1	2.1	1.8	0.0	0.0	**19.7**	610.1	**18.6**	524.8	0.0
Exchange-traded contracts[5]													
Futures													1.7
Options	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	**0.2**	12.8	**0.3**	6.1	0.0
Total	**101.0**	**105.2**	**54.6**	**53.5**	**38.7**	**42.1**	**27.2**	**26.6**	**221.5**	**3,138.3**	**227.3**	**2,884.8**	**1.7**
Equity/index contracts													
Over-the-counter (OTC) contracts													
Forward contracts	1.9	1.6	2.0	1.8	2.2	2.0	0.2	0.3	**6.4**	68.5	**5.7**	40.1	0.0
Options	1.7	3.2	4.8	7.4	4.7	8.5	1.7	4.0	**12.9**	108.9	**23.0**	106.1	0.0
Exchange-traded contracts[5]													
Futures													33.5
Options	5.0	5.2	5.3	6.7	4.8	5.6	0.9	1.2	**16.1**	97.9	**18.7**	110.5	0.0
Total	**8.6**	**10.0**	**12.1**	**16.0**	**11.7**	**16.1**	**2.9**	**5.5**	**35.3**	**275.2**	**47.4**	**256.7**	**33.5**
Commodities contracts													
Over-the-counter (OTC) contracts													
Forward contracts	3.0	2.4	4.3	3.7	1.9	1.6	0.9	1.1	**10.0**	39.1	**8.7**	33.1	0.0
Options	0.8	1.0	2.6	2.5	2.6	2.3	0.3	0.2	**6.3**	36.3	**6.1**	42.4	0.0
Exchange-traded contracts[5]													
Futures													14.1
Options	2.1	2.2	3.8	3.9	2.7	2.7	0.0	0.0	**8.6**	74.7	**8.7**	95.6	0.0
Total	**5.8**	**5.6**	**10.7**	**10.1**	**7.1**	**6.6**	**1.2**	**1.4**	**24.9**	**150.1**	**23.6**	**171.1**	**14.1**
Total derivative instruments, based on IFRS netting	**135.7**	**138.1**	**115.5**	**119.2**	**322.8**	**313.1**	**280.0**	**281.6**	**854.1**	**16,043.9**	**851.9**	**15,528.0**	**15,578.9**
Replacement value netting, based on capital adequacy rules									**(651.7)**		**(651.7)**		
Cash collateral netting									**(41.3)**		**(52.8)**		
Total derivative instruments, based on capital adequacy netting[6]									**161.1**		**147.4**		

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. PRVs and NRVs are categorized in different time bands on the basis of the maximal duration of the derivative contract. 2 PRV: Positive replacement value. 3 NRV: Negative replacement value. 4 Receivables resulting from derivatives are recognized on UBS's balance sheet under Due from banks and Loans: CHF 0.2 billion. Payables resulting from these derivatives are recognized on UBS's balance sheet under Due to banks and Due to customers: CHF 0.1 billion. 5 Notional values of exchange-traded products include own account trades only. 6 Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking Law, based on the IFRS scope of consolidation.

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	**31.12.09**	31.12.08
Fair value of securities received which can be sold or repledged	**528,856**	651,380
under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	***515,314***	*621,981*
in unsecured borrowings	***13,542***	*29,399*
thereof sold or repledged	**398,883**	430,670
in connection with financing activities	***335,371***	*343,252*
to satisfy commitments under short sale transactions	***47,469***	*62,431*
in connection with derivative and other transactions	***16,043***	*24,987*

Note 25 Operating lease commitments

At 31 December 2009, 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, nor do they 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	**31.12.09**
Operating leases due	
2010	**989**
2011	**870**
2012	**786**
2013	**658**
2014	**555**
2015 and thereafter	**2,113**
Subtotal commitments for minimum payments under operating leases	**5,971**
Less: Sublease rentals under non-cancellable leases	**690**
Net commitments for minimum payments under operating leases	**5,281**

Note 25 Operating lease commitments (continued)

CHF million	31.12.09	31.12.08	31.12.07
Gross operating lease expense	**1,191**	1,215	1,251
from continuing operations	1,191	1,215	1,233
from discontinued operations	0	0	18
Sublease rental income from continuing operations	57	50	54
Net operating lease expense	**1,134**	1,165	1,197
from continuing operations	1,134	1,165	1,179
from discontinued operations	0	0	18

Operating lease contracts include non-cancellable long-term leases of office buildings in most UBS locations. At 31 December 2009, the minimum lease commitments for each of 11 office locations exceeded CHF 100 million and non-cancellable minimum lease commitments for the office location in New York exceeded CHF 500 million.

Additional information

Note 26 Capital increases and mandatory convertible notes

June 2009 share capital increase

On 25 June 2009, UBS increased its share capital by issuing 293,258,050 new registered shares with a par value of CHF 0.10 each. The shares were placed with a small number of large institutional investors at a price of CHF 13.00 per share. Net proceeds from the capital increase were CHF 3.8 billion. The shares were issued upon decision by the Board of Directors out of authorized capital which had been approved at the annual general meeting of shareholders on 15 April 2009.

Conversion of the mandatory convertible notes (MCNs) issued to the Swiss Confederation

On 19 August 2009, the Swiss Confederation announced the conversion of its UBS CHF 6 billion mandatory convertible notes (MCNs). Upon conversion on 25 August 2009, UBS issued 332,225,913 new shares with a nominal value of CHF 0.10 each from existing conditional capital. The liability and the *Negative replacement value* recorded on the balance sheet for the principal amount and the embedded derivative component of the MCNs were reclassified to equity. The conversion of the MCNs resulted in an overall increase in equity of CHF 6,718 million for 2009, reflecting an increase in share capital of CHF 33 million and an increase in share premium of CHF 6,685 million. Prior to the conversion of the MCNs, the embedded derivative component was re-measured to fair value resulting in a gain of CHF 341 million for 2009. In addition, the Swiss Confederation waived its right to receive future coupon payments on the converted MCNs for a cash amount of approximately CHF 1.8 billion. The impact on UBS's income statement resulting from this waiver was not material.

Note 27 Fair value of financial instruments

a) Valuation principles

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. Financial instruments classified as held for trading or designated at fair value through profit or loss and financial assets classified as available for sale are recognized in the financial statements at fair value. All derivatives are measured at fair value.

Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Fair value of a financial asset or financial liability in an active market is the current bid or offer price times the number of units of the instrument held. Where a trading portfolio contains both financial assets and financial liabilities with offsetting market risks, fair value is determined by valuing the gross long and short positions at current mid-market prices, with an adjustment at portfolio level to the net open long or short position to amend the valuation to bid or offer as appropriate.

Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. These valuation techniques and models involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model risks, liquidity risk and credit risk. Based on the established fair value and model governance policies and related controls and procedures applied, the 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.

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 ("Deferred day 1 profit or loss"). The timing of the recognition in profit and loss of this initial difference in fair value depends on the individual facts and circumstances of each transaction but is never later than when the market data become observable.

Pricing models and valuation techniques

The most frequently applied pricing models and valuation techniques include discounted cash flow models, relative value models and option pricing models. Discounted cash flows determine the value by estimating the expected future cash flows from assets or liabilities discounted to their present value. Relative value models determine the value based on the market prices of similar assets or liabilities. Option pricing models are complex present value models, such as binomial options pricing models.

UBS uses widely recognized valuation models for determining fair values of financial instruments of lower complexity, such as interest rate and currency swaps. 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. Such valuation models are used primarily to value derivatives transacted in the over-the-counter (OTC) market, unlisted equity and debt securities (including those with embedded derivatives), and other fair valued debt instruments for which markets were illiquid in 2009. Market-observable assumptions and inputs are used where available, and derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. Little, if any, weight is placed on transaction prices when calculating the fair value if there is no active market and the transactions are not orderly (i.e. distressed or forced). For positions where observable reference data are not available for some or all parameters, UBS calibrates the non-market-observable inputs used in its valuation models based on a combination of judgment, historical experience and knowledge of current market conditions. Assumptions and inputs used in valuation techniques and models include benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates and volatilities and correlations.

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 bring the fair value derived from the model towards the appropriate bid/offer price and cover close out costs, credit exposure and model uncertainty. 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. Accrued interest is recognized as part of the fair value of financial instruments accounted for at fair value. Lock-up periods for equity investments are considered when determining fair value.

Interest rate curves

UBS uses various interest rate curves for valuing its financial instruments. Financial liabilities designated at fair value are measured using UBS's senior debt curve. Financial assets designated at fair value are valued consistent with the curve used for the particular business. Uncollateralized credit exposure is reserved through normal credit rating and reserving methods. For the valuation of derivative instruments, UBS generally employs a LIBOR flat curve. If the derivatives are only partially collateralized, or uncollateralized, the credit exposure is adjusted through a credit valuation adjustment (CVA) or a debit valuation adjustment (DVA). For the valuation of overnight interest-rate swaps, the overnight interest-rate swap curve is applied.

Counterparty credit risk in the valuation of OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments

In order to arrive at fair value, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in over-the-counter (OTC) derivatives transactions, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments. This amount represents the estimated market value of protection required to hedge against credit risk from counterparties in these instruments. CVA depends on expected future exposures, default probability and recovery rate. The calculation takes into account whether collateral or netting arrangements or break clauses are in place. The most significant component of the overall CVA is the portion related to monoline credit protection, discussed further below.

UBS's own credit risk in the valuations of derivative financial liabilities (Negative replacement values)

In 2009, the Group revised its methodology for estimating debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, predominantly to align it with the CVA methodology described above. Under the previous approach, the Libor flat valuation of uncollateralized derivative liabilities after consideration of any netting agreement was revalued using UBS's senior debt curve. The difference between the valuation at Libor flat and the valuation at the senior debt curve provided the life-to-date DVA, and the change in the life-to-date DVA between periods provided the own credit gain or loss in each period. Under the new approach, the Group applies a methodology consistent with that used to calculate CVA. The calculation takes into account negative expected exposure profiles for the derivative portfolio, collaterals, netting agreements, expected future

Note 27 Fair value of financial instruments (continued)

a) Valuation principles (continued)

mark-to-market movements, and UBS's credit default spreads to determine the UBS counterparty exposure from the perspective of holders of UBS debt. The debit valuation adjustments (DVA) so calculated represent the theoretical costs to counterparties of hedging their UBS credit exposure or the credit risk reserve that a counterparty could reasonably be expected to hold against their credit risk exposure to UBS, if they applied the same methodology as used to calculate UBS's CVA. The impact of this methodology change is included in the financial impact of the valuation changes for derivative liabilities and financial liabilities designated at fair value described below.

As of 31 December 2009, the CVA and DVA for derivative financial instruments (replacement values) were as follows:

	31.12.09	
CHF billion	**CVA[1]**	**DVA**
Life-to-date	**(4.3)**	**0.4**
of which: CVA on monoline credit protection – negative basis trades	*(2.9)*	*N/A*
of which: CVA on monoline credit protection – other	*(0.2)*	*N/A*
of which: CVA on other instruments	*(1.2)*	*N/A*
Year-to-date[2]	**0.6**	**(1.9)**
of which: CVA on monoline credit protection – negative basis trades	*(0.8)*	*N/A*
of which: CVA on monoline credit protection – other	*0.4*	*N/A*
of which: CVA on other instruments	*1.1*	*N/A*

1 Amounts do not include reserves against defaulted counterparties. 2 CVA amounts do not include commutations.

UBS's own credit risk in the valuations of financial liabilities designated at fair value

The Group's own credit changes are reflected in valuations for those financial liabilities designated at fair value, where the Group's own credit risk would be considered by market participants. They are discounted for fully collateralized transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. Own credit changes were calculated based on a senior debt curve generated from observed external pricing for funding associated with new senior debt issued by the Group, or relevant secondary market transactions in senior long-term UBS debt. The senior debt curve is considered to be representative of the credit risk which reflects the premium (or discount) that market participants require to acquire UBS debt. In the absence of an observable senior debt curve, credit default swap spreads would be considered as well.

The own credit results for *Financial liabilities designated at fair value* (predominantly issued structured products) were as follows:

Own credit on financial liabilities designated at fair value

	As of or for the year ended		
CHF million	**31.12.09[1]**	31.12.08	31.12.07
Total gain / (loss) for the year ended	**(2,023)**	2,032	659
of which: credit spread related only	***(1,958)***	*3,993*	*659*
Life-to-date gain	**890**	2,953	663

1 Includes the following impacts from valuation changes as of 1 January 2009: increase in own credit of CHF 823 million on a year-to-date and life-to-date basis; increase of CHF 441 million in own credit related to credit spread only.

Note 27 Fair value of financial instruments (continued)

a) Valuation principles (continued)

The year-to-date amounts represent the portion of the change in fair value of the financial liabilities designated at fair value that is related to own credit. The life-to-date amount reflects the gain related to own credit by which the fair value of financial liabilities designated at fair value has changed since inception. Included in these amounts is the quantification of changes in fair value attributable to changes in UBS's credit spread during the periods. In addition, the total own credit changes include the credit effect of "volume changes", i.e. the credit effect of period changes in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay, changes in the value of referenced instruments issued by third parties, or, in the case of the life-to-date amount, changes in the foreign exchange rates.

Changes to the valuation of derivative financial instruments and financial instruments designated at fair value
In 2009, UBS reviewed its approach to calculating and booking own credit of derivative liabilities and financial liabilities designated at fair value. The following paragraph describes the impacts of the changes on UBS's 2009 results and balance sheet as of the transition date 1 January 2009.

UBS's 2009 net profit and net trading income increased by CHF 143 million, made up of a charge of CHF 222 million to the Corporate Center and a CHF 365 million credit to the Investment Bank. The net impact on the Investment Bank comprises a credit of CHF 823 million related to own credit and a debit of CHF 458 million to the fixed income, currencies and commodities business. *Financial liabilities designated at fair value* decreased by CHF 1,080 million, *Financial assets designated at fair value* increased by CHF 198 million, *Negative replacement values* increased by CHF 1,119 million, and *Positive replacement values* decreased by CHF 16 million.

Reflection of market liquidity risk in fair value determinations
Fair value estimates incorporate the effects of market liquidity risk in the relevant markets. Market liquidity risk is the risk that a loss is incurred in neutralizing the exposures within a position or portfolio by either liquidating the position or establishing an offsetting position. A liquidity adjustment is therefore made to provide against the expected cost of covering open market risk positions within a portfolio or position. Bid/Offer adjustments are taken where a net open risk position is retained and the model on which it is valued is calibrated to mid market. Valuations based on models incorporate liquidity or risk premiums either implicitly (e.g. by calibrating to market prices that incorporate such premiums) or explicitly.

Reflection of model uncertainty in fair value determinations
Uncertainties associated with the use of model-based valuations 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.

Valuation processes
UBS's fair value and model governance structure includes numerous controls and procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products need to be reviewed and approved by all stakeholders relevant to risk and financial control. Responsibility for the ongoing measurement of financial instruments at fair value resides with the business but is independently validated by risk and financial control functions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of available external market information and to provide justification and rationale for their fair value estimates. Independent price verification of financial instruments measured at fair value is undertaken by the product control function which is independent from the risk taking businesses. The objective of the independent price verification process is to independently corroborate the business' estimates of fair value against available market information. By benchmarking the business' fair value estimates with observable market prices or other independent sources, the degree of valuation uncertainty embedded in these measurements can be assessed and managed as required in the governance framework. A critical aspect of the independent price verification process is evaluation of the appropriateness of modeling approaches and input assumptions which yield fair value estimates derived from valuation models. An independent model review group reviews UBS's valuation models on a regular basis or if specific triggers occur and approves them for valuing specific products. As a result of the valuation controls employed, valuation adjustments may be made to the business' estimate of fair value to either align with independent market information or financial accounting standards.

Note 27 Fair value of financial instruments (continued)

b) Fair value hierarchy

All financial instruments at fair value are categorized into one of three fair value hierarchy levels at year-end, based upon the lowest level input that is significant to the product's fair value measurement in its entirety:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 – valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
- Level 3 – valuation techniques which include significant inputs that are not based on observable market data.

Determination of fair values from quoted market prices or valuation techniques

	31.12.09				31.12.08			
CHF billion	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Trading portfolio assets	110.9	65.5	11.6	188.0	128.1	128.4	15.3	271.8
Trading portfolio assets pledged as collateral	31.3	12.3	0.6	44.2	25.4	13.2	1.6	40.2
Positive replacement values	4.0	393.8	23.8	421.7	5.1	811.2	37.8	854.1
of which:								
Interest rate contracts	*0.8*	*213.7*	*0.6*	*215.1*	*0.1*	*372.0*	*3.0*	*375.1*
Credit derivative contracts	*0.0*	*58.0*	*20.5*	*78.6*	*0.0*	*166.7*	*30.7*	*197.4*
Foreign exchange contracts	*0.3*	*95.9*	*0.9*	*97.1*	*0.4*	*221.0*	*0.0*	*221.5*
Equity/index contracts	*2.9*	*20.5*	*1.7*	*25.1*	*4.6*	*26.7*	*4.1*	*35.3*
Commodities contracts	*0.0*	*5.8*	*0.1*	*5.9*	*0.0*	*24.8*	*0.0*	*24.8*
Financial assets designated at fair value	0.8	9.2	0.3	10.2	1.1	11.2	0.6	12.9
Financial investments available-for-sale	74.3	6.1	1.4	81.8	2.4	1.2	1.6	5.2
Total assets	221.4	487.0	37.6	745.9	162.1	965.2	57.0	1,184.3
Trading portfolio liabilities	33.5	13.6	0.4	47.5	33.9	27.5	1.0	62.4
Negative replacement values	3.7	389.2	17.0	409.9	4.9	812.0	35.0	851.9
of which:								
Interest rate contracts	*0.7*	*203.1*	*0.0*	*203.7*	*0.0*	*366.9*	*1.8*	*368.7*
Credit derivative contracts	*0.0*	*55.8*	*14.7*	*70.6*	*0.0*	*153.7*	*31.0*	*184.8*
Foreign exchange contracts	*0.3*	*99.4*	*1.4*	*101.1*	*0.3*	*227.0*	*0.0*	*227.3*
Equity/index contracts	*2.8*	*25.0*	*1.0*	*28.7*	*4.5*	*40.7*	*2.1*	*47.4*
Commodities contracts	*0.0*	*5.8*	*0.0*	*5.8*	*0.0*	*23.6*	*0.0*	*23.6*
Financial liabilities designated at fair value	0.0	102.4	10.3	112.7	0.0	91.2	10.3	101.5
Total liabilities	37.2	505.2	27.7	570.1	38.8	930.7	46.3	1,015.8

Detailed breakdowns of UBS's trading portfolio and financial investments available-for-sale by fair value hierarchy levels are shown in Note 11 and 13, respectively.

Note 27 Fair value of financial instruments (continued)

b) Fair value hierarchy (continued)

Transfers between level 1 and level 2 of the fair value hierarchy

Trading assets of approximately CHF 9 billion, of which CHF 5 billion are debt instruments, and trading liabilities of approximately CHF 4 billion, of which almost all are debt instruments, were transferred from level 2 to level 1 due to increased trading activities and volumes, respectively.

Trading assets and liabilities with amounts of approximately CHF 8 billion and approximately CHF 3 billion were transferred from level 1 to level 2. The assets largely related to government bonds (CHF 3 billion) and equity instruments (CHF 3 billion). The trading liabilities transferred from level 1 to level 2 consisted equally of short sold debt and equity instruments. These assets and liabilities transferred from level 1 to level 2 no longer met the average market activity UBS considers necessary when determining whether an instrument is traded in an active market.

Movements of level 3 instruments

The table below includes a roll-forward of the balance sheet amounts of the significant classes of financial instruments classified within level 3.

Movements of level 3 instruments and gains / losses for level 3 instruments held at the end of the reporting period

CHF billion	Trading portfolio assets (including those pledged as collateral)[1]	Derivative instruments (net replacement values)[1]	Financial liabilities designated at fair value[1]
Balance at 31 December 2008	**16.9**	**2.8**	**10.3**
Total gains / losses included in the income statement	**(3.9)**	**2.4**	**(1.7)**
Net trading income	(3.7)	2.2	(1.1)
Other	(0.2)	0.2	(0.6)
Purchases, sales, issuances and settlements	**(6.3)**	**(1.0)**	**(4.6)**
Purchases	5.6	0.0	0.0
Sales	(11.9)	0.0	0.0
Issuances	0.0	2.0	2.7
Settlements	0.0	(3.0)	(7.3)
Transfers into and/or out of level 3	**5.4**	**2.8**	**5.3**
Transfers into level 3	12.5	3.3	8.0
Transfers out of level 3	(7.1)	(0.5)	(2.7)
Foreign currency translation	0.1	(0.2)	1.0
Balance at 31 December 2009	**12.2**	**6.8**	**10.3**
Total gains / losses for the period included in the income statement for level 3 instruments held at the end of the reporting period	**(0.5)**	**(0.6)**	**(0.7)**
Net trading income	(1.0)	(0.6)	(0.7)
Other	0.5	0.0	0.0

1 Where financial instruments moved into or out of level 3 level during 2009, this change is reflected as if the financial instrument had been in the new level as of the beginning of the quarter in which the movement took place.

Note 27 Fair value of financial instruments (continued)

b) Fair value hierarchy (continued)

Material changes in level 3 instruments

As of 31 December 2009, financial instruments measured with valuation techniques using significant non-market observable inputs (level 3) mainly included the following instruments:
- structured rates and credit trades, including bespoke collateralized debt obligations (CDOs),
- instruments linked to the US residential and US commercial real estate markets,
- non-US reference-linked notes, and
- equity-linked notes issued by UBS.

Trading portfolio assets

Trading portfolio assets transferred into and out of level 3 amounted to CHF 12.5 billion and CHF 7.1 billion, respectively. On a net basis, approximately CHF 3 billion of transfers into level 3 were related to certain non-US reference-linked notes held in Asia as price determining factors for these instruments, such as prices of the underlying asset-backed securities, including residential and commercial real-estate securities, became unobservable. Other credit positions (largely puttable bonds) of approximately CHF 2 billion were transferred into level 3 since the embedded options could not be price tested. In addition, leverage finance instruments, asset-backed securities and other instruments of approximately CHF 1 billion in total, were transferred into level 3 due to prices becoming unobservable. Transfers out of level 3, on a net basis, largely comprised structured rates and credit trades of approximately CHF 1 billion, since liquidity had returned to the underlying markets, as well as corporate bonds of approximately CHF 1 billion, for which independent pricing sources became observable.

Level 3 trading assets purchased in 2009 largely include leverage finance products of approximately CHF 2 billion and other credit instruments of approximately CHF 1 billion.

Due to sales and settlements, level 3 instruments decreased by approximately CHF 12 billion. The following instruments were affected: structured rates and credit trades by approximately CHF 1 billion, bespoke CDOs by approximately CHF 2 billion, instruments linked to the US subprime residential and US commercial real estate markets by approximately CHF 3 billion, instruments linked to the non-US real estate market by approximately CHF 2 billion, and leverage finance instruments, reference-linked notes, non-real estate asset-backed securities, and other credit instruments by approximately CHF 1 billion for each of these categories.

Derivative instruments

Net replacement values transferred into and out of level 3 amounted to approximately CHF 3 billion and approximately CHF 1 billion, respectively. Transfers into level 3 instruments included *Positive replacement values* of CHF 26 billion and negative replacement values of CHF 23 billion. Transfers out of level 3 instruments included *Positive replacement values* of CHF 20 billion and negative replacement values of CHF 19 billion.

Transfers into level 3 of replacement values mainly included bespoke CDOs, whose correlation was not observable through models or through reference data, single-name corporate credit default swaps (CDS), for which credit curves were not available from pricing sources, and home equity loans CDSs and other instruments linked to the US residential real estate market, whose recovery values became unobservable due to the illiquidity of the underlying positions. In addition, certain structured rates and credit trades whose loan and credit curves were unobservable have been transferred to level 3.

Transfers of replacement values out of level 3 consisted mainly of structured rates and credit trades, for which independent pricing sources (e.g. reliable quotes from pricing services) became available, and other credit instruments for which recovery rates and credit spreads could be observed in the market.

Financial liabilities designated at fair value

Level 3 financial liabilities designated at fair value reclassified into level 3 in 2009 of CHF 8 billion predominantly related to hybrid financial liabilities, including equity-linked notes issued by UBS, and funded credit derivatives. The main driver for the reclassification was the lack of market data for underlying credit default swap curves.

Level 3 sensitivity information

Financial instruments carried at fair value on UBS's balance sheet include a subset of instruments for which fair value is measured in full or in part using valuation techniques based on assumptions that are not supported by market observable prices or rates.

There may be uncertainty about a valuation, resulting from the choice of the 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 or model.

At 31 December 2009, UBS performed a sensitivity analysis to assess the range of reasonably possible alternative val-

Note 27 Fair value of financial instruments (continued)

b) Fair value hierarchy (continued)

uations for level 3 instruments. In undertaking this analysis, UBS evaluated these instruments by classifying them into low, medium and high categories of valuation uncertainty based on the assessment of instrument level characteristics and available market information. Instrument level characteristics include the model from which the valuation was derived, the degree of impact on fair value by unobservable parameters, reserves and valuation adjustments. Market information includes any data that supports the classification such as reference to similar instruments and observable parameter information. Based on the valuation uncertainty assigned to an instrument, the market value was adjusted upward and downward and summed across the level 3 financial assets and liabilities to arrive at the estimated range of reasonably possible alternative valuations, as shown in the table below: Favorable valuation changes for assets would be offset to a significant degree by unfavorable changes in liabilities and vice versa as a consistent use of different assumptions and estimates would prevent a simultaneous favorable or unfavorable valuation change of assets and liabilities.

As of 31 December 2009, CHF billion	Favorable changes	Unfavorable changes
Financial assets[1]	**4.1**	**(4.1)**
of which: trading portfolio assets (including those pledged as collateral)	*1.0*	*(1.0)*
of which: positive replacement values	*3.1*	*(3.1)*
Financial liabilities	**(3.3)**	**3.3**
of which: financial liabilities designated at fair value	*(1.6)*	*1.6*
of which: negative replacement values	*(1.7)*	*1.7*

1 Includes level 3 sensitivity for financial instruments accounted for at fair value through profit or loss.

c) Valuation techniques by product and market risk sensitivity

This section includes a description of the valuation of certain significant product categories and related valuation techniques and models. In addition, sensitivity information for certain significant instrument categories that are excluded from Management Value-at-Risk as disclosed in the Risk and treasury management section of this report is provided.

Credit valuation adjustments on monoline credit protection
UBS previously entered into negative basis trades with monolines, whereby they provided credit default swap protection against UBS-held underlyings, including residential mortgage-backed securities collateralized debt obligations (RMBS CDO), transactions with collateralized loan obligation (CLO) and asset-backed securities collateralized debt obligations (ABS CDO). Since the start of the financial crisis, the credit valuation adjustments (CVA) relating to these monoline exposures have been a source of valuation uncertainty, given market illiquidity and the terms of these exposures relative to other monoline-related instruments.

CVA amounts related to monoline credit protection are based on a methodology that uses credit default swap (CDS) spreads on the monolines as a key input in determining an implied level of expected loss. Where a monoline has no observable CDS spread, a judgment is made on the most comparable monoline or combination of monolines and the corresponding spreads are used instead. For RMBS CDO, CMBS CDO, and CLO asset categories, cash flow projections are used in conjunction with current fair values of the underlying assets to provide estimates of expected future exposure levels. For other asset categories, future exposure is based on current exposure.

To assess the sensitivity of the monoline CVA calculation to alternative assumptions, the impact of a 10% increase in monoline credit default swap spreads (e.g. from 2,000 basis points to 2,200 basis points for a specific monoline) was considered. At 31 December 2009, such an increase would have resulted in an increase in the monoline credit valuation adjustment of approximately USD 77 million (CHF 80 million; 31 December 2008: USD 206 million or CHF 220 million). The sensitivity of the monoline credit valuation adjustment to a decrease of one percentage point in the monoline recovery rate assumptions (e.g. from 20% to 19% for a specific monoline, conditional on default occurring) is estimated to result in an increase of approximately USD 26 million (CHF 27 million) in the CVA (31 December 2008: USD 58 million or CHF 62 million). The sensitivity to recovery rates is substantially linear.

Instruments linked to US residential real estate market
As of 31 December 2009, instruments linked to the US residential real estate market (e.g., US RMBS CDO) are presented as *Positive or Negative replacement values,* or trading portfolio assets. The Group applies a fundamental model,

Note 27 Fair value of financial instruments (continued)

c) Valuation techniques by product and market risk sensitivity (continued)

based on contractual cash flows of the underlying bonds due to the absence of liquidity, and therefore pricing information. The contractual cash flows are adjusted for the expected rate of underlying defaults. Losses in the underlying mortgage pools are derived from the development of default and prepayment curves to which loss severity and interest curves are applied. The projected lifetime losses are additionally calibrated to ABX market indices. The default adjusted mortgage bond cash flows are then aggregated across all bond positions in the CDO, to arrive at the overall expected cash flows from the mortgage pool, used for the discounting process. The principles of this model are applied to both cash and synthetic instruments.

Commitments to acquire auction rate securities (ARSs)
Following the settlement agreements reached regarding ARS, UBS has fair valued its commitment to repurchase eligible ARS from customers at par. The commitment is treated as a derivative and fair valued through profit or loss. The value of the derivative has three main variables: (1) forward fair market value of the ARS underlying the remaining outstanding commitments, (2) client put behavior, and (3) forecasted issuer redemptions at par. The model to value the commitment considers the cash flows of the trusts themselves, and where the predicted cash flows are expected to create a surplus, the trust is assumed to redeem at par, because its choices of alternative actions, primarily to issue new loans or redeem, are severely restricted. UBS assumes that all clients will put their eligible ARS back to UBS at par on the first eligible day pursuant to the agreement with the US authorities. The discount rates in this model embed risk premiums that are calibrated to observed market transactions. UBS estimates that a 50% increase or decrease in the risk premiums would result in a loss of approximately USD 287 million (CHF 297 million) or gain of approximately USD 303 million (CHF 314 million). As of 31 December 2008 a similar model was applied, however, at the beginning of 2009 revisions were made to better reflect assumptions about when the clients are expected to exercise their put options.

US reference-linked notes (US RLNs)
The US reference-linked notes (US RLNs) consist of a series of transactions whereby UBS purchased credit protection, predominantly in note form, on a notional portfolio of fixed income assets. The referenced assets are comprised of USD *Asset-Backed Securities (ABSs)* (primarily commercial mortgage-backed securities and sub-prime residential mortgage-backed securities) and/or corporate bonds and loans across all rating categories. The credit protection embodied in the RLNs is fair valued using a market standard approach to the valuation of portfolio credit protection (Gaussian copula). This approach effectively is intended to simulate correlated defaults within the portfolio, where the expected losses and defaults of the individual assets are closely linked to the observed market prices (spread levels) of those assets. Key assumptions of the model include correlations and recovery rates. UBS applies fair value adjustments related to potential uncertainty in each of these parameters, which are only partly observable. In addition, UBS applies fair value adjustments for uncertainties associated with the use of observed spread levels as the primary inputs. These fair value adjustments are calculated by applying shocks to the relevant parameters and revaluing the credit protection. These shocks for correlation, recovery and spreads are set to various levels depending on the asset type and / or region and may vary over time depending on the best judgment of the relevant trading and control personnel. Correlation and recovery shocks are generally in the reasonably possible range of 5 to 15 percentage points. Spread shocks vary more widely and depend on whether the underlying protection is funded or unfunded to reflect cash or synthetic basis effects. As of 31 December 2009, the fair value of the US RLN credit protection (pre-reserve) is approximately USD 1,502 million (CHF 1,555 million; 31 December 2008: USD 3,284 million or CHF 3,502 million). The fair value adjustments calculated by applying the shocks described above are approximately USD 71 million (CHF 74 million; 31 December 2008: USD 299 million or CHF 319 million) as of 31 December 2009. This adjustment may also be considered a measurement of sensitivity.

Non-US reference-linked notes (Non-US RLNs)
The same valuation model and the same approach to calculation of fair value adjustments are applied to the non-US reference-linked note (non-US RLN) credit protection as to the US RLN credit protection described above, except that the spread is shocked by 10% for European corporate names. As of 31 December 2009, the fair value of the non-US RLN credit protection is approximately USD 1,155 million (CHF 1,196 million; 31 December 2008: USD 1,971 million or CHF 2,102 million). The fair value adjustments (up and down) calculated by applying the shocks described above are approximately USD 105 million (CHF 109 million; 31 December 2008: USD 155 million or CHF 165 million). This adjustment may also be considered a measurement of sensitivity.

Option to acquire equity of the SNB StabFund
Under IFRS, UBS's option to purchase the SNB StabFund's equity is recognized on the balance sheet as a derivative at

fair value *(Positive replacement values)* with changes to fair value recognized in profit and loss. As of 31 December 2009, the fair value (after adjustments) of UBS's call option was approximately USD 1,174 million (CHF 1,216 million; 31 December 2008: CHF 1,100 million).

The model adopted in 2009 incorporates cash flow projections for all assets within the fund across various scenarios and is calibrated to market levels by setting the spread above one-month Libor rates used to discount future cash flows such that the model-generated price of the underlying asset pool equals UBS's assessed fair value of the asset pool. The model incorporates a model reserve (fair value adjustment) to address potential uncertainty in this calibration. For 31 December 2009, this adjustment was USD 262 million (CHF 271 million; 30 September 2009: USD 229 million or CHF 237 million). As of 31 December 2009, a 100 basis points increase in the discount rate would have decreased the option value by approximately USD 126 million (CHF 130 million) and a 100 basis points decrease would have increased the option value by approximately USD 143 million (CHF 148 million).

Bespoke collateralized debt obligations (CDOs)
Significant positions of bespoke CDOs are classified as level 3 instruments (31 December 2009: Positive replacement value of CHF 6,067 million and Negative replacement value of CHF 6,208 million; 31 December 2008: Positive replacement value of CHF 15,118 million and Negative replacement value of CHF 16,137 million). The instruments represent customized collateralized debt obligations. These products are sold in 'tranches' whereby the tranche's seniority and attachment points reflect the size of the risk being taken. One of the main risks that the investor is exposed to is the correlation behavior of the names in the tranche.

The primary market inputs to the valuation approach are observed in the vanilla credit markets, being the vanilla credit indices and single name credit curves. A widely-used modeling approach is applied, which first constructs the correlation from the index information and then values the transaction by comparing it to the index.

Equity-linked notes issued by UBS
As of 31 December 2009, equity-linked notes issued by UBS of CHF 3,398 million (31 December 2008: CHF 3,316 million) accounted for as financial liabilities designated at fair value were classified as level 3.

The valuation models used for these types of notes are a market standard Black-Scholes model for the more standard vanilla type returns and a "Local Volatility Monte Carlo" based approach for more complex instruments.

While some of the parameter inputs to these models will be observable, for example equity and FX spot prices and interest rates, others will be based on valuation techniques or will require the extrapolation of observable data, which may result in an instrument being required to be classified in level 3.

The main parameters which may not be directly observable are equity volatilities and dividend assumptions for longer-dated trades which will normally be extrapolated from observable shorter-term market information. Correlation inputs, required for instruments where the value is based upon multiple underlyings, will be calculated by a modeling technique which uses historic data to estimate future correlation levels, the model output being benchmarked against available information.

Note 27 Fair value of financial instruments (continued)

d) Deferred day 1 profit or loss

The table reflects financial instruments for which fair value is determined using valuation models where not all significant 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).

Deferred day 1 profit or loss

	For the year ended	
CHF million	**31.12.09**	31.12.08
Balance at the beginning of the year	**627**	550
Deferred profit/(loss) on new transactions	**231**	588
Recognized (profit)/loss in the income statement	**(240)**	(459)
Foreign currency translation	**(19)**	(52)
Balance at the end of the year	**599**	627

On 31 December 2009, deferred day 1 profit or loss of approximately CHF 0.3 billion (31 December 2008: approximately CHF 0.4 billion) pertains to multi-name credit default swaps (largely structured rates and credit trades, including bespoke CDOs), and of approximately CHF 0.3 billion (31 December 2008: approximately CHF 0.2 billion) to over-the-counter (OTC) equity options. Both instruments are presented as replacement values on UBS's balance sheet.

e) Financial instruments accounted for at amortized cost

The following table reflects the estimated fair values for UBS's instruments accounted for at amortized cost. Refer to Note 29 for an overview of financial assets classified as "loans and receivables" and financial liabilities accounted for at amortized cost.

	31.12.09		31.12.08	
CHF billion	**Carrying value**	**Fair value**	Carrying value	Fair value
Assets				
Due from banks	**46.6**	**46.6**	64.5	64.5
Loans	**305.1**	**306.0**	338.5	338.1
Cash collateral on securities borrowed	**63.5**	**63.5**	122.9	122.9
Reverse repurchase agreements	**116.7**	**116.7**	224.6	224.8
Accrued income and prepaid expenses, other assets	**5.1**	**5.1**	9.1	9.1
Liabilities				
Due to banks	**65.2**	**65.1**	125.6	125.6
Due to customers	**410.5**	**410.5**	465.7	465.7
Cash collateral on securities lent	**8.0**	**8.0**	14.1	14.1
Repurchase agreements	**64.2**	**64.2**	102.5	102.5
Debt issued	**134.5**	**133.6**	201.2	199.7
Accrued expenses and deferred income, other liabilities	**15.9**	**15.9**	22.8	22.8
Off-balance-sheet financial instruments				
Loan commitments [1]	**0.3**	**0.4**		
Guarantees and similar instruments [2]	**0.1**	**(0.1)**		

1 Loan commitments include derivative loan commitments, loan commitments accounted for as financial liabilities designated at fair value and other loan commitments not recognized on balance sheet, unless a provision is required. 2 The fair value of financial guarantees is positive as the present value of the expected fees exceeds the present value of the expected outflows.

e) Financial instruments accounted for at amortized cost (continued)

The fair values included in the table above were calculated for disclosure purposes only. The valuation techniques and assumptions described below provide a measurement of fair value of UBS's financial instruments accounted for at amortized cost. However, because other institutions may use different methods and assumptions for their fair value estimation, such fair value disclosures cannot necessarily be compared from one financial institution to another. UBS applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than UBS's established fair value and model governance policies and processes applied for financial instruments accounted for at fair value, whose fair values impact UBS's balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments accounted for at amortized cost:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, where available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments accounted for at amortized cost have remaining maturities of three months or less: 99% of loans due from banks; 55% of loans due from customers; 100% of cash collateral on securities borrowed; 100% of reverse repurchase agreements; 96% of amounts due to banks; 100% of amount due to customers; 100% of cash collateral on securities lent; 100% of repurchase agreements; and 49% of debt issued.
- The fair value of variable-interest bearing financial instruments accounted for at amortized cost is assumed to be approximated by their carrying amounts, which are net of credit loss allowances, and does not reflect fair value changes in the credit quality of counterparties or UBS's own credit movements.
- The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.
- Loans include Wealth Management assets, mainly mortgage loans, where fair values exceed related carrying values by CHF 3.3 billion, and Investment Bank assets where fair values fall below related carrying values by CHF 2.4 billion, of which CHF 0.9 billion relate to reclassified financial assets.
- The estimated fair values of off-balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 28 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, in connection with derivative transactions, as security deposits for stock exchanges and clearinghouse memberships, or transferred for security purpose in connection with the issuance of covered bonds.

Assets pledged

	Carrying amount	
CHF million	**31.12.09**	31.12.08
Financial assets held for trading pledged to third parties for liabilities with and without the right of rehypothecation	**64,748**	78,002
of which: pledged to third parties with right of rehypothecation	***44,221***	*40,216*
Mortgage loans[1]	**21,741**	3,699
Other[2]	**65,775**	21,040
Total	**152,264**	102,741

1 Book value includes mortgage loans transferred for security purpose in preparation of upcoming covered bond issuances. 2 Includes financial investments available-for-sale of CHF 53 billion (2008: CHF 0 billion) and reclassified financial assets of CHF 10 billion (2008: CHF 16 billion).

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 1a) 5).

Transfer of financial assets which do not qualify for derecognition

	Continued asset recognition in full – Total assets	
CHF billion	**31.12.09**	31.12.08
Nature of transaction		
Securities lending agreements	**17.1**	22.0
Repurchase agreements	**24.6**	13.1
Other financial asset transfers	**110.9**	46.6
Total	**152.6**	81.7

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 except for certain positions pledged with central banks.

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 1a) 13) and 1a) 14). 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 2009 and 2008. The carrying amounts of the partially recognized transferred financial assets are included in the table.

Note 29 Measurement categories of financial assets and financial liabilities

a) Measurement categories of financial assets and financial liabilities

The following table provides information about the carrying amounts of individual classes of financial instruments within the measurement categories of financial assets and financial liabilities as defined in IAS 39. Only those assets and liabilities which are deemed to be financial instruments are included in the table below, which causes certain balances to differ from those presented on the balance sheet.

Refer to "Note 27 Fair value of financial instruments" for more information on how fair value of financial instruments is determined.

	31.12.09	31.12.08
Financial assets[1]		
Held for trading		
Trading portfolio assets	171,173	261,904
Trading portfolio assets pledged as collateral	44,221	40,216
Debt issued[2]	3,109	4,152
Positive replacement values	421,694	854,100
Total	640,197	1,160,372
Fair value through profit or loss		
Financial assets designated at fair value	10,223	12,882
Cash, loans and receivables		
Cash and balances with central banks	20,899	32,744
Due from banks	46,574	64,451
Cash collateral on securities borrowed	63,507	122,897
Reverse repurchase agreements	116,689	224,648
Loans	305,061	338,520
Accrued income and prepaid expenses	1,465	3,238
Other assets	3,594	5,901
Total	557,789	792,399
Available-for-sale		
Financial investments available-for-sale	81,757	5,248
Total financial assets	1,289,966	1,970,901
Financial liabilities		
Held for trading		
Trading portfolio liabilities	47,469	62,431
Debt issued[2]	8	185
Negative replacement values	409,943	851,864
Total	457,420	914,480
Fair value through profit or loss, other		
Financial liabilities designated at fair value	112,653	101,546
Amounts due under unit-linked contracts	21,740	22,084
Total	134,393	123,630
Financial liabilities at amortized cost		
Due to banks	65,166	125,628
Cash collateral on securities lent	7,995	14,063
Repurchase agreements	64,175	102,561
Due to customers	410,475	465,741
Accrued expenses and deferred income	8,522	10,012
Debt issued	134,453	201,221
Other liabilities	7,415	12,765
Total	698,201	931,991
Total financial liabilities	1,290,014	1,970,101

1 CHF 138 billion of *Loans*, CHF 0 billion of *Due from banks*, CHF 8 billion of *Financial investments available-for-sale* and CHF 7 billion of *Financial assets designated at fair value* are expected to be recovered or settled after twelve months. 2 Embedded derivatives presented on the balance sheet line *Debt issued*.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

b) Reclassification of financial assets

The reclassification of financial assets reflected UBS's change in intent and ability to hold these financial assets for the foreseeable future rather than for trading in the near term. The financial assets were reclassified using their fair value on the date of the reclassification, which became their new cost basis at that date.

In 2008 and first quarter 2009, financial assets with fair values on their reclassification dates of CHF 26 billion and CHF 0.6 billion, respectively, were reclassified out of *Trading portfolio assets* to *Loans*.

The table below shows the carrying values and fair values of these financial assets.

Trading portfolio assets reclassified to loans

CHF billion	**31.12.09**	31.12.08
Carrying value of trading portfolio assets reclassified	**19.9**	24.2
Fair value of trading portfolio assets reclassified	**19.0**	20.8
Pro-forma fair value gain / (loss)	**(0.9)**	(3.4)

In 2009, carrying values decreased by approximately CHF 4.3 billion mainly due to sales of approximately CHF 2.6 billion. Redemptions, credit loss expenses of CHF 1 billion and the appreciation of the Swiss franc against the US dollar resulted in a decrease of approximately CHF 3.3 billion. The decrease was partially offset by financial assets of CHF 0.6 billion reclassified in 2009, and the accretion of interest of approximately CHF 0.9 billion from the amortization of the discount between carrying values and the expected recoverable amounts.

Fair values of reclassified financial assets decreased as well by approximately CHF 1.8 billion in 2009, which includes a fair value gain of approximately CHF 4.7 billion and financial assets reclassified in 2009 of CHF 0.6 billion, offset by decreases of approximately CHF 2.6 billion related to sales and decreases of approximately CHF 4.5 billion related to redemptions and the decline of the CHF/USD exchange rate.

The table below provides notional values, fair values, and carrying values by product category, as well as the ratio of carrying value to notional value.

Reclassified assets

31.12.09, CHF billion	Notional value	Fair value	Carrying value	Ratio of carrying to notional value
US student loan and municipal auction rate securities	9.3	8.0	8.2	88%
Monoline-protected assets[1]	7.5	6.1	6.5	86%
Leveraged finance	2.6	0.9	0.8	30%
CMBS / CRE (excluding interest-only strips)	2.0	1.5	1.6	82%
US reference-linked notes	1.1	0.9	1.0	86%
Other assets	1.1	0.9	1.0	90%
Total (excluding CMBS interest-only strips)	**23.6**	**18.2**	**19.0**	**80%**
CMBS interest-only strips		0.8	0.9	
Total reclassified assets	**23.6**	**19.0**	**19.9**	

1 Includes CDOs (notional value of approximately CHF 0.45 billion; carrying value and fair value of approximately CHF 0.3 billion) which are no longer hedged by CDS with monoline insurers following the commutation of these CDS trades in prior periods.

Reclassified financial assets impacted UBS's income statement as presented in the table below.

Contribution of the reclassified assets to the income statement

	For the year ended	
CHF billion	**31.12.09**	31.12.08
Net interest income	**1.5**	0.1
Credit loss (expense) / recovery	**(1.0)**	(1.3)
Other income	**0.1**	0.0
Impact on operating profit before tax	**0.6**	(1.2)

Note 29 Measurement categories of financial assets and financial liabilities (continued)

c) Maximum exposure to credit risk and credit quality information

The table below presents the Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements. The amounts included in the table represent the carrying amounts of financial instruments subject to credit risk which were determined under the guidance of IFRS. Financial instruments have been netted only if and to the extent a) legally enforceable rights to offset exist, and b) UBS has the intention to settle the underlying transactions on a net basis. As such, the amounts disclosed in the table below should not necessarily be considered a "risk measure".

Maximum exposure to credit risk[1]

	31.12.09					31.12.08				
CHF million	WM&SB	WMA	IB	Other[2]	UBS	WM&SB	WMA	IB	Other[2]	UBS
Balances with central banks	8,589	0	9,525	0	18,114	17,628	0	11,528	0	29,156
Due from banks	2,651	1,074	42,568	282	46,574	5,499	1,096	57,475	381	64,451
Loans	194,410	21,492	89,057	101	305,061	203,758	23,956	110,056	750	338,520
Cash collateral on securities borrowed	0	0	63,507	0	63,507	0	0	122,897	0	122,897
Reverse repurchase agreements	1,107	4,302	109,896	1,384	116,689	0	4,223	219,580	844	224,648
Accrued income, other assets and debt underwriting commitments subject to credit risk	1,319	147	2,436	1,185	5,087	1,955	183	4,526	2,479	9,144
Financial instruments measured at amortized cost on balance sheet	**208,076**	**27,015**	**316,989**	**2,952**	**555,032**	228,840	29,458	526,062	4,454	788,816
Positive replacement values	2,534	520	416,862	1,778	421,694	5,610	491	847,158	841	854,100
Trading portfolio assets (including pledged positions) – debt instruments	16,341	1,107	117,047	4,535	139,030	85	1,343	219,739	3,695	224,862
Financial assets designated at fair value – debt instruments	65	0	9,317	0	9,383	0	0	11,803	0	11,803
Financial investments available-for-sale – debt intruments	5,393	16,515	52,183	6,315	80,406	615	278	2,451	223	3,567
Financial instruments measured at fair value on balance sheet	**24,333**	**18,142**	**595,409**	**12,628**	**650,513**	6,310	2,112	1,081,151	4,759	1,094,332
Credit guarantees, performance guarantees, documentary credits and similar instruments[3]	11,888	385	4,569	137	16,979	14,258	405	4,856	149	19,668
Undrawn irrevocable credit facilities	7,236	498	51,593	0	59,328	2,775	13	57,528	0	60,316
Irrevocable commitments to acquire ARS	0	0	8,700	0	8,700	0	0	16,571	0	16,571
Commitments	**19,124**	**883**	**64,862**	**137**	**85,007**	17,033	418	78,955	149	96,555
Total at the year-end	**251,533**	**46,040**	**977,260**	**15,717**	**1,290,552**	252,183	31,988	1,686,168	9,362	1,979,703

1 The exposures are considered the best representation of "maximum exposure to credit risk" as defined by IFRS, without taking into account additional netting potentials, collaterals and other credit risk mitigation measures. 2 Other includes Global Asset Management and the Corporate Center. 3 The related provision of CHF 90 million (CHF 31 million for 2008) has been deducted.

The table above does not include written credit protection, which is generally recognized on UBS's balance sheet under *Negative replacement values.* It also excludes UBS's obligations under the Swiss Deposit Insurance.

The maximum exposure to credit risk determined under IFRS guidance and disclosed in the table above is actively managed and subject to credit risk management such as collateralization and hedging. Collateral held and credit risk mitigation is described in the section "Risk management and control".

Note 29 Measurement categories of financial assets and financial liabilities (continued)

c) Maximum exposure to credit risk and credit quality information (continued)

Financial assets subject to credit risk by rating category

CHF million							31.12.09
Rating category	0–1	2–3	4–5	6–8	9–13	defaulted	**Total**
Balances with central banks	14,491	3,615	9				**18,114**
Due from banks	3,392	39,256	2,526	1,108	186	106	**46,574**
Loans	21,000	82,204	81,791	98,611	18,544	2,910	**305,061**
Cash collateral on securities borrowed and reverse repurchase agreements	47,928	100,127	24,108	7,444	537	52	**180,196**
Positive replacement values	18,138	357,590	31,511	10,316	2,682	1,456	**421,694**
Trading portfolio assets (including pledged) – debt instruments	61,492	57,128	10,081	4,523	5,090	716	**139,030**
Financial investments available-for-sale – debt instruments	75,363	5,007	3	25	8		**80,406**
Other financial instruments	696	9,211	2,435	945	559	624	**14,470**
Commitments[1]							
Guarantees and similar instruments[2]	87	8,391	4,129	2,931	1,475	56	**17,070**
Undrawn irrevocable credit facilities	962	40,682	8,441	3,357	5,463	422	**59,328**
Total	**243,550**	**703,210**	**165,033**	**129,262**	**34,546**	**6,341**	**1,281,942**

CHF million							**31.12.08**
Rating category	0–1	2–3	4–5	6–8	9–13	defaulted	**Total**
Balances with central banks	23,619	5,534	3				**29,156**
Due from banks	5,697	43,075	13,847	1,418	327	87	**64,451**
Loans	26,210	97,300	82,431	108,076	20,204	4,298	**338,520**
Cash collateral on securities borrowed and reverse repurchase agreements	95,379	218,644	19,841	12,528	711	441	**347,544**
Positive replacement values	46,805	602,505	172,865	24,333	5,081	2,511	**854,100**
Trading portfolio assets (including pledged) – debt instruments	98,836	89,508	20,780	7,103	8,031	604	**224,862**
Financial investments available-for-sale – debt instruments	3,271	131	110	35	16	3	**3,567**
Other financial instruments	1,253	13,085	2,846	2,048	890	824	**20,947**
Commitments[1]							
Guarantees and similar instruments[2]	36	9,496	4,944	3,654	1,497	72	**19,699**
Undrawn irrevocable credit facilities	238	33,820	15,285	2,840	7,719	415	**60,316**
Total	**301,344**	**1,113,099**	**332,952**	**162,035**	**44,477**	**9,254**	**1,963,161**

1 Excludes commitments to acquire ARS of CHF 8,700 million for 2009 (CHF 16,571 million 2008). 2 The provisions of CHF 90 million for 2009 (CHF 31 million 2008) are not deducted from the notional value of "guarantees and similar instruments".

Note 30 Pension and other post-employment benefit plans

a) Defined benefit plans

UBS 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 overall investment policy and strategy for UBS'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 fiduciaries are responsible for determining the mix of asset types and target allocations which are reviewed by the plan fiduciaries on a regular 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 plan

The Swiss pension plan covers all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. The Swiss plan allows employees a choice in the level of annual contributions paid by the employee. 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 Pension Foundation Board.

Contributions to the pension plan 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 the full standard level of benefit coverage depend on age and vary between 1% and 9% of covered base salary and 3% and 8% of covered variable compensation. The employer pays a contribution that ranges between 100% and 375% of employees' contributions for the standard level of benefit coverage. The benefits covered include retirement benefits; disability, death and survivor pensions; and employment termination benefits.

The employer contributions expected to be made in 2010 to the Swiss pension plan are CHF 560 million.

Foreign pension plans

The foreign locations of UBS operate various pension plans in accordance with local regulations and practices. 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 material foreign plans.

The pension plans provide benefits in the event of retirement, death or disability. The level of benefits provided depends on the defined rate of benefit accrual and level of compensation. The plans are funded entirely by UBS. The employer contributions expected to be made in 2010 to these pension plans are CHF 107 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.

Refer also to Note 1a) 23).

Note 30 Pension and other post-employment benefit plans (continued)

a) Defined benefit plans (continued)

CHF million	Swiss			Foreign		
For the year ended	**31.12.09**	31.12.08	31.12.07	**31.12.09**	31.12.08	31.12.07
Defined benefit obligation at the beginning of the year	**(21,311)**	(20,877)	(21,506)	**(3,642)**	(4,928)	(5,207)
Service cost	**(432)**	(336)	(367)	**(41)**	(63)	(88)
Interest cost	**(672)**	(710)	(633)	**(230)**	(251)	(264)
Plan participant contributions	**(195)**	(233)	(236)			
Amendments	**0**	0	(414)			
Actuarial gain / (loss)	**231**	(288)	1,508	**(471)**	318	236
Benefits paid	**1,314**	1,158	792	**153**	148	151
Termination benefits	**(54)**	(25)	(21)			
Acquisitions				**0**	0	(54)
Foreign currency translation				**(122)**	1,134	298
Defined benefit obligation at the end of the year	**(21,119)**	(21,311)	(20,877)	**(4,353)**	(3,642)	(4,928)
Fair value of plan assets at the beginning of the year	**19,029**	22,181	21,336	**2,866**	4,579	4,602
Expected return on plan assets	**846**	990	1,067	**202**	282	313
Actuarial gain / (loss)	**963**	(3,820)	(250)	**266**	(1,027)	(97)
Employer contributions	**567**	603	584	**232**	194	200
Plan participant contributions	**195**	233	236			
Benefits paid	**(1,314)**	(1,158)	(792)	**(153)**	(148)	(151)
Foreign currency translation				**104**	(1,014)	(288)
Fair value of plan assets at the end of the year	**20,286**	19,029	22,181	**3,517**	2,866	4,579
Funded status	**(833)**	(2,282)	1,304	**(836)**	(776)	(349)
Unrecognized net actuarial (gains) / losses	**2,996**	4,405	2,123	**1,475**	1,324	975
Unrecognized assets	**0**	0	(1,304)			
(Accrued) / prepaid pension cost	**2,163**	2,123	2,123	**639**	548	626
Movement in the net (liability) or asset						
(Accrued) / prepaid pension cost at the beginning of the year	**2,123**	2,123	1,953	**548**	626	633
Net periodic pension cost	**(527)**	(603)	(414)	**(167)**	(69)	(97)
Employer contributions	**567**	603	584	**232**	194	200
Acquisitions				**0**	0	(54)
Foreign currency translation				**26**	(203)	(56)
(Accrued) / prepaid pension cost	**2,163**	2,123	2,123	**639**	548	626
Amounts recognized in the balance sheet						
Prepaid pension cost	**2,163**	2,123	2,123	**890**	798	887
Accrued pension liability				**(251)**	(250)	(261)
(Accrued) / prepaid pension cost	**2,163**	2,123	2,123	**639**	548	626

Note 30 Pension and other post-employment benefit plans (continued)

a) Defined benefit plans (continued)

CHF million	Swiss			Foreign		
For the year ended	**31.12.09**	31.12.08	31.12.07	**31.12.09**	31.12.08	31.12.07
Components of net periodic pension cost						
Service cost	**432**	336	367	**41**	63	88
Interest cost	**672**	710	633	**230**	251	264
Expected return on plan assets	**(846)**	(990)	(1,067)	**(202)**	(282)	(313)
Amortization of unrecognized net (gains)/losses	**215**	0	0	**98**	37	58
Immediate recognition of net actuarial (gains)/losses in current period	**0**	1,826	(1,258)			
Immediate recognition of past service cost in current period	**0**	0	414			
Special termination benefits	**54**	25	21			
Limit of defined benefit asset	**0**	(1,304)	1,304			
Net periodic pension cost	**527**	603	414	**167**	69	97

Funded and unfunded plans

	Swiss				
CHF million	**31.12.09**	31.12.08	31.12.07	31.12.06	31.12.05
Defined benefit obligation from funded plans	**(21,119)**	(21,311)	(20,877)	(21,506)	(20,972)
Plan assets	**20,286**	19,029	22,181	21,336	20,229
Surplus/(deficit)	**(833)**	(2,282)	1,304	(170)	(743)
Experience gains/(losses) on plan liabilities	**214**	0	0		
Experience gains/(losses) on plan assets	**963**	(3,820)	(250)		

	Foreign				
CHF million	**31.12.09**	31.12.08	31.12.07	31.12.06	31.12.05
Defined benefit obligation from funded plans	**(4,078)**	(3,402)	(4,654)	(5,002)	(4,635)
Defined benefit obligation from unfunded plans	**(275)**	(240)	(274)	(205)	(385)
Plan assets	**3,517**	2,866	4,579	4,602	4,288
Surplus/(deficit)	**(836)**	(776)	(349)	(605)	(732)
Experience gains/(losses) on plan liabilities	**(12)**	62	(32)		
Experience gains/(losses) on plan assets	**266**	(1,027)	(97)		

Note 30 Pension and other post-employment benefit plans (continued)

a) Defined benefit plans (continued)

	Swiss			Foreign		
	31.12.09	31.12.08	31.12.07	**31.12.09**	31.12.08	31.12.07
Principal weighted average actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**3.3**	3.3	3.5	**5.7**	6.0	5.8
Expected rate of salary increase	**2.5**	2.5	2.5	**5.0**	4.5	4.8
Rate of pension increase	**0.5**	0.5	0.8	**2.5**	1.9	2.4
Assumptions used to determine net periodic pension cost for the year ended						
Discount rate	**3.3**	3.5	3.0	**6.0**	5.8	5.2
Expected rate of return on plan assets	**4.5**	4.5	5.0	**6.6**	7.1	7.0
Expected rate of salary increase	**2.5**	2.5	2.5	**4.5**	4.8	4.6
Rate of pension increase	**0.5**	0.8	0.8	**1.9**	2.4	2.1
Plan assets (weighted average)						
Actual plan asset allocation (%)						
Equity instruments	**35**	26	38	**46**	46	50
Debt instruments	**51**	55	47	**35**	35	38
Real estate	**13**	13	11	**3**	3	4
Other	**1**	6	4	**16**	16	8
Total	**100**	100	100	**100**	100	100
Long-term target plan asset allocation (%)						
Equity instruments	**18–44**	20–48	33–51	**42–45**	45–48	49–52
Debt instruments	**41–65**	37–63	31–50	**37–44**	37–38	38–44
Real estate	**9–17**	10–20	10–19	**3–7**	3–7	4–6
Other	**0–5**	0–5	0	**11–12**	10–12	1–3
Actual return on plan assets (%)	**9.7**	(12.8)	3.9	**15.5**	(18.2)	4.8
Additional details to fair value of plan assets						
UBS financial instruments and UBS bank accounts	**205**	782	336			
UBS AG shares[1]	**66**	55	128			
Securities lent to UBS included in plan assets	**0**	0	9,379			
Other assets used by UBS included in plan assets	**218**	148	111			

1 The number of UBS AG shares was 4,095,850, 3,734,000 and 2,436,257 as of 31 December 2009, 31 December 2008 and 31 December 2007, respectively.

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**	**31.12.09**	31.12.08	31.12.07	**31.12.09**	31.12.08	31.12.07
Switzerland	BVG 2005	**17.9**	17.8	17.8	**17.9**	17.8	17.8
UK	PA 2000 G, medium cohort with adjustment	**22.8**	22.7	21.9	**25.7**	25.6	23.0
Germany	Dr. K. Heubeck 2005 G	**19.1**	19.0	18.9	**21.9**	21.8	21.6
US	RP 2000 with projections	**18.4**	18.4	18.3	**18.4**	18.4	18.3

		Life expectancy at age 65 for a female member currently					
		aged 65			aged 45		
Country	**Mortality table**	**31.12.09**	31.12.08	31.12.07	**31.12.09**	31.12.08	31.12.07
Switzerland	BVG 2005	**21.0**	21.1	21.1	**21.0**	21.1	21.1
UK	PA 2000 G, medium cohort with adjustment	**24.6**	24.5	24.8	**26.5**	26.4	25.8
Germany	Dr. K. Heubeck 2005 G	**23.3**	23.1	23.0	**25.8**	25.7	25.6
US	RP 2000 with projections	**20.6**	20.6	20.5	**20.6**	20.6	20.5

Note 30 Pension and other post-employment benefit plans (continued)

b) Post-retirement medical and life plans

In the US and the UK, UBS offers retiree medical benefits that contribute to the health care coverage of employees and beneficiaries after retirement. The UK plan is closed to new entrants. In addition to retiree medical benefits, UBS in the US also provides retiree life insurance benefits. The benefit obligation in excess of the fair value of plan assets for these plans amounts to CHF 186 million as of 31 December 2009 (2008: CHF 159 million; 2007: CHF 190 million) and the total accrued post-retirement cost amounts to CHF 163 million as of 31 December 2009 (2008: CHF 164 million; 2007: CHF 181 million). The net periodic post-retirement costs for the years ended 31 December 2009, 31 December 2008, and 31 December 2007 were CHF 9 million (including a curtailment gain of CHF 8 million), CHF 9 million (including a curtailment gain of CHF 11 million), and CHF 26 million, respectively.

The employer contributions expected to be made in 2010 to the post-retirement medical and life plans are CHF 7 million.

CHF million	**31.12.09**	31.12.08	31.12.07
Post-retirement benefit obligation at the beginning of the year	**(159)**	(190)	(219)
Service cost	**(7)**	(8)	(12)
Interest cost	**(10)**	(11)	(11)
Plan participant contributions	**(2)**	(0)	(1)
Actuarial gain / (loss)	**(31)**	14	39
Amendments	**0**	0	(8)
Benefits paid	**10**	7	8
Curtailments	**9**	9	0
Foreign currency translation	**4**	20	14
Post-retirement benefit obligation at the end of the year	**(186)**	(159)	(190)
Fair value of plan assets at the beginning of the year	**0**	0	0
Employer contributions	**8**	6	7
Plan participant contributions	**2**	1	1
Benefits paid	**(10)**	(7)	(8)
Fair value of plan assets at the end of the year	**0**	0	0

CHF million	**31.12.09**	31.12.08	31.12.07	31.12.06	31.12.05
Defined benefit obligation	**(186)**	(159)	(190)	(219)	(216)
Plan asset	**0**	0	0	0	0
Surplus / (deficit)	**(186)**	(159)	(190)	(219)	(216)
Experience gains / (losses) on plan liabilities	**8**	3	8	1	(3)

The assumed average health care cost trend rate used in determining post-retirement benefit expense is assumed to be 9% for 2009 and to decrease to an ultimate trend rate of 5% in 2015. 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 average 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	**26**	**(21)**

Note 30 Pension and other post-employment benefit plans (continued)

c) Defined contribution plans

UBS also sponsors a number of defined contribution plans in its foreign locations. The locations with defined contribution plans of a material nature are in the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from UBS. The employer contributions to these plans recognized as expense for the years ended 31 December 2009, 31 December 2008, and 31 December 2007 were CHF 246 million, CHF 312 million, and CHF 285 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 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.

In 2008, UBS sold to its Swiss pension fund certain bank-occupied properties for proceeds of approximately CHF 186 million and recognized a gain of approximately CHF 97 million. UBS and its Swiss pension fund entered simultaneously into lease-back arrangements for some of the properties with 25-year lease terms and two renewal options for ten years each. At 31 December 2008 the minimum commitment towards the Swiss pension fund under the related leases was approximately CHF 41 million.

During 2009, UBS renegotiated one of the lease contracts which reduced UBS's remaining lease commitment. At 31 December 2009 the minimum commitment towards the Swiss pension fund under the related leases is approximately CHF 27 million. The rent paid by UBS under these leases amounted to CHF 5 million in 2009.

The following fees and interest have been received or paid by UBS:

Related party disclosure

	For the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Received by UBS			
Fees	**34**	44	58
Paid by UBS			
Interest	**2**	1	2
Dividends and capital repayments	**0**	4	38

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

Transaction volumes – related parties

	For the year ended		
	31.12.09	31.12.08	31.12.07
Financial instruments bought by pension funds			
UBS AG shares (in thousands of shares)	**3,869**	6,925	1,728
UBS financial instruments (nominal values in CHF million)	**35**	78	950
Financial instruments sold by pension funds or matured			
UBS AG shares (in thousands of shares)	**4,116**	1,881	1,930
UBS financial instruments (nominal values in CHF million)	**14**	10	976

UBS has also leased buildings from its pension funds. The rent paid by UBS under these leases amounted to CHF 12 million in 2009, CHF 7 million in 2008, and CHF 6 million in 2007.

There were no financial instruments due from UBS pension plans outstanding as of 31 December 2009 (2008: CHF 0 million; 2007: CHF 0 million). The amounts due to UBS defined benefit pension plans are included in the additional details to the fair value of plan assets. Furthermore, UBS defined contribution plans hold 17,259,203 UBS shares with a market value of CHF 278 million as of 31 December 2009 (2008: 17,866,949 shares with a market value of CHF 272 million; 2007: 14,121,239 shares with a market value of CHF 736 million).

Note 31 Equity participation and other compensation plans

a) Plans offered

UBS has established several equity participation and other compensation plans to further align the 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. UBS's compensation plans are mandatory, discretionary or voluntary. The explanations below provide a general description of the terms of the most significant plans offered, however specific plan rules may vary by country. Refer to Note 1a) 24) for a description of the accounting policy related to equity participation and other compensation plans.

Mandatory share-based compensation plans

Equity Ownership Plan (EOP): Certain employees receive a portion of their annual performance-related compensation, which exceeds a certain threshold, in the form of an EOP award of UBS shares, notional UBS shares, or of alternative investment vehicles (AIVs)[1] instead of cash, on a mandatory basis. The awards granted in UBS shares or notional UBS shares are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Awards granted in the form of AIVs are settled in cash. The majority of EOP awards continue to be granted in UBS shares and notional UBS shares. EOP awards generally vest in one-third increments over a three-year vesting period. These awards are generally forfeitable upon voluntary termination of employment with UBS. Compensation expense for these awards is generally recognized over the shorter of the legal vesting period and the period from grant to the date the employee satisfies certain retirement eligibility requirements. Compensation expense is recognized in the performance year if the employee meets these retirement eligibility requirements at the date of grant.

During 2009, UBS only granted EOP awards to certain employees for which it had a contractual commitment.

During 2008, UBS granted to certain employees EOP awards with a nine-month vesting period. Compensation expense for these awards was fully recognized in 2007.

Senior Executive Equity Ownership Plan (SEEOP): Senior executives receive a portion 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 UBS shares are settled by delivering UBS shares. SEEOP awards generally vest in one-fifth increments over a five-year vesting period. These awards are forfeitable if certain conditions are not met. Compensation expense for all SEEOP awards is recognized during the performance year, which is generally the period prior to the grant date.

During 2009, UBS only granted SEEOP awards to certain employees for which it had a contractual commitment.

During 2008, UBS granted to certain employees SEEOP awards with a nine-month vesting period. Compensation expense for these awards was fully recognized in 2007.

Mandatory deferred cash compensation plans

Conditional Variable Compensation Plan (CVCP): CVCP was a one-time forward looking compensation plan under which awards were granted to certain employees on a mandatory basis in the second quarter of 2009. Under this plan, UBS awarded a contingent right to receive cash payments at vesting subject to forfeiture provisions. These awards are generally forfeitable upon termination of employment with UBS and additionally require profitability and recapitalization performance hurdles to be met in order for the awards not to forfeit. The awards vest in one-third increments over a three-year vesting period. Compensation expense is recognized over the shorter of the vesting period and the period from the service inception date to the retirement eligibility date of the employee. No further grants will be made under this plan.

WMUS Partner Plus Plan: Wealth Management Americas sponsors a compulsory deferred cash compensation plan for selected eligible employees in the US. Under this plan, UBS awards amounts based on a predefined formula during the performance year. Participants are also allowed to voluntarily contribute additional amounts earned during the year into the plan up to a percentage of UBS's contributions. The amounts awarded earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter. Partner Plus awards vest in 20% increments 6 to 10 years after the grant date. The UBS contributions and all interest earned are forfeitable in certain circumstances. Compensation expense is recognized over the shorter of the vesting period and the period from the performance year to the date that the employee is eligible to leave UBS and retain their award.

Cash Balance Plan (CBP): This plan applies to members of the Group Executive Board and allows for a maximum payout of 60% of an executive's variable cash incentive at the beginning of the following year (subject to an additional cash-cap). A minimum of 40% of an executive's cash incentive awarded for 2009 is deferred and paid out during the two subsequent years subject to forfeiture, i.e. the entire cash incentive is paid out over a three-year period. The forfeiture provisions allow for unvested awards to be reduced (including to nil) in certain events including termination for

1 Selected employees are granted a contingent right to receive a cash payment, the value of which is based on the value of underlying investment funds, rather than the value of UBS's equity.

Note 31 Equity participation and other compensation plans (continued)

a) Plans offered (continued)

cause, certain financial losses, behavior that contributes substantially to a material restatement of financial results or to harm to UBS's reputation, breaches of legal or regulatory requirements or of risk/compliance policies, and a number of other events. Compensation expense is recognized in the performance year, which is generally the year prior to the grant date.

Discretionary share-based compensation plans

Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP): Key and high potential employees may be granted discretionary share-settled Stock Appreciation Rights (SARs) or UBS options with a strike price not less than the fair market value of a UBS share on the date the SAR or option is granted. In certain cases, an option or SAR may be granted at a higher strike price. A SAR gives employees the right to receive such number of UBS shares equal to the value of any appreciation in the market price of a UBS share between the grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price.

KESAP and KESOP awards are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Options granted prior to 2008 generally vest in one-third increments over a three-year vesting period and generally expire ten years from the grant date. SARs[2] and options granted from 2008 onwards vest in full following 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. Compensation expense is recognized over the shorter of the legal vesting period and the period from grant to the retirement eligibility date of the employee.

Senior Executive Stock Appreciation Rights Plan (SESAP) and Senior Executive Stock Option Plan (SESOP): senior executives may be granted discretionary SARs or UBS options with a strike price set at 110% of the fair market value of a UBS share on the date the SAR or option is granted. A SAR gives employees the right to receive such number of UBS shares equal to the value of any appreciation over 110% of the market price of a UBS share between grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price. SESAP and SESOP awards are settled by delivering UBS shares. These awards 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. Compensation expense for all SESAP and SESOP awards is recognized during the performance year, which is generally the period prior to the grant date. During 2009, UBS only granted SESOP awards to certain employees for which it had a contractual commitment.

Voluntary share-based compensation plans

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 by delivering UBS shares, except in countries where this is not permitted for legal reasons. Compensation expense related to the UBS options is recognized over the shorter of the legal vesting period and the period from grant to the retirement eligibility date of the employee.

UBS satisfies share delivery obligations under its option-based and SAR-based participation plans either by purchasing UBS shares in the market or through the issuance of new shares. For UBS's option-based plans, shares held in treasury or newly issued shares are delivered to the employee against receipt of the strike price at exercise. Under its SAR-based plans, UBS does not receive payment of a strike price at exercise but rather delivers to the employee shares held in treasury or newly issued shares equal to the difference between the market value of a UBS share at exercise and the strike price. As of 31 December 2009, UBS was holding approximately 27.7 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 and SAR exercises. The shares available cover all vested (i.e. exercisable) employee options and SARs.

Other plans

Executive Capital Accumulation Plan (ECAP): 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.

2 The first grants made under KESAP were in 2009.

Note 31 Equity participation and other compensation plans (continued)

b) Effect on income statement

Mandatory, discretionary and voluntary share-based compensation plans

The total share-based compensation expense, including amounts for AIVs granted under EOP, recognized for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 was CHF 913 million, negative CHF 94 million and CHF 3,173 million, respectively. For the years ended 31 December 2009, 31 December 2008 and 31 December 2007, the compensation expense recognized for share-based payments was primarily related to equity-settled plans. At 31 December 2009, total compensation expense related to non-vested mandatory, discretionary and voluntary share-based awards, including amounts for AIVs issued under EOP, granted in 2009 and previous years which will be recognized as an expense in the income statement from 2010 and later is CHF 832 million. This amount is expected to be recognized in Personnel expenses over a weighted average period of 3.6 years.

Payments to participants of cash-settled share-based plans, including amounts for AIVs granted under EOP, for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 were CHF 83 million, CHF 80 million and CHF 42 million, respectively. The total carrying amount of the liability related to these cash-settled plans amounted to CHF 206 million as of 31 December 2009.

Mandatory deferred cash compensation plans

The total deferred cash compensation expense, related to CBP and CVCP (as described in previous section), recognized for the year ended 31 December 2009 was CHF 63 million. At 31 December 2009, total compensation expense related to CVCP awards granted in 2009 which will be recognized as an expense in the income statement from 2010 and later is CHF 570 million. This amount is expected to be recognized in Personnel expenses over a weighted average period of 1.8 years.

c) UBS share awards

Movements in shares granted under the equity participation plans described in Note 31a) are as follows:

	Number of shares 31.12.09	**Weighted average grant date fair value CHF**	Number of shares 31.12.08	Weighted average grant date fair value CHF	Number of shares 31.12.07	Weighted average grant date fair value CHF
Forfeitable, at the beginning of the year	**84,736,935**	**53**	59,102,580	66	56,141,102	58
Shares awarded during the year	**39,067,130**	**12**	90,895,594	32	30,271,820	70
Distributions during the year	**(31,293,824)**	**66**	(60,105,109)	61	(25,031,819)	55
Forfeited during the year	**(5,621,615)**	**38**	(5,156,131)	54	(2,278,523)	66
Forfeitable, at the end of the year	**86,888,626**	**31**	84,736,935	53	59,102,580	66
of which: shares vested for accounting purposes	***40,148,461***		*65,767,017*		*47,700,903*	

UBS measures compensation expense based on the average market price of the UBS share on the grant date as quoted on the SIX Swiss Exchange less a discount for post-vesting sale and hedge restrictions and non-vesting conditions, in accordance with IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations.* The grant date fair value of notional UBS shares without dividend entitlements also includes a deduction for the present value of future expected dividends to be paid between grant date and distribution.

The fair value of the share awards subject to post-vesting sale and hedge restrictions is discounted based upon the duration of the post-vesting restriction and is referenced to the cost of purchasing an at-the-money plain vanilla European put option for the term of the transfer restriction. The weighted average discount for share awards granted in 2009 is approximately 31.7% of the market price of the UBS share. Discounts for non-vesting conditions are based on the probability that the non-vesting conditions will be achieved and the award will become exercisable. The fair value of share-based awards granted prior to 2008 was not discounted for post-vesting sale and hedge restrictions, as there was no distinction between vesting and non-vesting conditions until the IASB amended IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations.* The market value of shares legally vested was CHF 346 million, CHF 1,385 million, and CHF 1,737 million for the years ended 31 December 2009, 31 December 2008, and 31 December 2007, respectively.

Note 31 Equity participation and other compensation plans (continued)

d) UBS option awards

Movements in options granted under the equity participation plans described in Note 31a) are as follows:

	Number of options 31.12.09	Weighted average exercise price CHF[2]	Number of options 31.12.08[1]	Weighted average exercise price CHF[1,2]	Number of options 31.12.07[1]	Weighted average exercise price CHF[1,2]
Outstanding, at the beginning of the year	**236,055,545**	**47**	198,213,092	52	188,393,473	47
Granted during the year	**22,525,624**	**13**	62,973,879	30	48,094,483	67
Exercised during the year	**(48,241)**	**16**	(3,673,657)	26	(34,331,511)	36
Forfeited during the year	**(7,245,512)**	**37**	(6,732,080)	52	(3,650,942)	62
Expired unexercised	**(22,663,530)**	**48**	(14,725,689)	46	(292,411)	58
Outstanding, at the end of the year	**228,623,886**	**43**	236,055,545	47	198,213,092	52
Exercisable, at the end of the year	**137,797,186**	**51**	124,054,442	46	96,396,428	39

1 As a result of the rights offering in June 2008, UBS adjusted the number of options and exercise price for vested and unvested employee options which were unexercised at the date of the rights offering. This was done to prevent any dilution impact to holders of these options. No additional compensation expense was recognized. This resulted in an increase to the number of options awarded in 2008 of 3,881,320 and an increase to the prior year outstanding balance of 2,400,143. 2 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 18, CHF 34, and CHF 72 for the years ended 31 December 2009, 31 December 2008, and 31 December 2007, respectively. The following table provides additional information about option awards:

	31.12.09	31.12.08	31.12.07
Intrinsic value of options exercised during the year (CHF million)	**0.2**	29	1,046
Weighted average grant date fair value of options granted (CHF)	**6.00**	7.53	10.43

The following table summarizes additional information about options outstanding and options exercisable at 31 December 2009:

	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 awards								
10.21–15.00	18,599,225	11.33	87.8	9.1	2,001	14.47	0.0	8.9
15.01–25.00	11,560,852	18.70	1.8	9.3	93,767	20.07	0.0	8.7
25.01–35.00	45,514,537	31.10	0.0	7.3	8,319,508	28.31	0.0	3.4
35.01–45.00	25,831,524	39.04	0.0	5.0	16,931,901	40.58	0.0	3.3
45.01–55.00	21,961,024	49.34	0.0	5.4	21,539,533	49.26	0.0	5.3
55.01–65.00	4,945,136	60.26	0.0	7.0	4,509,038	59.96	0.0	6.9
65.01–75.00	67,395,232	67.89	0.0	6.7	53,616,749	67.27	0.0	6.6
10.21–75.00	**195,807,530**	**44.98**	**89.6**	**6.9**	**105,012,497**	**55.83**	**0.0**	**5.6**
USD awards								
4.61–15.00	15,632	13.53	0.0	0.3	15,632	13.53	0.0	0.3
15.01–25.00	10,288,746	21.11	0.0	2.7	10,268,746	21.11	0.0	2.7
25.01–35.00	3,037,460	27.95	0.0	3.7	3,037,355	27.95	0.0	3.7
35.01–45.00	16,052,302	38.12	0.0	4.8	16,040,740	38.12	0.0	4.8
45.01–51.99	3,422,216	44.89	0.0	5.4	3,422,216	44.89	0.0	5.4
4.61–51.99	**32,816,356**	**32.54**	**0.0**	**4.1**	**32,784,689**	**32.54**	**0.0**	**4.1**

Note 31 Equity participation and other compensation plans (continued)

e) UBS SAR awards

Movements in SARs granted under the equity participation plans described in Note 31a) are as follows:

	Number of rights 31.12.09	Weighted average exercise price (CHF)
Outstanding, at the beginning of the year	0	0
Granted during the year	66,126,830	12
Exercised during the year	0	0
Forfeited during the year	(5,219,655)	11
Expired unexercised	0	0
Outstanding, at the end of the year	60,907,175	12
Exercisable, at the end of the year	4,000,000	10

The following table summarizes additional information about SARs outstanding at 31 December 2009.

	SARs outstanding			
Range of exercise price per SAR	Number of SARs outstanding	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF)	Weighted average remaining contractual term (years)
CHF awards				
9.35–12.50	59,273,505	11.26	283.9	8.8
12.51–15.00	53,410	14.57	0.1	9.5
15.01–17.50	268,330	16.47	0.0	9.5
17.51–20.00	406,930	19.25	0.0	9.7
37.51–40.00	905,000	40.00	0.0	9.2
9.35–40.00	**60,907,175**	**11.77**	**284.0**	**8.8**

Note 31 Equity participation and other compensation plans (continued)

f) Valuation

The fair value of options and SARs (instruments) 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 instruments are granted, such as the vesting period, forced exercises during the lifetime, and gain- and time-dependent exercise behavior. The expected term of each instrument 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. Expected future dividends are derived from the historical dividend pattern.

The fair value of options and SARs granted in 2009 and the fair value of options granted in 2008 and 2007 was determined using the following assumptions:

	31.12.09		
	CHF awards	range low	range high
Expected volatility (%)	48.22	40.91	53.47
Risk-free interest rate (%)	2.16	1.50	2.57
Expected dividend (CHF)	0.27	0.00	0.29
Strike price (CHF)	11.88	9.35	40.00
Share price (CHF)	11.64	9.35	19.27

	31.12.08		
	CHF awards	range low	range high
Expected volatility (%)	33.86	30.00	49.32
Risk-free interest rate (%)	2.83	1.74	3.27
Expected dividend (CHF)	1.85	1.10	2.57
Strike price (CHF)	30.11	14.47	46.02
Share price (CHF)	28.05	14.47	43.61

	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)[1]	71.31	55.48	78.80
Share price (CHF)[1]	70.25	55.48	78.80

1 Not adjusted for stock dividend and rights offering in 2008.

Note 32 Related parties

The Group defines related parties as associated companies (entities which are controlled or significantly influenced by UBS), post-employment benefit plans for the benefit of UBS employees, key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled or jointly controlled by 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 revised requirements of IAS 24 *Related Party Disclosures* issued in November 2009.

a) Remuneration of key management personnel

The non-independent members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the non-independent members of the BoD, and GEB including those who stepped down during, 2009[1] is as follows:

CHF million	**31.12.09**	31.12.08	31.12.07
Base salaries and other cash payments	**16**	12	14
Incentive awards – cash	**64**	0	38
Employer's contributions to retirement benefit plans	**2**	2	2
Benefits in kind, fringe benefits (at market value)	**1**	1	2
Equity compensation benefits[2]	**29**	0	22
Total	**112**	15	78

1 During 2009, Marcel Rohner, Jerker Johansson, Raoul Weil, Walter H. Stürzinger, Rory Tapner, and Marten Hoekstra stepped down from the GEB. The total awards of approximately CHF 39 million are heavily influenced by contractual obligations. 2 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.

Peter Kurer, former Chairman of the BoD, did not stand for reelection at the AGM on 15 April 2009, and retired from UBS as of April 2009. He received his base salary until the termination date of 30 April 2009. For ongoing advisory requirements and assistance in the handover to his successor, Peter Kurer received a flat salary of CHF 1,000,000. For 2009, as was the case for 2007 and 2008, he did not receive any discretionary incentive or fixed share awards. After assessing his tenure as Chairman and the specific organizational transition requirements, the Human Resources and Compensation Committee (HRCC) deemed it appropriate to approve a one-time contribution of CHF 3,332,000 into the UBS pension fund on his behalf to cover the deficit in his pension fund.

Marcel Rohner stepped down as Group CEO on 26 February 2009. In honoring the twelve-month notice period of his contract, he received his annual salary of CHF 1,500,000. For 2009, as also for 2008, he did not receive any discretionary incentive awards. After assessing his tenure as Group CEO and the specific organizational transition requirements, the HRCC deemed it appropriate to approve a one-time contribution of CHF 1,200,000 into the UBS pension fund on his behalf to cover the deficit in his pension fund.

The independent 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 6.4 million in 2009, CHF 6.4 million in 2008 and CHF 5.7 million in 2007.

Note 32 Related parties (continued)

b) Equity holdings

	31.12.09	31.12.08	31.12.07
Number of stock options from equity participation plans held by non-independent members of the BoD and the GEB[1]	**9,410,280**	8,458,037	6,828,152
Number of shares held by members of the BoD, GEB and parties closely linked to them	**4,180,154**	5,869,952	6,693,012

1 Further information about UBS's equity participation plans can be found in Note 31.

Of the share totals above, at 31 December 2009, 31 December 2008 and 31 December 2007, 0 shares, 15,878 shares and 4,852 shares, respectively, were held by close family members of key management personnel and 0 shares, 103,841 shares and 2,200,000 shares, respectively, were held by entities which are directly or indirectly controlled or jointly controlled by key management personnel or their close family members. Further information about UBS's equity participation plans can be found in Note 31. No member of the BoD or GEB is the beneficial owner of more than 1% of the Group's shares at 31 December 2009.

c) Loans, advances and mortgages to key management personnel

Non-independent 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. Independent BoD members are granted loans and mortgages at general market conditions.

Movements in the loan, advances and mortgage balances are as follows:

CHF million	31.12.09	31.12.08
Balance at the beginning of the year	**11**	15
Additions	**12**	8
Reductions	**(5)**	(12)
Balance at the end of the year	**18**	11

No unsecured loans were granted to key management personnel as of 31 December 2009 and 31 December 2008.

d) Associated companies

CHF million	31.12.09	31.12.08
Balance at the beginning of the year	**301**	220
Additions	**295**	171
Reductions	**(222)**	(77)
Credit loss (expense) / recovery	**(1)**	0
Foreign currency translation	**0**	(13)
Balance at the end of the year	**373**	301
of which: unsecured loans	***42***	*82*
of which: allowances for credit losses	***1***	*3*

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

Note 32 Related parties (continued)

d) Associated companies (continued)

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

	As of or for the year ended		
CHF million	**31.12.09**	31.12.08	31.12.07
Payments to associates for goods and services received	**130**	90	87
Fees received for services provided to associates	**2**	6	20
Commitments and contingent liabilities to associates	**156**	40	33

Note 34 provides a list of significant associates.

e) Other related party transactions

During 2008 and 2007, UBS entered into transactions at arm's length with entities which are directly or indirectly controlled or jointly controlled by UBS's key management personnel or their close family members. In 2009, UBS did not enter into any such transactions. The 2008 and 2007 numbers included into the table below have been restated to reflect the revised guidance in IAS 24 *Related Party Disclosures*. Refer to Note 1b for details.

In 2008 these entities included: Aebi + Co. AG (Switzerland), Kedge Capital Selected Funds Ltd. (Jersey), Löwenfeld AG (Switzerland), Martown Trading Ltd. (Isle of Man), Omega Fund I Ltd (Jersey), Omega Fund IV Ltd (Jersey), Stadler Rail Group (Switzerland), Team Alinghi (Switzerland) and Team Alinghi (Spain).

Movements in loans to other related parties are as follows:

CHF million	**31.12.09**	31.12.08	31.12.07
Balance at the beginning of the year	**6**	158	539
Additions	**0**	0	77
Reductions	**(6)**	(152)	(458)
Balance at the end of the year[1]	**0**	6	158

1 In 2009 includes loans, guarantees and contingent liabilities of CHF 0 million and unused committed facilities of CHF 0 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 0 million. In 2008 includes loans, guarantees and contingent liabilities of CHF 6 million and unused committed facilities of CHF 0 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 320 million. In 2007 includes loans, guarantees and contingent liabilities of CHF 158 million and unused committed facilities of CHF 0 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 57 million.

Other transactions with these related parties include:

CHF million	**31.12.09**	31.12.08	31.12.07
Goods sold and services provided to UBS	**0**	1	8
Fees received for services provided by UBS	**0**	11	6

As part of its sponsorship of Team Alinghi, UBS paid CHF 828,090 (EUR 538,000) in basic sponsoring fees for 2008. Team Alinghi's controlling shareholder is UBS former 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 33 Events after the reporting period

In January 2010, UBS closed the sale of its investments in several associated entities owning office space in New York. A significant portion of the office space is leased by UBS Group until 2018. The sales price is USD 180 million, with a resulting gain on sale of approximately USD 173 million, which will be recognized in 2010.

There have been no further material events after the reporting period which would require disclosure or adjustment to the 31 December 2009 Financial Statements.

On 4 March 2010, 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 on 14 April 2010 for approval.

Note 34 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 divisions of UBS (namely Investment Bank, Wealth Management Americas, Wealth Management & Swiss Bank 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 use one legal platform for all the business divisions.

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 division[1]		Share capital in millions	Equity interest accumulated in %
Caisse Centrale de Réescompte	Paris, France	Global AM	EUR	5.0	100.0
CCR Asset Management S.A.	Paris, France	Global AM	EUR	4.8	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	98.6
Topcard Service AG	Glattbrugg, Switzerland	WM&SB	CHF	0.2	100.0
UBS (Bahamas) Ltd.	Nassau, Bahamas	WM&SB	USD	4.0	100.0
UBS (France) S.A.	Paris, France	WM&SB	EUR	125.7	100.0
UBS (Grand Cayman) Limited	George Town, Cayman Islands	IB	USD	25.0	100.0
UBS (Italia) S.p.A.	Milan, Italy	WM&SB	EUR	60.0	100.0
UBS (Luxembourg) S.A.	Luxembourg, Luxembourg	WM&SB	CHF	150.0	100.0
UBS (Luxembourg) SA Austria Branch	Vienna, Austria	WM&SB	CHF	0.0	100.0
UBS (Monaco) S.A.	Monte Carlo, Monaco	WM&SB	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	WM&SB	USD	0.0	100.0
UBS Bank (Canada)	Toronto, Canada	WMA	CAD	8.5	100.0
UBS Bank Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero	Mexico City, Mexico	IB	MXN	706.4	100.0
UBS Bank USA	Utah, USA	WMA	USD	1,880.0[2]	100.0
UBS Bank, S.A.	Madrid, Spain	WM&SB	EUR	82.2	100.0
UBS Belgium SA/NV	Brussels, Belgium	WM&SB	EUR	23.0	100.0
UBS Capital Securities (Jersey) Limited	St. Helier, Jersey	CC	EUR	0.0	100.0

1 WMA: Wealth Management Americas, WM&SB: Wealth Management & Swiss Bank, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 34 Significant subsidiaries and associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business division[1]		Share capital in millions	Equity interest accumulated in %
UBS Card Center AG	Glattbrugg, Switzerland	WM&SB	CHF	0.1	100.0
UBS Casa de Bolsa, S.A. de C.V.	Mexico City, Mexico	IB	MXN	114.9	100.0
UBS Convertible Securities (Jersey) Limited	St. Helier, Jersey	CC	CHF	50.0	100.0
UBS Custody Services Singapore Pte. Ltd.	Singapore, Singapore	WM&SB	SGD	5.5	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	IB	HKD	880.0	100.0
UBS Deutschland AG	Frankfurt am Main, Germany	WM&SB	EUR	176.0	100.0
UBS Fiduciaria S.p.A.	Milan, Italy	WM&SB	EUR	0.2	100.0
UBS Finance (Curação) N.V.	Willemstad, Netherlands Antilles	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Delaware, USA	IB	USD	37.3[2]	100.0
UBS Financial Services Inc.	Delaware, USA	WMA	USD	3,505.8[2]	100.0
UBS Financial Services Incorporated of Puerto Rico	Hato Rey, Puerto Rico	WMA	USD	31.0[2]	100.0
UBS Fund Advisor, L.L.C.	Delaware, USA	WMA	USD	0.0[2]	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[2]	100.0
UBS Global Asset Management (Deutschland) GmbH	Frankfurt am Main, Germany	Global AM	EUR	7.7	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	5.1	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	93.0	100.0
UBS Global Asset Management (US) Inc	Delaware, USA	Global AM	USD	17.2[2]	100.0
UBS Global Asset Management Funds Ltd	London, Great Britain	Global AM	GBP	26.0	100.0
UBS Global Asset Management Holding Ltd	London, Great Britain	Global AM	GBP	109.4	100.0
UBS Global Asset Management Life Ltd	London, Great Britain	Global AM	GBP	5.0	100.0
UBS Global Life AG	Vaduz, Liechtenstein	WM&SB	CHF	5.0	100.0
UBS Global Trust Corporation	St. John, Canada	WM&SB	CAD	0.1	100.0
UBS Hana Asset Management Company Ltd	Seoul, South Korea	Global AM	KRW	45,000.0	51.0
UBS Hypotheken AG	Zurich, Switzerland	WM&SB	CHF	0.1	98.0
UBS International Holdings B.V.	Amsterdam, the Netherlands	CC	EUR	6.8	100.0
UBS International Life Limited	Dublin, Ireland	WM&SB	EUR	1.0	100.0
UBS Investment Management Canada Inc.	Toronto, Canada	WMA	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	WM&SB	CHF	10.0	100.0
UBS Life AG	Zurich, Switzerland	WM&SB	CHF	25.0	100.0
UBS Life Insurance Company USA	California, USA	WMA	USD	39.3[2]	100.0
UBS Limited	London, Great Britain	IB	GBP	63.3	100.0
UBS Loan Finance LLC	Delaware, USA	IB	USD	16.7[2]	100.0
UBS Menkul Degerler AS	Istanbul, Turkey	IB	TRY	30.0	100.0

1 WMA: Wealth Management Americas, WM&SB: Wealth Management & Swiss Bank, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 34 Significant subsidiaries and associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business division[1]		Share capital in millions	Equity interest accumulated in %
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 Preferred Funding (Jersey) Limited	St. Helier, Jersey	CC	EUR	0.0	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
UBS Preferred Funding Company LLC V	Delaware, USA	CC	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	1,300.4	100.0
UBS Realty Investors LLC	Massachusetts, USA	Global AM	USD	9.3	100.0
UBS Sauerborn Private Equity Komplementär GmbH	Bad Homburg, Germany	WM&SB	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	140.0	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 LLC	Delaware, USA	IB	USD	22,205.6[2]	100.0
UBS Securities Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	IB	MYR	80.0	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 South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR	0.0	100.0
UBS Swiss Financial Advisers AG	Zurich, Switzerland	WM&SB	CHF	1.5	100.0
UBS Trust Company National Association	New York, USA	WMA	USD	105.0[2]	100.0
UBS Trustees (Bahamas) Ltd	Nassau, Bahamas	WM&SB	USD	2.0	100.0
UBS Trustees (Cayman) Ltd	George Town, Cayman Islands	WM&SB	USD	2.0	100.0
UBS Trustees (Jersey) Ltd.	St. Helier, Jersey	WM&SB	GBP	0.0	100.0
UBS Trustees (Singapore) Ltd	Singapore, Singapore	WM&SB	SGD	3.3	100.0
UBS UK Properties Limited	London, Great Britain	IB	GBP	132.0	100.0
UBS Wealth Management (UK) Ltd	London, Great Britain	WM&SB	GBP	2.5	100.0
UBS Wealth Management Australia Ltd	Melbourne, Australia	WM&SB	AUD	53.9	100.0
Vermogens Advies Holding B.V.	Amsterdam, the Netherlands	WM&SB	EUR	0.3	100.0

1 WMA: Wealth Management Americas, WM&SB: Wealth Management & Swiss Bank, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 34 Significant subsidiaries and associates (continued)

Changes in the consolidation scope 2009

Newly significant, fully consolidated companies
Topcard Service AG – Glattbrugg, Switzerland
UBS (Luxembourg) SA Austria Branch – Vienna, Austria
UBS Capital Securities (Jersey) Limited – St. Helier, Jersey
UBS Casa de Bolsa, S.A. de C.V. – Mexico City, Mexico
UBS Custody Services Singapore Pte. Ltd. – Singapore, Singapore
UBS Hypotheken AG – Zurich, Switzerland
UBS Preferred Funding (Jersey) Limited – St. Helier, Jersey

Significant deconsolidated companies	Reason for deconsolidation
Banco UBS Pactual S.A. – Rio de Janeiro, Brazil	Sold
CCR Actions S.A. – Paris, France	Merged
CCR Gestion S.A. – Paris, France	Merged
UBS Factoring AG – Zurich, Switzerland	Merged
UBS Finance (Cayman Islands) Ltd. – George Town, Cayman Islands	Liquidated
UBS International Inc. – Delaware, USA	Merged
UBS Pactual Asset Management S.A. DTVM – Rio de Janeiro, Brazil	Sold
UBS Service Centre (India) Private Limited – Mumbai, India	Sold
UBS Services USA LLC – Delaware, USA	Merged

Significant associates

Company	Industry	Equity interest in %
SIX Group AG – Zurich, Switzerland[1]	Financial	17.3
UBS Securities Co. Limited – Beijing, China	Financial	20.0

1 UBS is represented in the Board of Directors.

Note 35 Invested assets and net new money

Invested assets include all client assets managed by or deposited with UBS for investment purposes. Invested assets include 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 client assets which UBS decides how to invest. Other invested assets are those where the client ultimately decides how the assets are invested. When a single product is created in one business division and sold in another, it is counted in both the business division that manages the investment and the one that distributes it. This results in double counting within UBS total invested assets, as both business divisions 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 terminated 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 and dividend income from invested assets is not counted as net new money inflow. Market and currency movements, as well as fees, commissions and interest on loans charged 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	**31.12.09**	31.12.08
Fund assets managed by UBS	**319**	339
Discretionary assets	**590**	528
Other invested assets	**1,325**	1,307
Total invested assets (double counts included)	**2,233**	2,174
of which: double count	***254***	*273*
of which: acquisitions (divestments)	***(48.2)***	*19.1*
Net new money (double counts included)	**(147.3)**	(226.0)

Note 36 Business combinations

Business combinations completed in 2009

Acquisition of the commodity index business of AIG Financial Products Corp.

In May 2009, UBS completed the acquisition of the commodity index business of AIG Financial Products Corp., including AIG's rights to the DJ-AIG Commodity index. This commodity index business comprises a product platform of commodity index swaps and funded notes based on the benchmark Dow Jones-AIG Commodity Index (DJ-AIGCI). The cost of the business combination, including directly attributable transaction costs, amounted to CHF 74 million (USD 65 million) of which CHF 17 million (USD 15 million) was paid in cash upon closing. The remaining payments, based upon future earnings of the purchased business, are expected to be made by September 2010. The cost of the business combination was allocated to *Intangible assets* of CHF 40 million (USD 35 million) and *Goodwill of* CHF 34 million (USD 30 million). The business of AIG was integrated into UBS's Investment Bank.

AIG Commodity Index 2009

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	40	40
Goodwill	0	34	34
All other assets	598	0	598
Total assets	**598**	**74**	**672**
Liabilities and equity			
Liabilities	598	0	598
Equity	0	74	74
Total liabilities and equity	**598**	**74**	**672**

Note 36 Business combinations (continued)

Business combinations completed in 2008

Caisse Centrale de Réescompte Group
In February 2008, UBS completed the acquisition in France of 100% of Caisse Centrale de Réescompte Group (CCR) from Commerzbank. The cost of the business combination, including directly attributable transaction costs, amounted to approximately CHF 613 million (EUR 387 million) and was paid in cash. The cost of the business combination included approximately EUR 133 million for the excess capital in CCR at closing. The cost of the business combination has been allocated to *Intangible assets* reflecting customer relationships of CHF 36 million (EUR 23 million), net assets of CHF 209 million (EUR 131 million) and *Goodwill of* CHF 368 million (EUR 233 million). The business of CCR, which included EUR 13.3 billion of invested assets as of 31 December 2007 and approximately 190 employees, was integrated into UBS's asset management and wealth management businesses in France.

Caisse Centrale de Réescompte Group (CCR) 2008

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	36	36
Property and equipment	5	0	5
Goodwill	0	368	368
All other assets	513	1	514
Total assets	**518**	**405**	**923**
Liabilities and equity			
Liabilities	297	13	310
Equity	221	392	613
Total liabilities and equity	**518**	**405**	**923**

In 2009, the allocations were finalized and the intangible assets and goodwill were allocated to the divisions as follows:

Caisse Centrale de Réescompte Group (CCR) 2008

CHF million	Wealth Management & Swiss Bank	Global Asset Management	Total
Assets			
Intangible assets	10	26	36
Goodwill	33	335	368

Note 36 Business combinations (continued)

VermogensGroep

In August 2008, UBS completed the acquisition of 100% of VermogensGroep, an independent Dutch wealth manager. The cost of the business combination, including directly attributable transaction costs, amounted to approximately CHF 173 million (EUR 107 million) out of which approximately CHF 81 million (EUR 50 million) was paid in cash upon closing. The remaining cost of the business combination is expected to be paid in installments over 3 years. The cost of the business combination was allocated to *Intangible assets* of CHF 49 million (EUR 30 million), *Net liabilities* of CHF 2.1 million (EUR 1.3 million) and *Goodwill* of CHF 126 million (EUR 78 million). VermogensGroep serve wealthy private clients, foundations and institutions in the Dutch market and managed client assets of approximately EUR 4 billion at the time of the transaction. VermogensGroep was integrated into UBS's wealth management business.

VermogensGroep 2008

CHF million	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	49	49
Property and equipment	2	0	2
Goodwill	0	126	126
All other assets	10	0	10
Total assets	**12**	**175**	**187**
Liabilities and equity			
Liabilities	2	12	14
Equity	10	163	173
Total liabilities and equity	**12**	**175**	**187**

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 2009 had been made as of 1 January 2008 and all acquisitions completed in 2008 had been made as of 1 January 2007. 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.

Pro-forma information (unaudited)

	For the year ended		
CHF million, except where indicated	**31.12.09**	31.12.08	31.12.07
Total operating income	**22,606**	910	31,932
Net profit	**(2,737)**	(21,251)	(5,233)
Basic earnings per share (CHF)	**(0.75)**	(7.61)	(2.40)

Note 37 Discontinued operations

2009

In 2009, private equity investments sold in prior years contributed a subsequent loss of CHF 7 million to UBS's net profit from discontinued operations.

2008

Industrial holdings

In 2008, private equity investments, including the sale of one equity investment and subsequent gains on private equity investments sold in prior years, contributed CHF 155 million to UBS's net profit from discontinued operations, which included after-tax gains on sale of CHF 120 million and an after-tax operating profit of CHF 34 million. The cash consideration received for the equity investment sold in 2008 amounted to CHF 141 million. These private equity investments were held within the Industrial Holdings segment, integrated within the Corporate Center since the beginning of 2008, and were sold in line with UBS's strategy to exit the private equity business.

2007

Industrial holdings

In 2007, private equity investments, including the sale of two private equity investments, as well as subsequent gains on private equity investments sold in prior years, contributed CHF 138 million to UBS's net profit from discontinued operations, which included after-tax gains on sale of CHF 102 million and an after-tax operating profit of CHF 36 million. The cash consideration received for the two investments sold in 2007 amounted to CHF 14 million. These private equity investments were all held within the Industrial Holdings segment and were sold in line with UBS's strategy to exit the private equity business.

Private Banks & GAM

The tax benefit on gain from sales 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.

Note 37 Discontinued operations (continued)

	For the year ended 31.12.08	
CHF million	Private Banks & GAM[1,2]	Industrial Holdings[2]
Operating income	0	19
Operating expenses	0	(15)
Operating profit from discontinued operations before tax	0	34
Pre-tax gain on sale	44	120
Profit from discontinued operations before tax	44	155
Tax expense on operating profit from discontinued operations before tax	0	0
Tax expense on gain from sale	1	0
Tax expense from discontinued operations	1	0
Net profit from discontinued operations	43	155
Net cash flows from		
operating activities	0	(1)
investing activities	0	3
financing activities	0	0

1 Gain resulting from a purchase price adjustment related to the sale of Private Banks & GAM in 2005. 2 Included in Corporate Center in Note 2a.

	For the year ended 31.12.07	
CHF million	Private Banks & GAM[1]	Industrial Holdings[1]
Operating income	0	394
Operating expenses	0	358
Operating profit from discontinued operations before tax	0	36
Pre-tax gain on sale	7	102
Profit from discontinued operations before tax	7	138
Tax expense on operating profit from discontinued operations before tax	0	0
Tax expense on gain from sale	(258)	0
Tax expense from discontinued operations	(258)	0
Net profit from discontinued operations	265	138
Net cash flows from		
operating activities	0	32
investing activities	0	(1)
financing activities	0	(42)

1 Included in Corporate Center in Note 2a.

Note 38 Reorganizations and disposals

Sale of UBS Pactual

On 18 September 2009, UBS completed the sale of its Brazilian financial services business, UBS Pactual, to BTG Investments, LP. The sale consideration consisted of a combination of cash and transfer of liabilities by BTG Investments. The total cash consideration amounted to USD 620 million, of which USD 420 million was paid at closing of the transaction and the remaining USD 200 million, plus accrued interest, will be payable 12 months after the closing. The liabilities transferred to BTG Investments consisted primarily of the present value of the residual payment obligation of USD 1.6 billion owed to former Pactual partners, which was incurred by UBS upon acquisition of Pactual in 2006 and was due in 2011.

Overall, the impact of the transaction on UBS's profit before tax was a net charge of CHF 1,403 million, including a goodwill impairment charge of CHF 1,123 million and a pre-tax loss on sale of CHF 498 million reported in the Corporate Center, partly offset by UBS Pactual's pre-tax operational profits for 2009 of CHF 218 million. In addition, deferred tax benefits of CHF 243 million have been recognized.

The goodwill impairment charge of CHF 1,123 million was allocated to the business divisions as follows: Investment Bank, CHF 749 million; Global Asset Management, CHF 340 million; and Wealth Management Americas CHF 34 million. It includes an impairment of CHF 492 million primarily relating to the effects from foreign exchange losses that were previously deferred in equity and from the translation of the US dollar denominated sales price into Swiss francs. For management and segment reporting purposes, consistent with UBS's internal policy that foreign exchange exposures related to investments in subsidiaries are managed by Group Treasury, related gains and losses are recognized in the Corporate Center. This impairment was charged through the *"Services (to)/from other business divisions"* line item to the Corporate Center with respective credits to the Investment Bank of CHF 328 million, Global Asset Management of CHF 149 million and Wealth Management Americas of CHF 15 million.

The operational results of UBS Pactual of CHF 218 million were included in the business divisions Investment Bank, Global Asset Management and Wealth Management Americas and the Corporate Center.

Sale of 56 branches in Wealth Management Americas

Following an agreement announced in March 2009, UBS sold 56 branches in Wealth Management Americas to Stifel, Nicolaus & Company, Incorporated for an upfront cash payment of approximately USD 29 million. In addition, UBS received aggregate payments of USD 18 million for net fixed assets and employee forgivable loans, and net USD 154 million for customer loans that were transferred. Under the terms of the agreement, UBS may also receive additional consideration contingent on the performance of the business sold during the two years following the closing of the transaction. The transaction was closed in four separate closings during the second half of 2009. Overall, for 2009 the impact of the transaction on UBS's profit before tax was a net charge of approximately USD 12 million.

Sale of UBS's India Service Centre (ISC)

On 30 December 2009, UBS completed the sale of its India Service Centre (ISC) to Cognizant Technology Solutions for a sale consideration of USD 82 million, which was paid in cash at closing.

The net impact of the transaction on UBS's profit before tax was a gain of CHF 36 million recognized in the fourth quarter in *Other income*. In addition, the ISC contributed a pre-tax profit of CHF 11 million for 2009.

Sale of assets to a third-party fund controlled by the Swiss National Bank (SNB)

As announced on 16 October 2008, UBS entered into an agreement with the Swiss National Bank (SNB) to transfer certain illiquid securities and other positions to the SNB StabFund limited partnership for collective investments (the "fund"), which is fully owned and controlled by the SNB.

For each transfer of assets, the SNB financed 90% of the purchase price by providing a loan to the fund and the remaining 10% by making an equity contribution to the fund. Upon each asset transfer, UBS purchased, for an amount equal to the SNB's equity contribution to the fund on that date, an option to repurchase the fund's equity (all such options referred to collectively as the "call option"). The exercise price of the call option was set at USD 1 billion plus 50% of the fund's equity value exceeding USD 1 billion at the time of exercise. The call option will be exercisable upon repayment in full of the loan provided by the SNB. The loan is secured by the assets of the fund and bears interest at a rate of one month USD-LIBOR plus 250 basis points. Service of the loan is made from the cash flows generated by the fund's assets.

In the event of a change of control of UBS, the SNB has the right but not the obligation to request that UBS purchase the loan it provided to the fund at its outstanding principal amount plus accrued interest and the fund's equity for 50% of its value at the time (the "put option").

If, upon termination of the fund, the SNB incurs a loss on its loan, it will be entitled to receive 100 million UBS ordinary shares, subject to anti-dilution adjustments, in exchange for

Note 38 Reorganizations and disposals (continued)

payment of the par value of these shares (the "contingent share issue").

The positions were transferred to the fund at fair value determined at 30 September 2008. UBS's estimated fair values as of 30 September 2008 were subject to review by independent third-party valuation agents and the positions transferred to the SNB were priced at the lower of UBS's estimated fair value and the value determined by the SNB based on the valuation estimated by the valuation agents.

The total market value (net exposure) transferred to the SNB StabFund's portfolio amounted to USD 38.7 billion (net of pricing adjustments). USD 16.4 billion of positions were transferred to the fund in December 2008, followed by the remaining USD 22.2 billion of positions, of which USD 6.6 billion were transferred in March and USD 15.7 billion in early April 2009.

The purchase price for the overall portfolio was, in the aggregate, USD 1 billion lower than the market value UBS assigned to these positions on 30 September 2008. Of this USD 1 billion, USD 0.7 billion was accounted for in UBS's results for 2008. The remaining USD 0.3 billion price difference was recognized in the income statement in 2009.

Under IFRS, UBS's call option to acquire equity of the SNB StabFund is recognized on the balance sheet as a derivative (Positive replacement values) at fair value (CHF 1.2 billion at 31 December 2009), with changes in fair value recognized in profit or loss. The put option was valued as a contingent liability that has been deemed remote at 31 December 2009 and 2008. The contingent share issue was treated as an equity instrument and was recognized at fair value in equity as an increase to share premium and an expense in net trading income in 2008. The fair value of the contingent share issue was estimated at approximately CHF 607 million and not thereafter re-measured to fair value.

Overall, the impact of the SNB transaction on the income statement in 2009 was a loss of CHF 115 million, which includes a CHF 232 million loss due to the price difference recognized in first quarter 2009 and a CHF 117 million net gain on UBS's option to acquire the fund's equity.

Restructuring

In 2009, UBS incurred restructuring charges of CHF 791 million, including CHF 491 million in *Personnel expenses*, mainly for severance payments, CHF 256 million in *General and administrative expenses*, primarily for real-estate related costs, and CHF 45 million of depreciation and impairment losses on property and equipment. These restructuring charges were allocated to the business divisions as follows: Wealth Management & Swiss Bank, CHF 322 million; Wealth Management Americas, CHF 152 million; Global Asset Management, CHF 48 million; Investment Bank, CHF 226 million; and the Corporate Center, CHF 45 million.

Note 39 Currency translation rates

The following table shows the principal rates used to translate the financial information of foreign entities into Swiss francs:

	Spot rate As of		Average rate Year ended		
	31.12.09	31.12.08	**31.12.09**	31.12.08	31.12.07
1 USD	**1.04**	1.07	**1.08**	1.06	1.22
1 EUR	**1.48**	1.49	**1.51**	1.58	1.65
1 GBP	**1.67**	1.56	**1.70**	1.96	2.31
100 JPY	**1.11**	1.17	**1.16**	0.98	1.02

Note 40 Swiss banking law requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards (IFRS). The Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) require banks which present their financial statements under IFRS to provide a narrative explanation of the main differences between IFRS and Swiss GAAP (FINMA circular 08/2) and the Banking Ordinance. 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 FINMA governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance. The differences outlined in points two through nine also apply to the Parent Bank statutory accounts.

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.

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 unrecognized gain or loss previously recognized in equity is recognized in the income statement.

Under Swiss law, financial investments are carried either at the lower of cost or market or at amortized cost less impairment with changes in measurement recorded in the income statement. 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. Equity investments that are considered permanent are carried on the balance sheet at cost less impairment with impairment losses recorded in the income statement. Permanent investments are classified on the balance sheet as investments in associated companies.

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 fair value gain or loss on the effective portion of the derivative designated as a cash flow hedge is recognized in equity. When the hedged cash flows materialize, the accumulated unrecognized gain or loss is realized and released to income.

Under Swiss law, the effective portion of the fair value change of the derivative instrument used to hedge cash flow exposures is deferred on the balance sheet as other assets or other liabilities. The deferred amounts are released to income when the hedged cash flows materialize.

4. Investment property

Under IFRS, investment property is carried at fair value, with changes in fair value recognized in the income statement.

Under Swiss law, investment property is carried at amortized cost less any accumulated depreciation less impairment losses unless the investment property is classified as held for sale. Investment property classified as held for sale is carried at the lower of cost or market.

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.

6. Goodwill and intangible assets

Under IFRS, goodwill acquired in a business combination is not amortized but tested annually for impairment. Intangible assets acquired in a business combination 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 are 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 be 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 reclassification takes place.

Note 40 Swiss banking law requirements (continued)

8. Extraordinary income and expense

Certain items of income and expense are classified as extraordinary items under Swiss law, whereas in the Group Income Statement the amounts are classified as operating income or expense or are included in net profit from discontinued operations, if required.

9. Netting of replacement values

Under IFRS, replacement values are reported on a gross basis, unless certain restrictive requirements are met. Under Swiss law, replacement values and the related cash collateral are reported on a net basis, provided the master netting and the related collateral agreements are legally enforceable.

Note 41 Supplemental guarantor information required under SEC rules

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc., UBS 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.

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 a part.

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2009	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	18,798	4,432	6,715	(6,484)	23,461
Interest expense	(16,860)	(1,982)	(4,657)	6,484	(17,016)
Net interest income	1,939	2,450	2,058	0	6,446
Credit loss (expense) / recovery	(937)	(897)	2	0	(1,832)
Net interest income after credit loss expense	1,002	1,553	2,060	0	4,614
Net fee and commission income	7,912	6,025	3,774	0	17,712
Net trading income	(1,487)	(423)	1,586	0	(324)
Income from subsidiaries	1,114	0	0	(1,114)	0
Other income	550	(872)	921	0	599
Total operating income	9,092	6,282	8,341	(1,114)	22,601
Operating expenses					
Personnel expenses	8,577	5,566	2,400	0	16,543
General and administrative expenses	2,351	2,512	1,385	0	6,248
Depreciation of property and equipment	686	171	191	0	1,048
Impairment of goodwill	0	0	1,123	0	1,123
Amortization of intangible assets	3	96	101	0	200
Total operating expenses	11,617	8,345	5,200	0	25,162
Operating profit from continuing operations before tax	(2,526)	(2,063)	3,141	(1,114)	(2,561)
Tax expense	210	(549)	(104)	0	(443)
Net profit from continuing operations	(2,736)	(1,514)	3,245	(1,114)	(2,118)
Net profit from discontinued operations	0	0	(7)	0	(7)
Net profit	(2,736)	(1,514)	3,238	(1,114)	(2,125)
Net profit attributable to minority interests	0	(3)	613	0	610
Net profit attributable to UBS shareholders	(2,736)	(1,511)	2,625	(1,114)	(2,736)

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 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million As of 31 December 2009	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	15,177	75	5,647	0	20,899
Due from banks	67,640	8,597	100,909	(130,572)	46,574
Cash collateral on securities borrowed	39,807	56,402	10,700	(43,402)	63,507
Reverse repurchase agreements	113,891	37,914	82,474	(117,590)	116,689
Trading portfolio assets	122,801	18,224	48,739	(1,727)	188,037
Trading portfolio assets pledged as collateral	47,954	11,422	859	(16,014)	44,221
Positive replacement values	413,822	8,260	145,265	(145,654)	421,694
Financial assets designated at fair value	5,831	5,876	11,283	(12,768)	10,223
Loans	296,497	45,774	22,749	(58,193)	306,828
Financial investments available-for-sale	63,459	15,441	2,857	0	81,757
Accrued income and prepaid expenses	1,664	3,880	1,100	(828)	5,816
Investments in associates	61,551	24	49	(60,754)	870
Property and equipment	4,920	791	501	0	6,212
Goodwill and intangible assets	494	9,101	1,413	0	11,008
Deferred tax assets	6,352	2,037	479	0	8,868
Other assets	7,131	2,115	2,169	(4,078)	7,336
Total assets	1,268,991	225,933	437,194	(591,580)	1,340,538
Liabilities					
Due to banks	110,418	53,751	31,569	(130,572)	65,166
Cash collateral on securities lent	17,662	22,993	10,742	(43,402)	7,995
Repurchase agreements	38,563	66,545	76,657	(117,590)	64,175
Trading portfolio liabilities	41,884	10,792	610	(5,817)	47,469
Negative replacement values	400,432	8,173	146,992	(145,654)	409,943
Financial liabilities designated at fair value	100,768	276	27,953	(16,344)	112,653
Due to customers	341,200	54,470	72,999	(58,193)	410,475
Accrued expenses and deferred income	5,155	2,269	2,093	(828)	8,689
Debt issued	126,965	493	12,242	(8,348)	131,352
Other liabilities	8,229	3,380	26,455	(4,078)	33,986
Total liabilities	1,191,276	223,142	408,312	(530,826)	1,291,905
Equity attributable to UBS shareholders	77,715	(234)	24,287	(60,754)	41,013
Equity attributable to minority interests	0	3,025	4,595	0	7,620
Total equity	77,715	2,791	28,882	(60,754)	48,633
Total liabilities and equity	1,268,991	225,933	437,194	(591,580)	1,340,538

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 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2009	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	4,841	(6,469)	56,126	54,497
Cash flow from / (used in) investing activities				
Purchase of subsidiaries and associates	(42)	0	0	(42)
Disposal of subsidiaries and associates	296	0	0	296
Purchase of property and equipment	(656)	(124)	(75)	(854)
Disposal of property and equipment	104	53	6	163
Net (investment in) / divestment of financial investments available-for-sale	(22,319)	(12,484)	14,677	(20,127)
Net cash flow from / (used in) investing activities	(22,616)	(12,555)	14,608	(20,563)
Cash flow from / (used in) financing activities				
Net money market papers issued / (repaid)	(7,020)	(1,596)	(51,424)	(60,040)
Net movements in treasury shares and own equity derivative activity	673	0	0	673
Capital issuance	3,726	0	0	3,726
Issuance of long-term debt, including financial liabilities designated at fair value	64,956	0	2,106	67,062
Repayment of long-term debt, including financial liabilities designated at fair value	(55,616)	(1,548)	(7,861)	(65,024)
Increase in minority interests	0	0	3	3
Dividends paid to / decrease in minority interests	0	(8)	(576)	(583)
Net activity in investments in subsidiaries	(4,032)	2,419	1,614	0
Net cash flow from / (used in) financing activities	2,686	(733)	(56,136)	(54,183)
Effects of exchange rate differences	5,886	574	(933)	5,529
Net increase / (decrease) in cash and cash equivalents	(9,202)	(19,183)	13,664	(14,721)
Cash and cash equivalents at the beginning of the year	132,782	24,421	22,490	179,693
Cash and cash equivalents at the end of the year	123,580	5,238	36,154	164,973
Cash and cash equivalents comprise:				
Cash and balances with central banks	15,177	75	5,647	20,899
Money market papers[2]	78,025	3,714	16,694	98,432
Due from banks with original maturity of less than three months	30,378	1,450	13,814	45,642
Total	123,580	5,238	36,154	164,973

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 papers are included in the balance sheet under "Trading portfolio assets", "Trading portfolio assets pledged as collateral" and "Financial investments available-for-sale". CHF 57,116 million were pledged as of 31 December 2009.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2008	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	49,699	21,343	27,354	(32,717)	65,679
Interest expense	(48,686)	(17,436)	(26,282)	32,717	(59,687)
Net interest income	1,013	3,907	1,072	0	5,992
Credit loss (expense) / recovery	(861)	(2,050)	(85)	0	(2,996)
Net interest income after credit loss expense	152	1,857	987	0	2,996
Net fee and commission income	9,709	7,910	5,310	0	22,929
Net trading income	(8,129)	(19,847)	2,156	0	(25,820)
Income from subsidiaries	(19,882)	0	0	19,882	0
Other income	2,836	1,058	(3,202)	0	692
Total operating income	(15,314)	(9,022)	5,251	19,882	796
Operating expenses					
Personnel expenses	8,738	5,169	2,355	0	16,262
General and administrative expenses	3,918	4,604	1,976	0	10,498
Depreciation of property and equipment	770	205	266	0	1,241
Impairment of goodwill	0	341	0	0	341
Amortization of intangible assets	1	93	119	0	213
Total operating expenses	13,427	10,412	4,716	0	28,555
Operating profit from continuing operations before tax	(28,741)	(19,434)	535	19,882	(27,758)
Tax expense	(7,407)	(4)	574	0	(6,837)
Net profit from continuing operations	(21,335)	(19,430)	(39)	19,882	(20,922)
Net profit from discontinued operations	43	0	155	0	198
Net profit	(21,292)	(19,430)	116	19,882	(20,724)
Net profit attributable to minority interests	0	(9)	577	0	568
Net profit attributable to UBS shareholders	(21,292)	(19,421)	(461)	19,882	(21,292)

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 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million As of 31 December 2008	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	27,030	332	5,382	0	32,744
Due from banks	111,563	11,490	192,206	(250,808)	64,451
Cash collateral on securities borrowed	48,874	109,783	16,914	(52,674)	122,897
Reverse repurchase agreements	206,087	79,178	145,851	(206,468)	224,648
Trading portfolio assets	145,012	47,558	57,230	22,038	271,838
Trading portfolio assets pledged as collateral	71,736	12,655	1,531	(45,706)	40,216
Positive replacement values	862,459	18,215	293,896	(320,470)	854,100
Financial assets designated at fair value	5,120	7,755	12,741	(12,734)	12,882
Loans	326,548	53,774	35,193	(75,207)	340,308
Financial investments available-for-sale	1,237	638	3,373	0	5,248
Accrued income and prepaid expenses	3,684	2,700	2,666	(2,909)	6,141
Investments in associates	66,255	58	50	(65,473)	892
Property and equipment	5,093	971	642	0	6,706
Goodwill and intangible assets	250	9,393	3,292	0	12,935
Deferred tax assets	6,607	1,757	516	0	8,880
Other assets	8,934	2,148	6,333	(7,484)	9,931
Total assets	1,896,489	358,405	777,816	(1,017,895)	2,014,815
Liabilities					
Due to banks	196,723	68,213	111,500	(250,808)	125,628
Cash collateral on securities lent	25,248	32,884	8,605	(52,674)	14,063
Repurchase agreements	30,988	140,197	137,844	(206,468)	102,561
Trading portfolio liabilities	51,034	17,086	903	(6,592)	62,431
Negative replacement values	855,005	16,792	300,537	(320,470)	851,864
Financial liabilities designated at fair value	88,505	1,716	35,973	(24,648)	101,546
Due to customers	422,688	70,242	48,018	(75,207)	465,741
Accrued expenses and deferred income	7,417	2,584	3,104	(2,909)	10,196
Debt issued	127,408	2,439	72,569	(5,162)	197,254
Other liabilities	12,598	4,313	33,571	(7,484)	42,998
Total liabilities	1,817,614	356,466	752,624	(952,422)	1,974,282
Equity attributable to UBS shareholders	78,875	(1,097)	20,226	(65,473)	32,531
Equity attributable to minority interests	0	3,036	4,966	0	8,002
Total equity	78,875	1,939	25,192	(65,473)	40,533
Total liabilities and equity	1,896,489	358,405	777,816	(1,017,895)	2,014,815

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 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2008	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	69,799	(438)	7,646	77,007
Cash flow from / (used in) investing activities				
Purchase of subsidiaries and associates	(1,502)	0	0	(1,502)
Disposal of subsidiaries and associates	1,686	0	0	1,686
Purchase of property and equipment	(819)	(258)	(140)	(1,217)
Disposal of property and equipment	37	27	5	69
Net (investment in) / divestment of financial investments available-for-sale	330	156	(1,198)	(712)
Net cash flow from / (used in) investing activities	(268)	(75)	(1,333)	(1,676)
Cash flow from / (used in) financing activities				
Net money market papers issued / (repaid)	(52,815)	914	11,264	(40,637)
Net movements in treasury shares and own equity derivative activity	623	0	0	623
Capital issuance	23,135	0	0	23,135
Issuance of long-term debt, including financial liabilities designated at fair value	91,961	0	11,126	103,087
Repayment of long-term debt, including financial liabilities designated at fair value	(62,822)	(14,500)	(15,572)	(92,894)
Increase in minority interests	0	842	819	1,661
Dividends paid to / decrease in minority interests	0	(112)	(420)	(532)
Net activity in investments in subsidiaries	(11,978)	21,816	(9,838)	0
Net cash flow from / (used in) financing activities	(11,896)	8,960	(2,621)	(5,557)
Effects of exchange rate differences	(33,963)	442	(5,665)	(39,186)
Net increase / (decrease) in cash and cash equivalents	23,672	8,889	(1,973)	30,588
Cash and cash equivalents at the beginning of the year	109,110	15,532	24,463	149,105
Cash and cash equivalents at the end of the year	132,782	24,421	22,490	179,693
Cash and cash equivalents comprise:				
Cash and balances with central banks	27,030	332	5,382	32,744
Money market papers[2]	62,777	19,875	4,080	86,732
Due from banks with original maturity of less than three months	42,975	4,214	13,028	60,217
Total	132,782	24,421	22,490	179,693

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 papers are included in the balance sheet under "Trading portfolio assets", "Trading portfolio assets pledged as collateral" and "Financial investments available-for-sale". CHF 19,912 million were pledged as of 31 December 2008. The previously disclosed amount of pledged money market papers has been adjusted to include positions recognized in the balance sheet under "Trading portfolio assets pledged as collateral".

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million 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	464	0	0	(464)	0
Other income	(4,273)	8,369	245	0	4,341
Total operating income	15,138	9,649	7,398	(464)	31,721
Operating expenses					
Personnel expenses	13,239	8,329	3,947	0	25,515
General and administrative expenses	5,684	3,446	(701)	0	8,429
Depreciation of property and equipment	930	138	175	0	1,243
Amortization of intangible assets	3	101	172	0	276
Total operating expenses	19,856	12,014	3,593	0	35,463
Operating profit from continuing operations before tax	(4,718)	(2,365)	3,805	(464)	(3,742)
Tax expense	794	(486)	1,061	0	1,369
Net profit from continuing operations	(5,512)	(1,879)	2,744	(464)	(5,111)
Net profit from discontinued operations	265	0	138	0	403
Net profit	(5,247)	(1,879)	2,882	(464)	(4,708)
Net profit attributable to minority interests	0	18	521	0	539
Net profit attributable to UBS shareholders	(5,247)	(1,897)	2,361	(464)	(5,247)

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 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million 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	(65,749)	19,670	(5,999)	(52,078)
Cash flow from / (used in) investing activities				
Purchase of 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 papers issued / (repaid)	35,017	(1,426)	(919)	32,672
Net movements in treasury shares and own equity derivative activity	(2,771)	0	0	(2,771)
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
Dividends paid to / decrease in minority interests	0	(665)	46	(619)
Net activity in investments in subsidiaries	871	(6,627)	5,756	0
Net cash flow from / (used in) financing activities	79,788	(14,686)	9,466	74,568
Effects of exchange rate differences	(9,070)	(3,062)	(96)	(12,228)
Net increase / (decrease) in cash and cash equivalents	6,562	1,403	5,050	13,015
Cash and cash equivalents at the beginning of the year	102,548	14,129	19,413	136,090
Cash and cash equivalents at the 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 papers[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 papers are included in the balance sheet under "Trading portfolio assets", "Trading portfolio assets pledged as collateral" and "Financial investments available-for-sale". CHF 7,881 million were pledged as of 31 December 2007. The previously disclosed amount of pledged money market papers has been adjusted to include positions recognized in the balance sheet under "Trading portfolio assets pledged as collateral".

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 31.12.09		
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 non-cumulative 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 2009, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,280 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 2009 as at and for the year ended 31 December 2009. 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

– Risk reduction remained a priority in 2009. As a result of our risk reduction initiatives, we ended the year with risk exposures commensurate with our risk capacity, although legacy risks remain significant and are targeted for continued reduction. Effective risk management and control are essential to our success and we have made further progress in implementing the risk renewal program we initiated in 2008. In addition, the implementation of the settlement agreements relating to the US cross-border investigation remains a focus of management attention. Regulatory and tax authorities in a number of countries are focusing on cross-border banking activities, and we have launched a number of initiatives to improve the effectiveness of the policy and control framework of our cross-border wealth management business globally.

We further reduced our risk exposure, which was reflected in declines in our stress loss measures as well as decreases in our credit and market risk portfolios. We also reduced our exposures to residual risk positions. Our reduction in risk exposures contributed to significant decreases in the size of our balance sheet and risk-weighted assets.

We made further progress in implementing our risk renewal program. This has resulted in enhanced risk governance (including changes in risk management and control personnel), improved risk infrastructure and processes and the associated capabilities to capture, represent and monitor risks. We have also changed the firm's capital optimization model and enhanced our funding and balance sheet management.

Risk management and control

Risk reduction remained a priority in 2009. We further reduced our risk exposures, which was reflected in declines in our stress loss measures as well as decreases in our credit and market risk portfolios. We also reduced our exposures to residual risk positions such as monoline insurers, student loan auction rate securities and some leveraged finance commitments. Our reduction in risk exposures contributed to significant decreases in the size of our balance sheet and risk-weighted assets. As a result of our risk reduction initiatives, we ended the year with risk exposures commensurate with our risk capacity, although legacy risks remain significant and are targeted for continued reduction. Effective risk management and control are essential to our success and we have made further progress in implementing the risk renewal program we initiated in 2008. In addition, the implementation of the settlement agreements relating to the US cross-border investigations remains a focus of management attention. Regulatory and tax authorities in a number of countries are focusing on cross-border banking activities, and we have launched a number of initiatives to improve the effectiveness of the policy and control framework of our cross-border wealth management business globally.

Summary of key developments in 2009

The important developments that took place in 2009 with regard to risk management and control include:

- A significant reduction in our risk exposures during the year was reflected in our stress loss measures as well as reductions in our average and period-end Value-at-Risk (VaR), a decrease in our credit risk portfolios and lower exposures to residual risk positions. We commuted trades with a notional value of approximately USD 7 billion with several monoline insurers which contributed to a reduction in our net exposures to monoline insurers after credit valuation adjustments to USD 2.3 billion (excluding hedges). Approximately USD 1.6 billion at par of our aggregate exposures to student loan auction rate securities were either redeemed by issuers or sold in the secondary market. Our legacy leveraged finance positions were also reduced through sales and writedowns.
- The decrease in our risk exposures contributed to significant reductions in our balance sheet by 33% to CHF 1,341 billion and our risk-weighted assets by 32% to CHF 206.5 billion at 31 December 2009 compared with the end of the prior year.
- Our credit loss expenses were approximately 40% lower at CHF 1.8 billion for 2009 compared with CHF 3.0 billion for the prior year.
- We significantly enhanced our stress testing framework which comprises portfolio-specific stress tests as well as combined firm-wide stress tests. Our firm-wide stress testing captures all major risks across our business divisions and is one of the most critical inputs for discussions between management, our Board of Directors (BoD) and our regulators on the risk profile of our firm. We carried out a stress test specified by the Swiss Financial Market Supervisory Authority (FINMA) which was designed to assess the resilience of the large Swiss banks in the event of a severe economic downturn, and FINMA reported on 2 October 2009, "that even after the effect of a severe stress event they (the two large systemically relevant banking groups in Switzerland which includes UBS) would still maintain a stable capital base with a Tier 1 capital ratio over 8%."
- We changed the calibration of our management VaR from a 10-day 99% measure to a 1-day 95% measure. We consider that a 1-day 95% VaR reflects the way that trading risks are viewed and managed by the business and can be more directly compared with mark-to-market revenues.
- As a result of management's investigation into the losses we experienced in 2007 and 2008, we launched a comprehensive remediation program in the Investment Bank. We made further progress in implementing this program and developing sustainable solutions. Our remediation activity has resulted in enhanced risk governance including changes in risk management and control personnel, and we have improved our risk infrastructure and processes and the associated capabilities to capture, represent and monitor risks. We have also changed the firm's capital optimization model and enhanced our funding and balance sheet management.
- In connection with the settlements relating to the US cross-border matter, we established a governance and control framework designed to ensure that we perform the obligations assumed in those settlements and to manage related matters including the exit from the affected US cross-border business activities. We have also

established new standards, controls and training programs for conducting cross-border business globally in compliance with applicable laws and regulations. Additional measures to address operational risks related to that business are being developed and put into effect under our Risk Effectiveness Project, including the communication of clear compliance expectations by senior management and the implementation of new disciplinary processes.
- Our emphasis on risk awareness has been actively strengthened through the greater empowerment of our Control functions by our BoD and Group Chief Executive Officer (CEO).
- Our Total Reward Principles, which summarize the compensation structure for our employees, include a focus on sustainable profitability as well as effective risk and capital management. Risk Control is actively involved in our compensation processes which are designed to support appropriate and controlled risk taking by our businesses.

➔ Refer to the "Credit risk", "Market risk", "Operational risk", "Risk concentration" and "Liquidity and funding management" sections of this report for more information

➔ Refer to the "Compensation and shareholdings" section of this report for more information on our compensation practices

➔ Refer to "Note 21 Provisions and litigation" in the "Financial information" section of this report for more information in connection with the US cross-border matter

Risk management and control principles

We have five key principles which are intended to support the firm in achieving an appropriate balance between risk and return. These principles are:
- *Protection of financial strength* by controlling our overall risk exposures and assessing potential risk concentrations at the position and portfolio levels, and in combination across all risk types and business divisions.
- *Reputation protection* which depends, among other things, on the effective management and control of risks. Our risk culture demands that all employees make the protection of our reputation an overriding concern.
- *Business management is accountable for all risks* and is responsible for the continuous and active management of risk exposure to ensure that risk and return are balanced.
- *Independent control of risk* through risk control functions which monitor the effectiveness of business risk management and oversee risk-taking activities.
- *Disclosure of risk* to provide comprehensive, transparent and periodic reporting to senior management, the BoD, shareholders, regulators, rating agencies and other stakeholders.

Our risk management and control principles are implemented via a risk management and control framework. The framework comprises qualitative elements such as policies and authorities, and quantitative components including risk measurement and limits.

The framework is dynamic and is adapted as the firm's businesses and the market environment evolve. It includes clearly defined processes to deal with new business initiatives and complex or unusual transactions.

The risk assessment and management oversight performed by the BoD considers evolving best practices and is intended to conform to statutory requirements as is the related disclosure in this section.

Risk management and control responsibilities

Key roles and responsibilities related to risk management and control are:
- The BoD is responsible for determining the firm's risk principles, risk appetite and major portfolio limits, including the allocation of certain of these limits to the business divisions. The BoD is supported by a BoD Risk Committee which monitors and oversees the firm's risk profile and the implementation of the risk framework established by the BoD. The BoD Risk Committee also assesses and approves the firm's key risk measurement methodologies and control principles.
- The Group Executive Board (GEB) is responsible for the implementation of the risk framework, controls the firm's risk profile and approves major risk policies.
- The Group CEO is responsible for the results of the firm, has risk control authority over transactions, positions and exposures, and is also responsible for the allocation of portfolio limits to the business divisions.
- The business division CEOs are accountable for the results of their respective business divisions, which includes responsibility for the active and continuous management of risk exposures to ensure that risks and returns are balanced.
- The Group Chief Risk Officer (CRO) reports directly to the Group CEO and has functional and management authority over risk control throughout the firm. Risk Control provides independent oversight of risk and is responsible for implementing the risk control processes for credit, country, market, investment and operational risks. This includes establishing methodologies to measure and assess risk, setting risk limits and developing and operating an appropriate risk control infrastructure. The risk control process is supported by a framework of policies and authorities which are delegated to Risk Control Officers corresponding with their experience and scope of responsibilities.

- The Group Chief Financial Officer (CFO) is responsible for ensuring that disclosure of our financial performance is clear and transparent and meets regulatory requirements and corporate governance standards. The Group CFO is also responsible for implementing the risk management and control frameworks for capital management, liquidity, funding and tax.
- The Group General Counsel (GC) is responsible for implementing the firm's risk management and control principles for legal matters and for ensuring compliance with all laws and regulations in each of the jurisdictions in which we operate.

Risk categories

The risks faced by our businesses can be broken down into three different categories: primary risks, consequential risks and business risks.

Primary and consequential risks result from our business activities and are subject to independent risk control. Primary risks consist of credit risk, country risk, market risk (including issuer risk) and investment risk. Consequential risks consist of operational risk, liquidity and funding risks, legal and compliance risks and tax risks. Further details on primary and consequential risks are provided below:

- *Credit risk* – the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations.
- *Country risk* – the risk of loss resulting from country-specific events. It includes transfer risk, whereby a country's authorities prevent or restrict the payment of an obligation, as well as systemic risk events arising from country-specific political or macroeconomic developments.
- *Market risk and investment risks* – the risk of loss resulting from changes in market variables, whether to our trading positions or financial investments.
- *Operational risk* – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. This includes risks related to legal and compliance and tax matters.
- *Liquidity and funding risks* – the risk that we might be unable to either meet our payment obligations when due or borrow funds in the market at an acceptable price to fund actual or proposed commitments.

Business risks arise from the commercial and economic risks inherent in our business activities and it is management's responsibility to manage these risks.

➔ Refer to the "Credit risk", "Market risk", "Operational risk" and "Liquidity and funding management" sections of this report for a description of the control frameworks for these risk categories

Risk measurement

A variety of methodologies and measures are applied to quantify the risks of our portfolios and risk concentrations. Risks that are not well reflected by standard measures are subject to additional controls, which may include pre-approval of transactions and specific restrictions. Models to quantify risk are generally developed by dedicated units within the firm-wide and business division-facing control functions. We require that valuation and risk models which could impact the firm's books and records be independently verified and subjected to ongoing monitoring and control by the Group CRO and Group CFO Organizations.

Statistical loss and stress loss

We assess potential future losses using two complementary types of risk measures: statistical loss and stress loss.

Statistical loss

Statistical loss measures include VaR, Expected Loss (EL) and Earnings-at-Risk (EaR). VaR estimates the losses which could potentially be realized over a set time period at an established level of confidence. EL is used to measure the average annual costs that are expected to arise from our credit portfolios and from operational risks. EaR comprises a core of statistical measures overlaid with management judgment and measures the potential shortfall in our earnings which could potentially be realized over a set time period at an established level of confidence.

➔ Refer to the "Credit risk", "Market risk" and "Operational risk" sections of this report for a description of the firm's key statistical loss measures

Stress loss

As a complement to our statistical loss measures, we perform stress testing. Stress loss is the loss that could result from extreme events under specified scenarios. We use stress testing to quantify our exposures to extreme and unusual market movements and to enable us to identify, understand and manage our potential vulnerabilities and risk concentrations. During 2009 we significantly enhanced our stress testing framework, which incorporates a comprehensive range of portfolio-specific stress tests as well as combined firm-wide stress tests.

Portfolio-specific stress tests are measures that focus on risks of specific portfolios within the business divisions. Our portfolio stress loss measures are characterized by past events but also include forward-looking elements. Our stress scenarios for trading risks were enhanced in 2009 to more accurately capture the liquidity characteristics of different markets and positions. Our stress frameworks include a scenario which reflects the extreme market conditions that were experienced at the height of the financial crisis in fourth quarter 2008.

Combined firm-wide stress tests were further developed in 2009 to capture the firm's exposure to global systemic events, including a severe global recession. These stress tests are based on forward-looking macro-economic and market event scenarios calibrated to different levels of severity. The evolution of economic variables and market indicators under these scenarios is defined and applied to our entire risk portfolio. The impact of primary, consequential and business risks is assessed with the aim of calculating the loss and capital implications were these stress scenarios to be realized.

Stress test results are included in risk reporting and are fully integrated into the risk control, risk appetite and business planning processes of the firm. Our firm-wide stress testing, which captures all major risks across our business divisions, is one of the key inputs for discussions between management, our BoD and our regulators on the risk profile of our firm. In 2009 we carried out a FINMA specified stress test which was designed to assess the resilience of the two large Swiss banks in the event of a severe economic downturn, encompassing a deep worldwide recession, accompanied by a significant deterioration in the financial and property markets. FINMA reported on 2 October 2009 "that even after the effect of a severe stress event they [the two large systemically relevant banking groups in Switzerland which includes UBS] would still maintain a stable capital base with a Tier 1 capital ratio over 8%." We continue to provide detailed stress analyses to FINMA in accordance with their requirements.

Our stress scenarios are reviewed, updated and expanded regularly in the context of the macro-economic and geopolitical environment by a committee comprised of representatives from the business divisions, Risk Control and Economic Research. Our stress testing therefore attempts to provide a control framework that is forward-looking and responsive to changing market conditions. However, the market moves experienced in actual stress events may differ from moves envisaged in our scenario specifications.

Most major financial firms employ stress tests, but their approaches vary significantly, and there are no industry standards defining stress scenarios or the way they are applied to a firm's positions. Consequently, comparisons of stress results between firms can be misleading and therefore we, like most of our peers, do not publish quantitative stress test results.

Group risk appetite framework

Our risk appetite framework was enhanced in 2009. We have established risk appetite objectives in respect of earnings and capital levels that we seek to maintain even after experiencing severe losses over a defined time horizon. In order to monitor our risk profile against our risk appetite, we use our two complementary firm-wide risk measurement frameworks; EaR (together with its extension Capital-at–Risk or CaR) and Combined Stress Testing (CST). Both frameworks capture risks across all of our business divisions and from all major risk categories – primary risks, consequential risks and business risks. These measures are significant components of our risk control, capital management and business planning processes and are described in more detail as follows:

- EaR is measured as the potential shortfall in earnings at a 95% confidence level and is evaluated over both 3-month and 1-year periods.
- CaR extends EaR to consider the impact on BIS tier 1 capital of a more severe earnings shortfall and is measured at confidence levels higher than 95%.
- CST was incorporated into the risk appetite framework in 2009 to supplement EaR and CaR. As described under "Stress loss" above, our firm-wide stress tests evaluate the impact across our risk portfolios (and thereby on our earnings and capital) based on specified macro-economic stress scenarios.

Our risk appetite is established by the BoD. Risk appetite is based on our risk capacity, which is in turn based on our capital and budgeted earnings resources. Our overall risk appetite is set as an upper limit covering the aggregate risk exposure for each risk appetite objective (taking into account inherent limitations in the precision of risk exposure measures that focus on extreme market and economic events). Comparison of the firm's risk exposure with our risk capacity under prevailing operating conditions as well as prospective business plans serves as an input to the risk limit framework. This comparison is also a key tool to support management decisions on potential adjustments to the risk profile of our firm.

Risk reduction remained a priority for the firm in 2009, and we further reduced our risk exposure which was reflected in our stress measures and decreases in our market and credit risk portfolios, including reductions in our residual risk positions. As a result, we ended the year with risk exposures commensurate with our operating risk capacity.

➔ Refer to the "Credit risk", "Market risk" and "Risk concentration" sections of this report for more information on our risk exposures

Risk disclosures

The measures of risk exposure that we use may differ depending on the purposes for which exposures are calculated: financial accounting under IFRS, determination of our regulatory capital, or our internal management of the firm. The exposures detailed in the "Credit risk" and "Market risk" sections below are typically based on our internal management view of risk exposure.

➔ Refer to the "Basel II Pillar 3" section of this report for further information on the exposures we use in the determination of our required regulatory capital

Credit risk

Audited

Credit risk is the risk of loss resulting from the failure of 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 in foreign exchange transactions where we have honored our 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 a counterparty or issuer of a security is based or where it has substantial assets ("country risk").

Sources of credit risk

Audited

Credit risk arises from traditional banking products such as loans, commitments to lend and contingent liabilities (for example, letters of credit) as well as from "traded products": OTC derivative contracts; exchange-traded derivatives; and securities financing transactions such as repurchase agreements (repos and reverse repos) and securities borrowing and lending transactions. The risk control processes applied to these products are generally the same, although the accounting treatment may vary as products can be carried at amortized cost or fair value depending on the product type and the nature of the exposure. A form of credit risk also arises on securities and other obligations in tradable form, as their fair values are affected by changing expectations regarding the probability of issuers failing to meet these obligations or when actual failures occur. Where these securities and obligations are held in connection with a trading activity, we view the risk as a market risk.

Many of the business activities of Wealth Management & Swiss Bank and the Investment Bank expose us to credit risk, while credit risk exposures from Wealth Management Americas and Global Asset Management are less material. Wealth Management & Swiss Bank offers private and corporate clients in Switzerland and wealth management clients internationally (except those served by Wealth Management Americas) a variety of credit products. The Investment Bank provides corporate, institutional, intermediary and alternative asset management clients access to a full range of credit and capital markets instruments across many product classes, and engages with other professional counterparties in trading and risk management activities.

Credit risk control

Limits and controls

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Limits are established for individual counterparties and counterparty groups covering banking and traded products, as well as settlement amounts. These limits put constraints not only on the current outstanding amount but also on contingent commitments and the potential future exposure of traded products. Credit engagements may not be entered into without the appropriate approvals and adherence to limits.

In the Investment Bank, a distinction is made between exposures intended to be held to maturity ("take and hold exposures") and those which are intended to be held for a short term, pending distribution or risk transfer ("temporary exposures").

Credit risk concentrations can arise if clients are engaged in similar activities, 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. To avoid credit risk concentrations, we seek to establish limits and operational controls to constrain risk concentrations at portfolio and sub-portfolio levels, for example with regard to sector exposures, country risk or specific product exposures.

Risk mitigation

We actively manage the credit risk in our portfolios by taking collateral against exposures and utilizing credit hedging. In Wealth Management & Swiss Bank, the majority of loans are extended on a secured basis. For real estate financing, a mortgage over the property is taken to secure the claim. Commercial loans may also be secured by mortgages on business premises or other real estate. We apply measures to evaluate collateral and determine maximum loan-to-value ratios including an assessment of income cover.

"Lombard loans" are made against the pledge of eligible marketable securities or cash. The Investment Bank also takes collateral in the form of marketable securities and cash in its OTC derivatives and securities financing businesses. Discounts ("haircuts") are generally applied to reflect the quality, liquidity and volatility of the underlying collateral. Exposure and collateral values are continuously monitored and margin calls or close-out procedures are enforced when the market value of collateral falls below a predefined trigger level. Concentrations within individual collateral portfolios and across clients are also monitored where relevant and may affect the haircut applied to a specific collateral pool.

Our OTC derivatives trading is generally conducted under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master trading agreements, which allow for the close-out and netting of all transactions in the event of default. We also have two-way collateral agreements with major market participants under which either party can be required to provide collateral in the form of

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cash or marketable securities when exposure exceeds a predefined level. Our OTC derivatives activity with lower-rated counterparties is typically conducted under one-way collateral agreements where only the counterparty is required to provide us with collateral. For certain counterparties, like hedge funds, we may also use two-way collateral agreements. We have clearly defined processes for netting and collateral agreements, including the requirement to have a legal opinion regarding the enforceability of contracts in relevant jurisdictions in the case of insolvency.

We actively manage the credit risk of our portfolios using credit hedging, primarily in the Investment Bank, with the aim of reducing concentrations to specific counterparties, sectors or portfolios. Hedging measures include single name credit default swaps (CDS), index CDS, credit linked notes and total return swaps. Single name CDS are generally executed under bilateral netting and collateral agreements, with high-grade market counterparties. We observe strict standards for recognizing credit hedges; for example, we do not typically recognize credit risk mitigants such as proxy hedges (credit protection on a correlated but different name) or index CDS for the purposes of monitoring exposures against limits. Buying credit protection creates credit exposure against the hedge provider. We monitor our exposures to credit protection providers and the effectiveness of credit hedges as part of our overall credit exposures to the relevant counterparties. Where there is significant correlation between a counterparty and the hedge provider (so-called "wrong-way risk"), our policy is to discourage such activity, but in any event not to recognize any hedge benefit in credit risk measures.

➔ **Refer to the "Basel II Pillar 3" section of this report for more information on credit derivatives**

Credit risk measurement

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We have developed tools and models to measure credit risk. Exposures to individual counterparties are measured based on three generally accepted parameters: probability of default, exposure at default and loss given default. These parameters are the basis for the majority of our internal measures of credit risk and are key inputs to the regulatory capital calculation under the Advanced Internal Rating-Based approach of Basel II. We also use models to derive the portfolio credit risk measures of expected loss, statistical loss and stress loss.

Probability of default

The probability of default (PD) is an estimate of the likelihood of a counterparty defaulting on its contractual obligations. This probability is assessed using rating tools tailored to the various categories of counterparties. These categories are also calibrated to our proprietary credit rating scale ("Masterscale") designed to ensure a consistent assessment of default probabilities across counterparties. We regularly assess the performance of our rating tools and adjust our model parameters as necessary. In addition to using ratings for credit risk measurement, we use them as an important input to determine credit risk approval authorities.

In the Investment Bank, rating tools are applied by broad segments including banks, sovereigns, corporates, funds, hedge funds and commercial real estate. We determine our choice of the relevant assessment criteria (for example, financial ratios and qualitative factors) for the rating tools on the basis of various statistical analyses, externally available information and expert judgment.

Within our retail and corporate banking business in Switzerland, we rate our business and corporate clients in the small-to-medium enterprise segment (SMEs) using statistically developed scorecards. The underlying data used in our scorecards is predominantly based on a combination of financial information relating to clients, qualitative criteria and our credit loss history over several years. In order to rate our large corporate clients domiciled in Switzerland, Wealth Management & Swiss Bank uses templates established for this segment by our Investment Bank. We assess the probability of default from loans secured on owner-occupied or investment properties with a model that takes loan-to-value ratios and debt service capacity of the obligor into account. We rate lombard loan exposures by means of a model simulating potential changes in the value of the collateral and the probability that it may be lower than the loan amount.

Our Masterscale expresses default probabilities that we determine through our various rating tools by means of distinct classes whereby each class incorporates a range of default probabilities. Counterparties migrate between rating classes as our assessment of their probability of default changes.

The ratings of the major credit rating agencies and their equivalent on our Masterscale are shown in the "UBS internal rating scale and mapping of external ratings" table. The mapping is based on the long-term average one-year default

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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		Ba2	BB
9		Ba3	BB–
10		B1	B+
11		B2	B
12		B3	B–
13		Caa to C	CCC to C
14	*Defaulted*	D	D

rates that we observed for each external rating grade. Observed defaults by rating agency may vary through economic cycles, and we do not necessarily expect the actual number of defaults in our equivalent rating band to equal the rating agency average in any given period. We periodically assess the long-term average default rates of credit rating agencies' grades and we adjust their mapping to our Masterscale as necessary to reflect any material changes.

Exposure at default

Exposure at default (EaD) represents the amount that we expect to be owed by a counterparty at the time of default. We derive EaD from our current exposure to the counterparty and the possible future development of that exposure.

The EaD of a loan is the drawn or face value of the loan. For loan commitments and contingent liabilities, the EaD includes the amount drawn as well as potential future amounts that may be drawn, which are estimated based on historical observations.

For traded products, we derive the EaD by modeling the range of possible exposure outcomes at the time the counterparty defaults. For securities financing transactions, we assess the net amount that may be owed to us or that we may owe to others taking into account the impact of market moves over the potential time it takes to close out all our positions. For exchange-traded derivatives, our calculation of EaD takes into account daily cash margining. We derive the EaD for OTC derivatives by modeling the potential development of replacement values of the portfolio of trades by counterparty ("potential credit exposure"), after taking into account legally enforceable netting agreements. For collateralized OTCs, our potential credit exposure takes into account the development of collateral values and models the price correlation between the various instruments.

When measuring individual counterparty exposure against credit limits, we consider the maximum likely exposure measured to a high confidence level over the full life of outstanding obligations. However, when aggregating exposures to different counterparties for portfolio risk measurement purposes, we use the expected exposure to each counterparty at a given time period (usually one year) generated by the same model.

We monitor the performance of our exposure models by backtesting and benchmarking them, whereby model outcomes are compared against actual results based on our internal experience as well as externally observed results.

We assess our exposures where there is a material correlation between the factors driving the credit quality of the counterparty and those driving the potential future value of our traded product exposure ("wrong-way risk") and we have established specific controls to address these risks.

Loss given default

We determine loss given default (LGD) based on the likely recovery rate of claims against defaulted counterparties, which is a function of the type of counterparty and any credit mitigation or support by way of security interest or guarantee. LGD estimates include loss of principal and interest and other amounts, such as workout costs, including the cost of carrying an impaired position during the workout process. In our Investment Bank, LGD estimates are based on an assessment of key risk drivers such as industry segment, collateral and seniority of a claim, and a country's legal environment and bankruptcy procedures, supported by our internal loss data and external information where available. In our Swiss portfolio, the LGD differs by counterparty and collateral type and is statistically estimated based on our internal loss data. Where we hold collateral, such as marketable securities or a mortgage over a property, loan-to-value ratios are a key factor in determining LGD.

Expected loss

Credit losses are an inherent cost of doing business, but the occurrence and amount of credit losses can be erratic. In order to quantify future credit losses that may be implicit in our current portfolio, we use the concept of expected loss (EL).

EL is a statistical measure which we use to estimate the annual costs that we expect to experience on average from positions in our current credit portfolio that become impaired. The EL for a given credit facility is a function of the three components described above: PD, EaD and LGD. We aggregate the ELs for individual counterparties to derive our expected portfolio credit losses.

EL is a basis for quantifying credit risk in all our portfolios. It is also the starting point for the measurement of our portfolio statistical loss and stress loss, and may be used as an input to value certain products.

➔ Refer to the discussion on "Impairment and default – distressed claims" below for more information

Statistical and stress loss

We use a statistical modeling approach to estimate the loss profile of our credit portfolios over a one-year period to a specified level of confidence. The mean value of this loss distribution is the expected loss and the variation around it is driven by systematic default relationships amongst counterparties within and between segments and is sensitive to concentration risks on individual counterparties and groups. The results of this analysis provide an indication of the level of risk in our portfolio and the way it may develop over time.

Stress loss is a scenario-based measure which complements our statistical modeling approach. We use it to assess our potential loss in various stress scenarios in which we assume that one or more of the three key credit risk parameters will deteriorate substantially. We run stress tests on a regular basis and use them to monitor our portfolios and identify potential risk concentrations. For certain of our portfolios and segments, stress loss may also be subject to limits.

Composition of credit risk – UBS Group

The exposures detailed in the tables in this section are based on our management view of credit risk.

➔ **Refer to the "Basel II Pillar 3" section of this report for more information on the credit exposures used in the determination of our required regulatory capital and additional information on credit derivatives**

➔ **Refer to "Note 23 Derivative instruments and hedge accounting" and "Note 29c Measurement categories of financial assets and liabilities" in the "Financial information" section of this report for further information on IFRS required disclosures on derivatives and credit risk**

The table "Credit exposure by business division" shows a breakdown of our banking and traded product exposures before and after impairments, credit valuation adjustments and specific hedges. Portfolio hedges such as index CDS are not included for this analysis. Exposures to OTC derivatives are shown in the table as net positive replacement values after the application of legally enforceable netting agreements and the deduction of cash collateral. ETD exposures take into account initial and variation margin, and securities financing exposures are shown net of the collateral we received. Comparatives for 2008 are also shown on this basis.

Our total credit exposure before deductions amounted to CHF 451 billion on 31 December 2009, a significant decrease of CHF 123 billion since the end of 2008. This decrease reflects the measures we took in 2009 to actively reduce our risk exposures in addition to market movements which drove down the positive replacement values of our derivatives. Our banking product exposures decreased by CHF 40 billion to CHF 355 billion at 31 December 2009 mainly driven by reductions in loans and balances with central banks. Our traded products exposures, which arise largely in our Investment Bank, reduced by CHF 82 billion to CHF 96 billion at 31 December 2009 due to the significant decrease of CHF 68 billion in the replacement values of OTC derivatives. The largest component of our credit exposure before deductions at 31 December 2009 was our lending portfolio (due from banks and loans) at CHF 262 billion or 58% of our total credit exposure. Of this, CHF 200 billion was attributable to Wealth Management & Swiss Bank.

Further information on the composition and credit quality of Wealth Management & Swiss Bank's lending portfolio and the Investment Bank's lending and OTC derivatives portfolios is provided in this section. Analysis of our Wealth Management & Swiss Bank's portfolios is typically based on gross exposure (i.e. before deduction of hedges) as the majority of our exposure is secured by collateral or mortgages against property. Analysis of our Investment Bank's portfolios is generally based on net exposure (i.e. after deduction of hedges) because we actively utilize credit hedging to manage our risks in this portfolio.

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Credit exposure by business division

	Wealth Management & Swiss Bank		Wealth Management Americas		Investment Bank		Other[1]		UBS	
CHF million	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08
Balances with central banks	**8,589**	17,629	**0**	0	**9,525**	11,528	**0**	0	**18,114**	29,157
Due from banks	**2,683**	5,510	**1,074**	1,096	**13,959**	12,044	**282**	382	**17,998**	19,032
Loans	**197,178**	206,704	**21,496**	19,479	**25,351**	43,806	**101**	730	**244,126**	270,719
Contingent claims	**11,908**	14,282	**385**	405	**4,881**	4,056	**141**	149	**17,315**	18,892
Undrawn irrevocable credit facilities	**7,236**	2,775	**498**	13	**49,356**	54,201	**0**	0	**57,090**	56,990
Banking products	**227,594**	246,899	**23,453**	20,994	**103,072[2]**	125,636[2]	**524**	1,261[3]	**354,643**	394,789[3]
OTC Derivatives	**3,583**	5,637	**44**	63	**58,121**	124,393	**947**	817	**62,695**	130,910
Exchange traded derivatives	**1,059**	1,281	**611**	948	**14,933**	21,560	**0**	0	**16,603**	23,789
Securities financing transactions	**0**	2,942	**185**	91	**16,939**	20,203	**0**	844	**17,124**	24,080
Traded products	**4,642**	9,860	**840**	1,102	**89,993**	166,157	**947**	1,661	**96,422**	178,780
Total credit exposure	**232,236**	256,759	**24,293**	22,096	**193,065**	291,793	**1,471**	2,922	**451,065**	573,569
Total credit exposure, net[4]	**230,173**	255,565	**24,289**	22,071	**141,838**	229,597	**1,466**	2,922	**397,766**	510,155

1 Includes Global Asset Management and Corporate Center. 2 IB banking products excluding money market and nostro accounts amount to CHF 82,084 million (31.12.2008: CHF 105,595 million). 3 Does not include financial assets designated at fair value for an amount of CHF 961 million. 4 Net of allowances, provisions, credit valuation adjustments, hedges.

Composition of credit risk – business divisions

Wealth Management & Swiss Bank

The total gross banking products exposure of Wealth Management & Swiss Bank was CHF 228 billion on 31 December 2009 down by CHF 19 billion since the end of 2008. The high quality of this portfolio is illustrated by the rating and LGD distributions shown in the "Wealth Management & Swiss Bank: distribution of gross banking products exposure across UBS internal rating and loss given default buckets" table. Approximately 60% of Wealth Management & Swiss Bank's banking product portfolio is rated investment grade and over 80% of it is categorized in the lowest LGD bucket of 0 – 25%. The reduction in exposures rated 0 related largely to a reduction in our balances with central banks.

At 31 December 2009, Wealth Management & Swiss Bank's gross lending portfolio (comprised of due from banks and loans) decreased to CHF 200 billion compared with CHF 212 billion at 31 December 2008. The decrease resulted largely from lower lombard lending due to continued deleveraging by our clients. Over 90% of Wealth Management & Swiss Bank's lending portfolio was secured by collateral, of which CHF 142 billion was secured by real estate and CHF 39 billion by marketable securities. The majority of the real estate exposure is secured by a diversified portfolio of residential property (single and multi-family homes), which have typically exhibited a low risk profile.

Wealth Management & Swiss Bank's gross unsecured loan portfolio amounted to CHF 15.6 billion at 31 December 2009 down by CHF 2.7 billion since the end of 2008, and

Wealth Management & Swiss Bank:
distribution of gross banking products exposure across UBS internal rating and loss given default (LGD) buckets

CHF million	31.12.09						31.12.08	
		Loss given default (LGD) buckets						
UBS internal rating	Gross exposure	0–25%	26–50%	51–75%	76–100%	Weighted average LGD (%)	Gross exposure	Weighted average LGD (%)
0	3,713	5	3,708			38	13,625	39
1	6,024	28	5,987	9		39	5,232	39
2	29,084	25,523	3,432	129		22	27,750	21
3	23,351	18,503	4,367	481		22	29,938	22
4	24,978	21,502	3,261	214		12	24,830	14
5	48,491	43,013	5,017	460		12	50,657	13
6	41,797	38,265	2,540	991	1	13	44,346	13
7	18,160	15,577	2,348	233	1	15	18,735	15
8	15,256	12,738	2,078	439	1	16	14,810	17
9	10,651	7,652	1,993	7	999	22	9,447	23
10	2,092	1,478	613			21	1,875	20
11	1,179	897	281			20	1,990	19
12	224	167	56		1	21	155	19
13	76	48	28			21	93	30
Total non-defaulted	225,076	185,398	35,710	2,965	1,003	17	243,483	18
Investment grade	135,641	108,575	25,773	1,294			152,032	
Sub-investment grade	89,434	76,823	9,937	1,671	1,003		91,451	
Defaulted[1]	2,518						3,416	
Gross banking products exposure	227,594	185,398	35,710	2,965	1,003		246,899	
Net banking products exposure[2]	225,531	N/A	N/A	N/A	N/A		245,705	

1 Includes CHF 24 million of off-balance sheet items. 2 Net of allowances and provisions for credit losses amounting to CHF 1,053 million and credit hedges notional amount of CHF 1,010 million.

half of this portfolio is rated investment grade. Approximately 60% of the unsecured portfolio related to cash-flow based lending to corporate counterparties and 20% of the unsecured loans related to loans to central or local governments at 31 December 2009.

Wealth Management Americas

The total gross banking products exposure of Wealth Management Americas increased to CHF 23 billion on 31 December 2009 compared with CHF 21 billion on 31 December 2008. This portfolio consists mainly of loans secured by marketable securities. These loans are of high quality with 88% rated investment grade.

Wealth Management & Swiss Bank: composition of lending portfolio, gross

CHF million	**31.12.09**	31.12.08
Secured by residential property	**122,106**	121,551
Secured by commercial / industrial property	**20,378**	20,181
Secured by securities	**39,136**	46,743
Lending to banks	**2,683**	5,510
Unsecured loans	**15,558**	18,228
Total lending portfolio, gross	**199,861**	212,214
Total lending portfolio, net[1]	**198,714**	211,044

1 Net of allowances and credit hedges.

Wealth Management & Swiss Bank: unsecured loans (excluding mortgages) by industry sector

CHF million	**31.12.09**	31.12.08
Construction	**263**	302
Financial institutions	**895**	2,045
Hotels and restaurants	**74**	61
Manufacturing	**2,599**	2,700
Private households	**1,984**	2,941
Public authorities	**4,176**	4,533
Real estate and rentals	**778**	878
Retail and wholesale	**1,778**	2,249
Services	**2,768**	2,287
Other	**243**	232
Total	**15,558**	18,228

Investment Bank

The "Investment Bank: credit exposure by industry segment and rating" table shows the Investment Bank's credit exposures to banking products and OTC derivatives before and after allowances, credit valuation adjustments and specific hedges. Portfolio hedges such as index CDS are not included for this analysis. The gross banking product exposures shown in this table exclude nostro accounts and money market balances which are included in the "Credit exposure by business division" table.

Almost 90% of the Investment Bank's net OTC derivative portfolio was traded with counterparties rated investment grade, the majority of which were banks and regulated financial institutions where trading was conducted on a collateralized basis. 64% of the Investment Bank's net banking products portfolio was rated investment grade, with the majority of exposures related to its lending activities with corporates and other non-banks.

The "Net banking products exposure to corporates and other non-banks" table provides additional information on this portfolio, and provides a bridge from the Investment Bank's total banking products (loans, contingent claims and undrawn irrevocable credit facilities) according to IFRS to our internal management view of this exposure. The subsequent tables provide additional analysis of the portfolio by our internal rating and LGD, industry sector and geographical region.

The Investment Bank's net banking products exposure to corporates and other non-banks decreased by CHF 17.7 billion to CHF 41.3 billion at 31 December 2009 as a result of reduced lending activity, sales and writedowns of residual leveraged finance positions. The Investment Bank continued to actively manage the credit risk on this portfolio and at 31 December 2009 it held CHF 39 billion of single name CDS hedges against its exposures to corporates and other non-banks.

Investment Bank: credit exposure by industry segment and rating

	Banking products		OTC derivatives	
CHF million	**31.12.09**	31.12.08	**31.12.09**	31.12.08
Total exposure[1]	**82,084**	105,595	**58,121**	124,393
less: allowances / credit valuations adjustment (CVA)	**(1,520)**	(1,526)	**(4,475)**	(9,907)
less: credit protection bought (credit default swaps, notional)	**(39,314)**	(45,106)	**(5,741)**	(5,506)
Net exposure after allowances and after application of credit hedges	**41,250**	58,963	**47,905**	108,980
of which: banks and regulated financial institutions	***4,283***	*4,447*	***20,373***	*45,131*
of which: sovereigns and supranationals	***1,053***	*1,043*	***7,435***	*16,820*
of which: corporates	***20,825***	*28,727*	***3,119***	*9,554*
of which: monoline insurers			***2,730***	*6,153*
of which: others	***15,088***	*24,746*	***14,248***	*31,322*
of which: investment grade	***26,273***	*39,659*	***42,883***	*100,345*
of which: sub-investment grade	***14,977***	*19,304*	***5,022***	*8,635*

1 Banking products: risk view; OTC derivatives: net replacement value, includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking law, based on the IFRS scope of consolidation.

Investment Bank: net banking products exposure to corporates and other non-banks

CHF million	**31.12.09**	31.12.08
Loans	**90,700**	111,798
Contingent claims and undrawn irrevocable credit facilities	**56,228**	62,391
Total (IFRS view)	**146,928**	174,189
less: internal risk adjustments margin accounts, cash collateral posted, other[1]	***(36,455)***	*(40,129)*
less: internal risk adjustments reclassified securities[2]	***(19,255)***	*(21,840)*
less: internal risk adjustments acquired auction rate securities	***(7,982)***	*(4,500)*
less: internal risk adjustments traded loan commitments and funded risk participations	***(1,152)***	*(2,125)*
Gross banking products exposure[3]	**82,084**	105,595
less: specific allowances for credit losses and loan loss provisions[4]	***(1,520)***	*(1,526)*
Net banking products exposure	**80,564**	104,069
less: credit protection bought (credit default swaps)	***(39,314)***	*(45,106)*
Net banking products exposure to corporates and other non-banks, after application of credit hedges	**41,250**	58,963

1 Includes margin accounts for ETD transactions, cash collateral posted by us against negative replacement values for OTC derivatives, cash / current accounts from prime brokerage (cash legs) and valuation differences caused by a different exposure treatment in Risk Control than in IFRS. 2 Includes reclassified auction rate securities in the amount of CHF 8.2 billion (31.12.08: CHF 8.4 billion). 3 IB banking products including money market and nostro accounts amount to CHF 103,072 million (31.12.2008: CHF 125,636 million). 4 Does not include other allowances for credit losses for an amount of CHF 188 million (31.12.08: CHF 226 million).

The Investment Bank's net banking products exposure to corporates and other non-banks continued to be diversified across industry sectors and based on our assessment, the vast majority of the sub-investment grade exposures in this portfolio had a loss given default of 0–50% on 31 December 2009.

➔ **Refer to "Note 29b Reclassification of financial assets" in the "Financial information" section of this report for more information on reclassified securities including carrying values of student loan auction rate securities, monoline protected assets and US commercial real estate positions**

Investment Bank: distribution of net banking products exposure to corporates and other non-banks, across UBS internal rating and loss given default buckets

CHF million	31.12.09						31.12.08	
		Loss given default (LGD) buckets				Weighted average LGD (%)		Weighted average LGD (%)
UBS internal rating	Exposure	0–25%	26–50%	51–75%	76–100%		Exposure	
Investment grade	26,273	9,850	10,689	3,107	2,628	39	39,659	36
Sub-investment grade	14,977	6,492	5,571	2,330	583	34	19,304	31
of which: 6	1,407	102	942	302	62	47	2,199	32
of which: 7	2,044	1,210	339	338	157	33	2,307	43
of which: 8	1,293	342	705	228	18	37	1,370	45
of which: 9	2,151	896	965	265	26	31	3,811	19
of which: 10	1,486	525	720	139	102	32	1,674	36
of which: 11	2,168	1,104	661	396	7	30	4,422	28
of which: 12	1,684	1,287	277	65	55	18	687	23
of which: 13	357	158	133	63	3	31	221	21
of which: defaulted	2,386	870	830	535	151	44	2,612	33
Net banking products exposure to corporates and other non-banks, after application of credit hedges	41,250	16,342	16,260	5,437	3,211	37	58,963	35

Investment Bank: banking products exposure[1] by industry sector

CHF million	31.12.09	31.12.08
Chemicals	1,347	3,072
Electricity, gas, water supply	2,120	3,685
Financial institutions	16,316	25,716
Manufacturing	6,695	7,978
Mining	2,284	2,588
Public authorities	2,657	3,246
Retail and wholesale	1,530	1,855
Transport, storage and communication	4,057	5,794
Other	4,243	5,030
Total	41,250	58,963

1 Net banking products exposure to corporates and other non-banks, after application of credit hedges.

Investment Bank: banking products exposure[1] by geographical region

CHF million	31.12.09	31.12.08
Switzerland	543	1,437
Other Europe	6,759	9,354
North America	29,222	42,100
Latin America	152	1,550
Asia / Pacific	4,014	3,833
Africa / Middle East	559	689
Total	41,250	58,963

1 Net banking products exposure to corporates and other non-banks, after application of credit hedges.

Loan to BlackRock fund

In second quarter 2008, we sold a portfolio of US residential mortgage backed securities (RMBSs) for proceeds of USD 15 billion to the RMBS Opportunities Master Fund, LP (the "RMBS fund"), a special purpose entity managed by BlackRock Financial Management, Inc. The RMBS fund was capitalized with approximately USD 3.75 billion in equity raised by BlackRock from third-party investors and an eight-year amortizing USD 11.25 billion senior secured loan provided by UBS.

The RMBS fund amortizes the loan through monthly payments drawn from amounts collected in respect of the underlying assets. These collections are allocated to the payment of interest and principal of the loan and to the holders of equity interests in the RMBS fund in accordance with the terms of the loan agreement. Allocations to equity holders may be reduced or suspended in the event of specified declines in the aggregate notional balance of the portfolio, and we may assume control of the underlying assets in the event of a specified further decline in the notional balance.

As of 31 December 2009, the loan had a balance outstanding of USD 7.1 billion (USD 9.2 billion at 31 December 2008), taking into account amounts held in escrow. This loan balance is also reflected in the Investment Bank's credit exposures shown in the tables on previous pages. Collections have been slower in 2009 than in 2008, primarily due to lower levels of voluntary prepayments and reductions in floating rate interest payments, in addition to the fact that the portfolio has amortized over time. The aggregate notional balance of the RMBS fund's assets collateralizing the loan on 31 December 2009 was USD 16.0 billion. By notional balance, the portfolio was comprised primarily of Alt-A (52%) and sub-prime (32%) credit grades. In terms of priority, the portfolio was dominated by senior positions (92%).

The RMBS fund is not consolidated in our financial statements. We continue to monitor the RMBS fund and its performance and will reassess the consolidation status if events warrant and deterioration of the underlying RMBS mortgage pools indicates that the equity investors in the fund no longer receive the majority of the risks and rewards. We also continue to assess the loan to the RMBS fund to determine whether it has been impaired. Developments through the year ended 31 December 2009 have not altered our conclusion that consolidation is not required, and the loan is not considered impaired.

Credit loss expenses

Under IFRS our credit loss expenses charged to the income statement represent the total credit losses actually experienced in the period from banking products and securities financing transactions.

In 2009, we experienced net credit loss expenses of CHF 1,832 million, of which CHF 425 million was due to impairment charges taken on reclassified securities in the Investment Bank. In comparison, we recorded net credit loss expenses of CHF 2,996 million in 2008.

The Investment Bank recorded net credit loss expenses of CHF 1,698 million for 2009, compared with net credit loss expenses of CHF 2,575 million in 2008. Excluding the credit loss expenses from reclassified securities of CHF 425 million, the Investment Bank's net credit loss expenses amounted to CHF 1,273 million in 2009.

Wealth Management & Swiss Bank reported net credit loss expenses of CHF 133 million for 2009, compared with CHF 392 million in 2008. Releases of allowances made against lombard loans in 2009 contributed to this positive development.

➔ Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report for more information on "incurred loss" concept

Impairment and default – distressed claims

Audited

With respect to distressed claims resulting from banking products, we distinguish between loans that are "past due" and "impaired". We consider a loan to be past due when a contractual payment has been missed. We consider a loan as impaired if it is probable that we will not fully recover all contractual payments due under the loan as a result of the borrower's inability to meet its obligations after realization of available collateral. Past due but not impaired loans have suffered missed payments but are not considered impaired because we expect to collect all amounts due under the contractual terms of the loans or the equivalent value.

We also assess derivative counterparties and claims from securities financing transactions for default and impairment using generally the same principles and processes that we use for banking products.

We have processes to ensure that the carrying values of impaired claims are determined in compliance with IFRS requirements. Our credit controls applied to valuation and workout are the same for both amortized cost and fair-valued credit products. We assess each case and our workout strategy and estimation of recoverable amounts are independently approved.

We also assess our portfolios of claims carried at amortized cost with similar credit risk characteristics for collective impairment to consider if these portfolios contain impaired obligations where the individual impaired items cannot yet be identified.

Our portfolios considered impaired on a collective basis are not included in the totals of impaired loans in the tables shown in the discussion of the composition of credit risk for business divisions in the "Credit risk" section of this report.

Audited

Our assessment of collective impairment differs depending on the nature of the underlying obligations. In our retail and corporate banking business in Switzerland where delayed payments are routinely observed, we typically review 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, we establish collective loan loss allowances based on the expected loss for the portfolio over the average period between trigger events and the identification of individual impairment. Collective loan loss allowances of this kind are typically not required for our investment banking businesses because we continuously monitor individual counterparties and exposures to identify impairment events at an early stage.

Additionally, for all our portfolios we assess whether there have been any unforeseen developments which might result in impairments that cannot be immediately identified. These events could be stress situations such as a natural disaster or a country crisis, or they could result from structural changes in the legal or regulatory environment. To determine whether an event-driven collective impairment exists, we use a set of global economic drivers to regularly assess the most vulnerable countries and review the impact of any potential impairment event.

The recognition of impairment in our 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 such as derivatives, impairment is recognized through a credit valuation adjustment, which is charged to the income statement through the *Net trading income* line.

➔ Refer to "Note 27a Valuation principles" in the "Financial information" section of this report for more information on credit valuation adjustments

Impaired loans, allowances and provisions

The credit risk exposures reported in the "Allowances and provisions for credit losses" table represent the IFRS balance sheet view of our gross lending portfolio comprising the balance sheet line items *Due from banks* and *Loans*. The table also shows the IFRS reported allowances for credit losses and impairments as well as our impaired lending portfolio.

The table shows that our allowances and provisions for credit losses decreased by 8.4% to CHF 2,680 million at 31 December 2009 from CHF 2,927 million at the end of 2008.

As reported in second quarter 2009, we implemented a threshold for designating a reclassified security as an impaired loan. Under this policy a reclassified security is considered impaired if the carrying value at balance sheet date is

Allowances and provisions for credit losses

CHF million	Wealth Management & Swiss Bank		Wealth Management Americas		Investment Bank		Others[1]		UBS	
As of	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08
Due from banks	**2,683**	5,510	**1,074**	1,096	**42,568**	57,485	**282**	382	**46,606**	64,473
Loans	**197,178**	206,704	**21,496**	23,981	**90,700**	111,798	**101**	730	**309,475**	343,213
of which: related to reclassified securities[2]					**19,255**	21,840			**19,255**	21,840
Total lending portfolio, gross[3]	**199,861**	212,214	**22,569**	25,077	**133,268**	169,282	**383**	1,113	**356,081**	407,685
Allowances for credit losses	**(1,034)**	(1,169)	**(4)**	(25)	**(1,642)**	(1,733)	**0**	0	**(2,680)**	(2,927)
of which: related to reclassified securities					**(162)**	(130)			**(162)**	(130)
Total lending portfolio, net[4]	**198,827**	211,044	**22,566**	25,052	**131,625**	167,550	**383**	1,113	**353,402**	404,758
Impaired lending portfolio, gross[5]	**1,805**	2,959	**4**	39	**5,056**	4,436	**0**	0	**6,865**	7,434
of which: related to reclassified securities					**1,090**	200			**1,090**	200
Estimated liquidation proceeds of collateral for impaired loans	**(530)**	(1,576)	**0**	(18)	**(1,670)**	(945)	**0**	0	**(2,200)**	(2,539)
of which: related to reclassified securities					**(958)**	(94)			**(958)**	(94)
Impaired lending portfolio, net of collateral	**1,275**	1,383	**4**	21	**3,386**	3,491	**0**	0	**4,665**	4,895
Allocated allowances for impaired lending portfolio	**984**	1,146	**4**	25	**1,642**	1,733	**0**	0	**2,630**	2,904
Other allowances and provisions	**49**	24	**0**	0	**0**	0	**0**	0	**49**	24
Total allowances and provisions for credit losses in lending portfolio	**1,034**	1,169	**4**	25	**1,642**	1,733	**0**	0	**2,680**	2,927
Allowances and provisions for credit losses outside of lending portfolio	**19**	24	**0**	0	**117**	119	**5**	0	**141**	143
Ratios										
Allowances and provisions as a % of total lending portfolio, gross	**0.5**	0.6	**0.0**	0.1	**1.2**	1.0	**0.0**	0.0	**0.8**	0.7
Impaired lending portfolio as a % of total lending portfolio, gross	**0.9**	1.4	**0.0**	0.2	**3.8**	2.6	**0.0**	0.0	**1.9**	1.8
Impaired lending portfolio excluding reclassified securities as a % of total lending portfolio, gross excluding reclassified securities					**3.5**	2.9			**1.7**	1.9
Allocated allowances as a % of impaired lending portfolio, gross	**54.5**	38.7	**100.0**	64.1	**32.5**	39.1	**0.0**	0.0	**38.3**	39.1
Allocated allowances as a % of impaired lending portfolio, net of collateral	**77.2**	82.9	**100.0**	119.0	**48.5**	49.6	**0.0**	0.0	**56.3**	59.3

1 Includes Global Asset Management and the Corporate Center. 2 This excludes reclassified loan underwriting positions with a value of CHF 1,789 million as of 31.12.09 (31.12.08: CHF 3,713 million), which are included in the risk view of loan exposures. 3 Excludes loans designated at fair value, but includes margin accounts for exchange-traded derivatives transactions, cash collateral delivered for OTC derivatives and cash current accounts from prime brokerage (cash leg) of total CHF 70,121 million (of which *Due from banks:* CHF 29,770 million, of which *Loans:* CHF 40,351 million) (31.12.08: CHF 95,610 million of which due from banks: CHF 46,757 million, of which loans: CHF 48,853 million). 4 Reconciles to the balance sheet carrying values of *Due from banks* and *Loans*, which are reported net of allowances for credit losses. 5 Excludes reclassified securities with adverse cash flow estimate revisions cumulatively below 5% of the carrying value at reclassification date, adjusted for redemptions. 31.12.08 numbers have been adjusted to reflect this change.

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Impaired assets by type of financial instrument

CHF million	Impaired exposure	Estimated liquidation proceeds of collateral	Specific allowances, provisions and credit valuation adjustments	Net impaired exposure
Impaired loans	6,865	(2,200)	(2,630)	2,035
Impaired contingent claims	350		(90)	260
Defaulted derivatives contracts	4,607		(3,061)	1,546
Defaulted securities financing transactions	98	(47)	(51)	0
Total 31.12.09	**11,920**	**(2,247)**	**(5,831)**	**3,841**
Total 31.12.08[1]	13,947	(2,539)	(7,252)	4,156

1 Impaired exposure was restated from CHF 15,658 million originally reported in our Annual Report for 2008, estimated liquidation proceeds of collateral was restated from CHF 3,930 million. In 2009, we implemented a threshold for designating a reclassified security as an "impaired loan". Under this policy, a reclassified security is considered impaired if the carrying value at balance sheet date is on a cumulative basis 5% or more below the carrying value at reclassification date adjusted for redemptions.

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on a cumulative basis 5% or more below the carrying value at reclassification date adjusted for redemptions. In order to ensure year-on-year comparability, we have restated our 31 December 2008 Investment Bank and the Group gross impaired lending portfolio accordingly.

Our gross impaired lending portfolio decreased to CHF 6,865 million on 31 December 2009 from CHF 7,434 million on 31 December 2008.

The ratio of the impaired lending portfolio to the total lending portfolio (both measured gross) was 1.9% on 31 December 2009 compared with 1.8% on 31 December 2008.

We reclassified loans and receivables with a carrying amount of CHF 58 million and CHF 224 million from impaired to performing during 2009 and 2008, respectively. This reclassification occurred because the loans had either been renegotiated and the new terms and conditions met normal market criteria for the quality of the obligor and type of loan, or because the financial position of the obligor improved, enabling it to repay any past due amounts such that we deemed future principal and interest to be fully collectible in accordance with the original contractual terms.

Collateral held against our impaired loans portfolio mainly consisted of real estate and multi-asset-backed securities. It is our policy to dispose of foreclosed real estate as soon as practicable. The carrying amount of foreclosed property recorded in our balance sheet under *Other assets* at the end of 2009 and 2008 amounted to CHF 245 million and CHF 280 million, respectively.

We seek to liquidate collateral held in the form of financial assets expeditiously and at prices considered fair. This may require us to purchase assets for our own account, where permitted by law, pending orderly liquidation.

The table "Impaired assets by type of financial instrument" includes impaired loans, impaired off-balance sheet claims and defaulted derivatives and repurchase/reverse repo contracts, which are subject to the same workout and recovery processes. Our impaired assets decreased by CHF 2.0 billion to CHF 11.9 billion at 31 December 2009.

After deducting allocated specific allowances, provisions and credit valuation adjustments of CHF 5.8 billion and the estimated liquidation proceeds of collateral of CHF 2.2 billion, net impaired assets amounted to CHF 3.8 billion in 2009.

➔ Refer to "Note 9b Due from banks and loans" in the "Financial information" section of this report for more information on the changes in allowances and provisions for credit losses

Past due but not impaired loans

The table below shows a breakdown of our total loan balances on loans where payments have been missed but which we do not consider impaired because we expect to collect the amounts due. The loan balances in the table relate to our Wealth Management & Swiss Bank, where delayed payments are routinely observed. The past due but not impaired categorization is not typically applicable to our Investment Bank lending businesses because we continuously monitor individual counterparties and exposures to identify impairment events at an early stage, including missed payments.

Compared with 31 December 2008, our past due but not impaired loan exposures decreased by 47% to CHF 0.9 billion on 31 December 2009. This decrease resulted primarily from recoveries in lombard lending exposures and lower levels of excesses experienced by Wealth Management & Swiss Bank in 2009. Our past due but not impaired loans in the greater-than-90-day category related primarily to mortgage loans. However, our overall past due but not impaired levels on mortgage loans were not significant in the context of the size of the mortgage portfolio.

Past due but not impaired loans

CHF million	**31.12.09**	31.12.08
1–10 days	**138**	522
11–30 days	**62**	89
31–60 days	**78**	272
61–90 days	**17**	331
> 90 days	**635**	547
of which: past due but not impaired mortgage loans > 90 days	***511***	*425*
Total	**930**	1'761

Past due but not impaired mortgage loans

CHF million	**31.12.09**		31.12.08	
	Total mortgage exposure	**of which: past due but not impaired > 90 days**	Total mortgage exposure	of which: past due but not impaired > 90 days
Total	**130,348**	**511**	128,441	425

Settlement risk

Settlement risk arises in transactions involving exchange of value when we must honor our obligation to deliver without first being able to determine with certainty that we will receive the counter-value. We use multilateral and bilateral agreements with counterparties to reduce our actual settlement volumes.

Our most significant source of settlement risk is foreign exchange transactions. UBS is a member of Continuous Linked Settlement (CLS), a foreign exchange clearing house which allows transactions to be settled on a delivery versus payment basis, thereby significantly reducing foreign exchange-related settlement risk relative to the volume of business.

The avoidance of settlement risk through CLS and other means, such as payment netting, does not eliminate our credit risk on foreign exchange transactions resulting from changes in exchange rates prior to settlement. We measure and control such counterparty risk on forward foreign exchange transactions as part of our overall credit risk on OTC derivatives.

Country risk

Country risk is the risk of loss arising from country-specific events. We have an established country risk control framework to actively manage and limit, as necessary, our trading risk, lending risk, issuer risk and investment risk in a country. This framework is intended to ensure that our exposure to a country is commensurate with the credit rating we assign to it and is not disproportionate to our overall country risk profile.

We assign ratings to all countries where we have exposure. Sovereign ratings express the probability of a country risk event that would lead to impairment of our claims. The default probabilities that we use and our mapping of external ratings of the major rating agencies are based on our counterparty rating classes as described in Probability of default above. With respect to our country ratings, the rating classes 10 to 13 are designated "very high risk" while the lowest rating class contains countries in default.

For all countries rated three and below, we set country risk ceilings approved either by the BoD or under delegated authority. A country risk ceiling applies to all our exposures to counterparties or issuers of securities and financial investments in the respective country. Our country risk measures cover cross-border transactions and investments as well as our local operations, branches and subsidiaries in countries where the risk is material. We may limit the extension of credit, transactions in traded products or positions in securities based on a country ceiling, even if our exposure to a counterparty is otherwise acceptable.

Losses due to counterparty or issuer defaults resulting from multiple insolvencies (systemic risk) or general prevention or restriction of payments by authorities (transfer risk) are the most significant effects of a country crisis. For internal measurement and control of country risk, we also consider the financial impact of market disruptions arising prior to, during and following a country crisis. These may take the form of a severe deterioration in a country's debt and equity markets and asset prices or a sharp depreciation of the currency.

Emerging markets exposure by UBS internal country rating category

CHF million	**31.12.09**	31.12.08
Investment grade	**18,847**	24,616
Sub-investment grade	**3,568**	8,095
Distressed	**3**	4
Total	**22,418**	32,715

Emerging markets exposure by major geographical area and product type

CHF million	Total		Banking products		Traded products		Financial investments		Tradable assets	
As of	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08	**31.12.09**	31.12.08
Emerging Europe	**2,117**	3,706	**664**	1,454	**542**	1,177	**136**	211	**775**	864
Emerging Asia	**13,725**	16,460	**4,299**	3,594	**4,949**	7,059	**652**	879	**3,825**	4,928
Emerging America	**3,077**	6,802	**309**	1,491	**485**	2,157	**100**	167	**2,183**	2,987
Middle East/Africa	**3,499**	5,747	**1,131**	1,338	**1,894**	3,980	**23**		**451**	429
Total	**22,418**	32,715	**6,403**	7,877	**7,870**	14,373	**911**	1,257	**7,234**	9,208
Temporary exposures[1]	**340**	738								

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.

Additional information on our exposures to countries that we categorize as emerging markets is provided in the "Emerging markets exposure by UBS internal country rating category" and "Emerging markets exposure by major geographical area and product type" tables.

We use stress testing to assess the potential financial impact of a severe emerging markets crisis. This involves identifying countries that may potentially be subject to a crisis event, determining potential losses and making assumptions about recovery rates depending on the types of transactions involved and their economic importance to the affected countries.

Country risk exposure

Our exposures to emerging market countries amounted to CHF 22.4 billion on 31 December 2009, compared with CHF 32.7 billion on 31 December 2008. The reduction of CHF 10.3 billion in our total emerging markets exposure occurred across all markets.

Based on the main country rating categories, 84% of our emerging market country exposures (excluding those which are temporary exposures) on 31 December 2009 were rated investment grade, compared with 75% on 31 December 2008. The change in our risk profile in these markets was due to the fact that a large proportion of the exposure reduction was related to sub-investment grade countries, in particular Brazil, following the sale of UBS Pactual. The table "Emerging markets exposure by major geographical area and product type" analyzes our emerging market country exposures by major geographical area and product type on 31 December 2009 compared with 31 December 2008. Our temporary exposures arising from loan underwriting in these markets are shown separately in the table.

Debt investments

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Debt investments classified for IFRS as *Financial investments available-for-sale* can be broadly categorized as money market instruments and debt securities which are mainly held for statutory, regulatory or liquidity reasons. Debt investments may also include non-performing loans which were purchased in the secondary market by the Investment Bank.

The risk control framework that we apply to debt instruments classified as *Financial investments available-for-sale* varies depending on the nature of the instruments and the purpose for which we hold them. Our exposures may be included in market risk limits or subject to specific monitoring, which may include interest rate sensitivity analysis, and firm-wide earnings-at-risk, capital-at-risk and combined stress test metrics.

Composition of debt investments

Debt financial instruments classified as *Financial investments available-for-sale* increased significantly to CHF 80.4 billion at 31 December 2009 compared with CHF 3.6 billion at 31 December 2008. This increase resulted from the strategic decision to rebalance our liquidity reserve, which led to a shift from repurchase agreements and trading portfolios into debt instruments available-for-sale. These instruments primarily comprised highly liquid short-term securities issued by governments and government-controlled institutions.

➔ Refer to "Note 13 Financial investments available-for-sale" in the "Financial information" section of this report for more information

Market risk

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Market risk is the risk of loss from changes in market variables. There are two broad categories of market variables: general market risk factors and specific components. General market risk factors include interest rates, equity index levels, exchange rates, commodity prices and general credit spreads. The volatility of these risk factors and the correlations between them are also general market risk factors. Specific components relate to the prices of debt and equity instruments which result from factors and events particular to individual companies or entities.

Sources of market risk

We take general and specific market risks both in our trading activities and in some non-trading businesses.

Trading

Most of our market risk arises from our trading activities in the Investment Bank, which include market-making, facilitation of client business and associated position taking in cash and derivative markets for equities, fixed income, interest rates, foreign exchange and commodities.

Our trading businesses are subject to multiple market risk limits. Traders are required to manage their risks within these limits, which may involve utilizing hedging and risk mitigation strategies. These strategies can expose the firm to additional risks as the hedge instrument and the position being hedged may not always move in parallel (often referred to as "basis risk"). We also actively manage such basis risks. Management and Risk Control may also give instructions for risk to be reduced, even when limits are not exceeded.

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.

Non-trading

Market risk exposures – primarily general interest rate and foreign exchange risks – may arise from non-trading activities such as retail banking and lending in our wealth management businesses and retail and corporate banking business in Switzerland, the Investment Bank's lending businesses and our treasury activities (primarily from funding, balance sheet, liquidity and capital management needs). Equity and certain debt investments can also give rise to specific market risks.

In the Investment Bank, non-trading foreign exchange risks are managed under market risk limits and non-trading interest rate risk is either managed under market risk limits or subject to specific monitoring. For example, the market risks associated with the portfolio of assets that were reclassified to *Loans and receivables* from *Held-for-trading* in fourth quarter 2008 and first quarter 2009 are subject to specific monitoring, which includes interest rate and credit spread sensitivity analysis, as well as being reported in firm-wide earnings-at-risk, capital-at-risk and combined stress test metrics.

In our other business divisions, exposures to market risks also arise from non-trading activities, the largest being the interest rate risks arising from customer deposits and mortgage business in Wealth Management & Swiss Bank. These market risks are generally transferred to the Investment Bank or Group Treasury, which manage the positions as part of their trading risk portfolios within their allocated market risk limits. Market risks that are retained by our other business divisions are not significant relative to the firm's overall risk, and exposures are either subject to market risk measures and controls or specific monitoring.

In addition to managing market risks transferred from other business divisions, Group Treasury also assumes market risk from its funding, balance sheet, liquidity and capital management responsibilities. The risks resulting from these activities are either covered by market risk limits allocated to Group Treasury or subject to specific monitoring.

➔ Refer to the "Treasury management" section of this report for more information on Group Treasury's risk management activities

Market risk limits

We have a limit framework to control our market risks. We have two major portfolio measures of market risk – VaR and stress loss – which are common to all our business divisions and subject to limits that are approved by the BoD.

In the Investment Bank, these portfolio measures are complemented by concentration and other supplementary limits on portfolios, asset classes and products, and also cover exposures to general market risk factors and single name risk. Single name risk (or issuer risk) is a measure of our exposure to the tradable instruments (debt, equity and derivatives) of a single issuer (or issuer group) were that issuer subject to a credit event including default. Our concentration and other supplementary limits take a variety of forms including values (market or notional) and risk sensitivities, which are measures of exposure to a given risk factor such as interest rates, credit spreads, equity indices, foreign exchange rates or volatilities. These limits take into account the extent of market liquidity and volatility, available operational capacity, valuation uncertainty, and for our single name exposures the credit quality of issuers.

Our exposures from security underwriting commitments are subject to the same measures and controls as secondary market positions. Underwriting commitments are also generally reviewed by our Commitment Committee, which includes representation from both business and control functions. Underwriting commitments are approved under specific delegated risk management and risk control authorities.

Market risk limits are set for each of the business divisions and Group Treasury. The limit framework in the Investment Bank is more detailed than in the other business divisions, reflecting the nature and magnitude of the risks it takes.

Audited

Value-at-risk definition and limitations

VaR is a statistical measure of market risk, representing the market risk losses that potentially could be realized over a set time horizon at an established level of confidence. This assumes no change in our trading positions over the relevant time horizon. We use a single VaR model for both internal management purposes and for determining market risk regulatory capital requirements, although the confidence levels and time horizons differ.

Our VaR model is approved by FINMA and ongoing significant revisions to our VaR methodology and model are also subject to regulatory approval.

The firm's VaR model makes use of five years of historical data and is calibrated to a 1-day 95% measure for our internal management purposes. However, in accordance with Basel II and FINMA requirements, we use a 1-day 99% VaR for backtesting and a 10-day 99% VaR for determining market risk regulatory capital. We calculate VaR on a daily basis on our end-of-day positions. Our VaR calculation is based on the application of historical changes in market risk factors directly to our current positions – a method known as historical simulation.

Actual realized losses may differ from those implied by our VaR. All VaR measures are subject to limitations and must be interpreted accordingly. The limitations of VaR include the following:
- The five-year historical period used in creating our VaR measure will include fluctuations in market rates and prices that differ from those observed in future periods. In particular, the use of a five-year window means that sudden increases in market volatility will not tend to increase VaR as quickly as the use of shorter historical observation periods, but the impact of the increase will impact our VaR for a longer period of time.
- The VaR measure is calibrated to a specified level of confidence and may not indicate potential losses beyond this confidence level.
- The 1-day time horizon in the VaR measure (or 10-day in the case of regulatory VaR) may not fully capture the market risk of positions that cannot be closed out or hedged within the specified period.

UBS: Value-at-Risk (1-day, 95% confidence, 5 years of historical data)

	Year ended 31.12.09				Year ended 31.12.08			
CHF million	**Min.**	**Max.**	**Average**	**31.12.09**	Min.	Max.	Average	31.12.08
Business divisions								
Investment Bank	**43**	**75**	**55**	**54**	57	105	79	74
Wealth Management & Swiss Bank[1]	**0**	**0**	**0**	**0**				
Wealth Management Americas[1]	**2**	**3**	**3**	**3**	0	3	1	3
Global Asset Management	**0**	**1**	**0**	**0**	0	2	1	1
Corporate Center	**2**	**16**	**5**	**4**	3	25	9	6
Diversification effect	[2]	[2]	**(8)**	**(7)**	[2]	[2]	(11)	(6)
Total management VaR[3]	**44**	**78**	**55**	**54**	59	106	79	78
Diversification effect (%)			**(13)**	**(11)**			(12)	(7)

1 Split of former Global Wealth Management & Business Banking into Wealth Management & Swiss Bank and WM Americas not available for 2008, therefore all 2008 Global Wealth Management & Business Banking figures are shown under WM Americas. 2 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect. 3 Includes all positions subject to internal management VaR limits.

Investment Bank: Value-at-Risk (1-day, 95% confidence, 5 years of historical data)

	Year ended 31.12.09				Year ended 31.12.08			
CHF million	**Min.**	**Max.**	**Average**	**31.12.09**	Min.	Max.	Average	31.12.08
Risk type								
Equities	**13**	**36**	**22**	**21**	18	63	38	19
Interest rates	**16**	**38**	**24**	**23**	27	85	46	31
Credit spreads	**33**	**65**	**46**	**50**	35	88	56	61
Foreign exchange	**2**	**12**	**6**	**4**	5	15	8	9
Energy, metals & commodities	**2**	**5**	**4**	**3**	3	13	6	5
Diversification effect	[1]	[1]	**(47)**	**(47)**	[1]	[1]	(75)	(51)
Total management VaR[2]	**43**	**75**	**55**	**54**	57	105	79	74
Diversification effect (%)			**(46)**	**(47)**			(49)	(41)

1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect. 2 Includes all positions subject to internal management VaR limits.

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– In certain cases, VaR calculations approximate the impact of changes in risk factors on the values of positions and portfolios. This may happen because the number of risk factors included in the VaR model is necessarily limited – for example, yield curve risk factors do not exist for all future dates.
– The effect of extreme market moves is subject to estimation errors which may result from non-linear interaction effects and the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations.

We continue to review the performance of our VaR implementation which includes a review of risks not included in VaR. We will continue to enhance our VaR model in order to more accurately capture the relationships between the market risks associated with our risk positions, as well as the revenue impact of large market movements for particular trading positions.

Value at risk developments in 2009

We made a number of changes to our VaR model and methodology in 2009, while also changing the scope of the regulatory and internal management VaR to better reflect our underlying risks.

These changes were approved by FINMA and are summarized below.

– In third quarter 2009, we changed the calibration of our management VaR from a 10-day 99% measure to a 1-day 95% measure. We consider that a 1-day 95% measure reflects the way that trading risks are viewed and managed by the business and can be more directly compared with daily mark-to-market revenues. We continue to use a 10-day 99% VaR to determine regulatory capital and a 1-day 99% measure to backtest our VaR model in accordance with Basel II and FINMA requirements.
– We increased the scope of regulatory VaR in third quarter 2009 to incorporate a significant proportion of our market risk exposures to credit valuation adjustments (CVA). CVA is the mark-to-market cost of protection required to hedge credit risk from counterparties in our over-the-counter derivatives portfolio. This change more accurately represents the underlying risk exposures alongside their related hedges in our regulatory VaR. The same enhance-

UBS: Value-at-Risk (10-day, 99% confidence, 5 years of historical data)

	Year ended 31.12.09				Year ended 31.12.08			
CHF million	Min.	Max.	Average	31.12.09	Min.	Max.	Average	31.12.08
Business divisions								
Investment Bank	179	541	315	286	240	601	374	485
Wealth Management & Swiss Bank[1]	0	1	0	0				
Wealth Management Americas[1]	15	32	21	30	1	17	4	16
Global Asset Management	0	7	2	1	1	7	2	6
Corporate Center	2	67	14	7	3	93	26	10
Diversification effect	[2]	[2]	(37)	(23)	[2]	[2]	(34)	(25)
Total regulatory VaR	187	545	315	301	246	609	373	492
Diversification effect (%)			(11)	(7)			(8)	(5)

1 Split of former Global Wealth Management & Business Banking into Wealth Management & Swiss Bank and WM Americas not available for 2008, therefore all 2008 Global Wealth Management & Business Banking figures shown under WM Americas. 2 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Investment Bank: Value-at-Risk (10-day, 99% confidence, 5 years of historical data)

	Year ended 31.12.09				Year ended 31.12.08			
CHF million	Min.	Max.	Average	31.12.09	Min.	Max.	Average	31.12.08
Risk type								
Equities	55	115	71	57	82	185	131	117
Interest rates	64	149	98	116	112	364	198	131
Credit spreads	216	489	332	322	151	613	322	412
Foreign exchange	4	55	27	27	12	58	28	30
Energy, metals & commodities	9	25	16	12	14	60	30	22
Diversification effect	[1]	[1]	(229)	(248)	[1]	[1]	(335)	(226)
Total regulatory VaR	179	541	315	286	240	601	374	485
Diversification effect (%)			(42)	(46)			(47)	(32)

1 As the minimum and maximum occur on different days for different risk types, 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 31.12.09				Year ended 31.12.08			
CHF million		**Min.**	**Max.**	**Average**	**31.12.09**	Min.	Max.	Average	31.12.08
Investment Bank	Regulatory VaR [2]	**63**	**167**	**103**	**78**	96	210	132	162
UBS	Regulatory VaR [2]	**64**	**170**	**104**	**79**	97	207	133	163

1 10-day 99% regulatory VaR and 1-day 99% regulatory VaR results are calculated separately from underlying positions and historical market moves. They cannot be inferred from each other. 2 Backtesting is based on 1-day 99% regulatory VaR.

ment was implemented for our management VaR during third quarter 2008. Monoline CVA and related exposures were not included as part of this implementation and also remain outside the scope of management VaR.

– Concurrently with the abovementioned changes, we changed our VaR methodology to an equivalent expected tail loss (ETL) measure. The ETL measure considers the overall distribution of losses in the VaR tail to determine the VaR loss at any given confidence level. We therefore consider the ETL measure to be more stable and to better identify losses around the VaR tail than a pure quantile measure based on a single observation in the VaR distribution.

The tables in this section show our 1-day 95% management VaR, 10-day 99% management VaR and 1-day 99% backtesting VaR for the Group and the Investment Bank. We have provided additional granularity in the tables related to the Investment Bank by splitting out VaR for interest rate risk and credit spread risk. As at 31 December 2008 we disclosed an aggregate VaR for our interest rate and credit spread risk.

The Investment Bank's average management VaR (1-day 95%) decreased to CHF 55 million in 2009 compared with CHF 79 million in 2008. Period-end VaR was also lower at CHF 54 million at 31 December 2009 compared with CHF 74 million at 31 December 2008.

This decrease was driven by our active risk reduction across all risk types in 2009. Credit spread VaR remained the dominant component of the Investment Bank's VaR.

VaR for the Group as a whole followed a similar pattern to Investment Bank VaR.

➔ Refer to "Note 27c Fair value of financial instruments" in the "Financial information" section of this report for valuation sensitivities on certain portfolios and positions

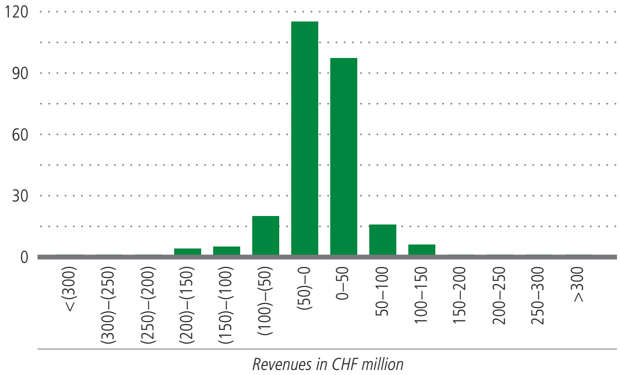
Backtesting

Backtesting compares 1-day 99% regulatory VaR calculated for positions at the close of each business day with the revenues which actually arise on those positions on the following business day. Our backtesting revenues exclude non-trading revenues, such as fees and commissions, and estimated revenues from intraday trading. A backtesting exception occurs when backtesting revenues are negative and the absolute value of those revenues is greater than the previous day's VaR.

We experienced four backtesting exceptions in 2009 compared with 50 backtesting exceptions in 2008. This significant reduction resulted among other reasons from improvements made in the granularity of risk representation in our VaR model (particularly related to credit spread risk) and more frequent update of VaR parameters as well as lower market volatility experienced in 2009.

Investment Bank: backtesting revenue[1] distribution

Frequency in number of days *1 January 2009–31 December 2009*



1 Backtesting revenues exclude non-trading revenues, such as commissions and fees, and revenues from intraday trading.

The first histogram above shows daily backtesting revenues in the Investment Bank for the whole of 2009. 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. A positive result in this histogram represents a loss less than VaR while a negative result represents a loss greater than VaR and therefore a backtesting exception.

We investigate all backtesting exceptions and any exceptional revenues on the profit side of the VaR distribution. In addition, we report all backtesting results to senior business management, the Group CRO and business division CROs.

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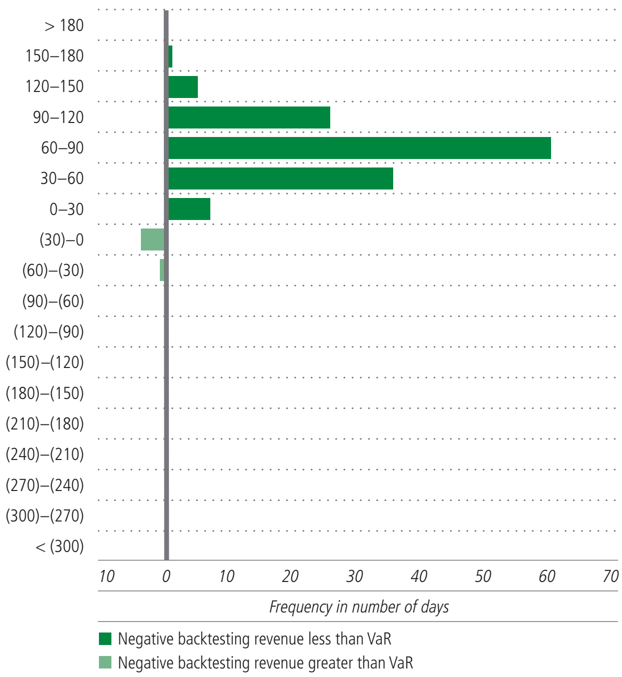
Backtesting exceptions are also reported to internal and external auditors and relevant regulators.

Investment Bank: analysis of negative backtesting revenues[1]

CHF million *1 January 2009–31 December 2009*



1 Backtesting revenues exclude non-trading revenues, such as commissions and fees, and revenues from intraday trading. Analysis for loss days only.

Stress loss

As a complement to VaR, we run macro stress scenarios combining various market moves to reflect the most common types of potential stress events, and more targeted stress tests for our concentrated exposures and vulnerable portfolios. We enhanced our market risk stress framework in 2009 to increase the scope and granularity of our analysis. This included updating stress scenarios to more accurately capture the liquidity characteristics of different markets, asset classes and positions, and implementing a stress scenario to reflect the extreme market conditions that were experienced at the height of the financial crisis in fourth quarter 2008.

Our market risk stress testing framework attempts to provide a control framework that is forward-looking and responsive to changing market conditions. Our stress scenarios are therefore reviewed regularly in the context of the macroeconomic and geopolitical environment by a committee comprised of representatives from the business divisions, Risk Control and Economic Research.

➔ **Refer to the discussion on stress loss in the "Risk management and control" section of this report**

Equity investments

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We make investments for a variety of purposes, including revenue generation or as part of strategic initiatives. Other investments, such as exchange and clearing house memberships, are held in support of our business activities. We may also make investments in funds that we manage to fund or "seed" them at inception or to demonstrate alignment of our interests with those of investors. We have also bought and may be required to buy securities and units from funds that we have sold to clients. These include purchases of illiquid assets such as interests in hedge funds.

We may make direct investments in a variety of entities or buy equity holdings in both listed and unlisted companies, where such investments tend to be illiquid. The fair value of equity investments tends to be dominated by factors specific to the individual stocks, and our equity investments are generally intended to be held for the medium- or long-term and may be subject to lock-up agreements. For these reasons, we do not generally control these exposures using the market risk measures applied to trading activities. Such equity investments are, however, subject to controls, including pre-approval of new investments by business management and risk control, and regular monitoring and reporting. They are also included in our firm-wide earnings-at-risk and capital-at-risk, and combined stress test metrics.

Investments made as part of an ongoing business are also subject to our 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 approved according to delegated authorities, and are monitored and reported to senior management.

Under IFRS, equity investments may be classified as *Financial investments available-for-sale, Financial assets designated at fair value through profit or loss* or *Investments in associates*.

Composition of equity investments

At 31 December 2009, we held equity investments totaling CHF 3.1 billion, of which CHF 1.4 billion were classified as *Financial investments available-for-sale*, CHF 0.8 billion as *Financial assets designated at fair value* and CHF 0.9 billion as *Investments in associates*.

As of 31 December 2008, we held equity investments totaling CHF 3.7 billion, of which CHF 1.7 billion were classified as *Financial investments available-for-sale*, CHF 1.1 billion as *Financial assets designated at fair value* and CHF 0.9 billion as *Investments in associates*.

The vast majority of the CHF 0.8 billion of *Financial assets designated at fair value* represented 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 2008 amounted to CHF 1.1 billion.

➔ **Refer to "Note 12 Financial assets designated at fair value" in the "Financial information" section of this report for further information**

➔ **Refer to "Note 13 Financial investments available-for-sale" in the "Financial information" section of this report for further information**

➔ **Refer to "Note 14 Investment in associates" in the "Financial information" section of this report for further information**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (for example, failed IT systems or fraud perpetrated by an employee), or from external causes, whether deliberate, accidental or natural. We monitor our operational risks and, to the extent possible, control and mitigate them to levels considered acceptable by senior management. The Group Head of Operational Risk Control is responsible for the effective design of the operational risk framework.

Operational risk framework

All the firm's functions (whether business, control or logistics functions) must manage the operational risks that arise from their activities. The basis of our operational risk framework is that all functions adequately define their roles and responsibilities to ensure they have adequate segregation of duties, complete coverage of risks and clear accountability. From this analysis, the functions develop control objectives and standards based on the types of operational risk events that might arise from their activities ranging, for example, from daily reconciliation problems to potentially severe events such as fraud. We recognize that we cannot eliminate all our operational risks because errors and accidents will happen, and that even where it is possible to eliminate certain risks, it is not always cost effective to do so.

Our functions apply controls to monitor compliance and assess the operating effectiveness of their control frameworks in a number of ways. These include self-certification by staff, monitoring a wide range of metrics (for example, the number and characteristics of client complaints, deal cancellations and corrections, un-reconciled items on cash and customer accounts and systems failures) and analysis of internal and external audit findings. As major financial and non-financial operational risk events occur, we evaluate their causes and the implications for our control framework. This includes an assessment of events affecting third parties that may be relevant to our businesses, provided that sufficient information is publicly available.

All this information is reviewed by functional managers to assess the operational risk exposure of their function and to determine the actions needed to address any specific issues. These issues are captured in a risk inventory, which forms the basis of operational risk reporting to senior management.

Operational risk control units, reporting functionally to the Group Head of Operational Risk Control, confirm the effectiveness of the implementation of the operational risk framework, and perform independent oversight of the conclusions reached by functional management.

Operational risk measurement

We have developed a model for the quantification of our operational risk which meets the regulatory capital standard specified by the Basel II Advanced Measurement Approach (AMA). Our model has two main components:

- The expected loss component is a statistical measure based on our own historical loss experiences (which have been collected since 2002) and is used primarily to determine the expected loss portion of our capital requirement.
- The unexpected loss component is based on a set of generic scenarios that represent categories of operational risks that are relevant to our firm. The scenarios used are based on analysis of internal and external event information, the prevailing business environment and our own internal control environment. This component is used to determine the unexpected loss portion of our capital requirement.

We calculate our operational risk regulatory capital requirement using the AMA model for the consolidated Group and the parent bank in accordance with the requirements of FINMA. For regulated subsidiaries, the basic indicator or standardized approaches are adopted as agreed with local regulators. Currently, we do not reflect mitigation through insurance in our AMA model.

➔ Refer to "Capital management" section of this report for more information on the development of RWA for operational risk

Risk management and control renewal program

In third quarter 2008, FINMA concluded its investigation into the causes of the significant writedowns that we incurred in 2007 and 2008. It confirmed our own conclusions in all material respects and we developed a comprehensive and detailed plan to eliminate the weakness we identified.

We have made further progress in completing remediation activities and developing sustainable solutions in 2009. This includes strategic planning and business reviews (including enhancements to our new business approval process); integrated executive reporting combining risk, treasury and financial information; changes to the risk governance framework and the Risk Management and Control organization; enhancements to our risk measurement and methodologies; changes to our capital optimization model; improvements in front office controls around trade capture and valuation; and enhancements to our funding and balance sheet management.

Remediation activities will continue in certain areas requiring more significant or strategic changes to processes, systems and infrastructure.

Risk concentrations

Risk concentrations

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A risk concentration exists where: (i) a position in financial instruments is affected by changes in a group of correlated factors, or a group of positions is affected by changes in the same risk factor or a group of correlated factors; and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses.

The identification of risk concentrations requires judgment as potential future developments cannot be predicted and may vary from period to period. In determining whether we have a risk concentration, we consider a number of elements, both individually and collectively. These elements include: the shared characteristics of the instruments and counterparties; the size of the position or group of positions; the sensitivity of the position or group of positions to changes in risk factors; and the volatility and correlations of those factors. Also important in our assessment is the liquidity of the markets in which the instruments are traded, and the availability and effectiveness of hedges or other potential risk mitigants. The value of a hedge instrument may not always move in line with the position being hedged, and this mismatch is referred to as basis risk.

If we identify a risk concentration, we assess it to determine whether it should be reduced or mitigated, and we also evaluate the available means to do so. Our identified risk concentrations are subject to increased monitoring.

Identified risk concentrations

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Based on our assessment of our portfolios and asset classes with potential for material loss in a stress scenario relevant to the current environment, we believe that our exposures to monoline insurers and student loan auction rate securities shown below can be considered risk concentrations on 31 December 2009, according to the abovementioned definition.

It is possible that material losses could occur on asset classes, positions and hedges other than those disclosed in this section of the report, particularly if the correlations that emerge in a stressed environment differ markedly from those we anticipated. We are exposed to price risk, basis risk, credit spread risk and default risk, and other idiosyncratic and correlation risks on both our equities and fixed income inventories. We also have price risk on our option to acquire the SNB StabFund's equity.

In addition, we have lending, counterparty and country risk exposures that could sustain significant losses if economic conditions were to worsen.

➔ **Refer to the discussion of credit risk, market risk and operational risk above for more information on the risks to which we are exposed**

Previously disclosed risk concentrations

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In 2009, we significantly reduced exposures to our residual leveraged finance commitments, which were defined as loan commitments entered into with the intent to syndicate or distribute that we assigned an internal credit rating corresponding with external corporate credit ratings of BB– or worse at the time of reporting. We achieved these reductions through both sales and writedowns, and as a result our remaining positions in leveraged finance commitments are no longer considered as a risk concentration. We previously reported exposures on 31 December 2008 to leveraged finance commitments of USD 4.0 billion, net of cumulative gross writedowns, impairment charges and effective hedges.

Exposure to monoline insurers

The vast majority of our direct exposures to monoline insurers arise from OTC derivative contracts, mainly CDSs purchased to hedge specific positions. The "Exposure to monoline insurers, by rating" table shows the CDS protection we bought from monoline insurers to hedge specific positions. It illustrates the notional amounts of the protection held, the fair value of the underlying instruments and the fair value of the CDSs both prior to and after the CVA taken on these contracts. As a result of trade commutations and because a significant portion of the underlying assets are classified as *Loans and receivables* for accounting purposes, the change in CVA reported in the table does not equal the profit and loss associated with this portfolio during the year to 31 December 2009.

Our exposure under CDS contracts with monoline insurers is calculated as the sum of the fair values of individual CDSs after credit valuation adjustments. 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 decreases. Changes in CVA are driven by changes in CDS fair value and also by movements in monoline credit spreads.

We actively reduced our exposures to monoline insurers in 2009 by commuting trades with several monoline insurers. The trade commutations related primarily to US RMBS collateralized debt obligations (CDOs) that we had substantially written down on a fair value basis. Combined with the improved performance and composition of the portfolio, the fair values of our remaining assets hedged with monoline insurers increased over the period with a corresponding decrease in the fair values of the related CDSs. As at 31 December 2009, approximately 75% of the remaining assets were

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collateralized loan obligations (CLOs), 20% were collateralized mortgage-backed securities and other asset-backed securities, and 5% related to US RMBS CDOs. The vast majority of our CLO positions were rated AA and above.

As at 31 December 2009, the total fair value of CDS protection purchased from monoline insurers decreased significantly to USD 2.3 billion (USD 5.3 billion at 31 December 2008) after cumulative CVAs of USD 2.8 billion (USD 7.0 billion at 31 December 2008). These exposures do not take into account any hedging benefits.

In addition to credit protection bought on the positions detailed in the table above, we held direct derivative exposure to monolines of USD 329 million after CVAs of 199 million on 31 December 2009.

➔ **Refer to "Note 27c Fair value of financial instruments" in the "Financial information" section of this report for more information on CVA valuation and sensitivities**

Exposure to auction rate securities

Auction rate securities held by the Investment Bank

Approximately USD 1.6 billion at par value of student loan auction rate securities (ARS) were redeemed by issuers, or sold by us in the secondary market in 2009.

We repurchased USD 3.7 billion at par value of student loan ARS in 2009, including approximately USD 0.5 billion of student loan ARS where we accelerated the repurchase from our clients to facilitate redemptions with issuers or resales. Combined with other redemptions directly with clients and amortizations, this resulted in an overall decrease of USD 3,958 million to USD 7,817 million as of 31 December 2009 compared with 31 December 2008, in our commitment to repurchase student loan ARS from clients as described below.

Our inventory of student loan ARS increased by USD 1,985 million to USD 10,347 million in 2009 as a result of student loan ARS repurchased in the period which were partially offset by the abovementioned redemptions, resales and amortizations.

At 31 December 2009 approximately 69% of the collateral underlying our inventory of student loan ARS was backed by Federal Family Education Loan Program (FFELP) collateral, which was reinsured by the US Department of Education for not less than 97% of principal and interest. All of our student loan ARS positions are held as *Loans and receivables* and are subject to an impairment test that includes a detailed review of the quality of the underlying collateral. Impairment charges incurred on our inventory of student loan ARS in 2009 were not significant.

Approximately 90% of the USD 7,817 million student loan ARS that we committed to purchase from clients were backed by FFELP-guaranteed collateral.

As at 31 December 2009, we also held inventory with a carrying value of USD 1,423 million in US municipal ARS, USD 1,097 million in US taxable auction preferred securities (APS) and USD 2,729 million in US tax-exempt APS. The vast majority of our inventory of municipal ARS were rated investment grade with approximately 85% rated A or higher. The vast majority of our inventory of taxable and tax-exempt APS were rated AAA. On 31 December 2009, we had not incurred any impairment charges on our inventory of municipal ARS or taxable and tax-exempt APS. As at 31 December 2008, we held USD 451 million in US municipal ARS, USD 782 million in US taxable APS and USD 3,167 million in US tax-exempt APS.

Commitment to repurchase client auction rate securities

We have committed to restore liquidity to certain client holdings of ARS. This commitment is in line with previously announced agreements in principle with various US state agencies, and the final settlements entered into with the Massachusetts Securities Division, the US Securities and Exchange Commission and the New York State Attorney General. The table on the next page shows the maximum repurchase

Exposure to monoline insurers, by rating[1]

USD million	31.12.09				
	Notional amount[3]	Fair value of underlying CDOs[4]	Fair value of CDSs prior to credit valuation adjustment[5]	Credit valuation adjustment as of 31.12.09	Fair value of CDSs after credit valuation adjustment
	Column 1	Column 2	Column 3 (=1–2)	Column 4	Column 5 (=3–4)
Credit protection on US sub-prime residential mortgage-backed securities (RMBS) CDOs high grade[2]	**2,352**	**457**	**1,895**	**1,463**	**432**
of which: from monolines rated investment grade (BBB and above)	*0*	*0*	*0*	*0*	*0*
of which: from monolines rated sub-investment grade (BB and below)	*2,352*	*457*	*1,895*	*1,463*	*432*
Credit protection on other assets[2]	**11,835**	**8,626[6]**	**3,208**	**1,332**	**1,876**
of which: from monolines rated investment grade (BBB and above)	*2,345*	*1,911*	*433*	*72*	*361*
of which: from monolines rated sub-investment grade (BB and below)	*9,490*	*6,715*	*2,775*	*1,260*	*1,514*
Total 31.12.09	**14,187**	**9,083**	**5,103**	**2,795**	**2,308**
Total 31.12.08	21,535	9,204	12,329	6,994	5,335

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 CDOs: collateralized debt obligations. 5 CDSs: credit default swaps. 6 Includes USD 5.6 billion (CHF 5.8 billion) at fair value / USD 6.0 billion (CHF 6.2 billion) at carrying value of assets that were reclassified to *Loans and receivables* from *Held-for-trading* in fourth quarter 2008 and first quarter 2009. Refer to "Note 29b Reclassification of financial assets" in the "Financial information" section of this report for more information.

amount at par of student loan ARS required by the regulatory settlements, which would occur over various time periods according to client type, but not later than 2 July 2012.

Over the same time periods, we also committed to repurchase from clients up to a maximum amount of USD 374 million of municipal ARS, and USD 212 million of taxable and tax-exempt APS at par value on 31 December 2009. As at 31 December 2008, we had committed to repurchase from clients up to a maximum of USD 2,041 million of municipal ARS and USD 1,723 million of taxable and tax-exempt APS.

We anticipate that the maximum required repurchase amount of ARS is likely to decline over time, as issuers refinance their debt obligations and we work with issuers, industry peers and US government officials on restructuring initiatives and redemption opportunities.

In future periods, we will no longer disclose our inventory of and commitments to repurchase municipal ARS and taxable and tax-exempt APS, as we do not consider that they involve material risk exposure.

We will continue to disclose our inventory of and commitment to repurchase student loan ARS as our assessment of this exposure indicates that we consider it a risk concentration.

Student loan auction rate securities inventory

USD million	**Carrying value as of 31.12.09**	Carrying value as of 31.12.08
US student loan auction rate securities	**10,347[1]**	8,362

1 Includes USD 7.5 billion (CHF 7.7 billion) at carrying value of student loan auction rate securities that were reclassified to *Loans and receivables* from *Held-for-trading* in fourth quarter 2008 and first quarter 2009. Refer to "Note 29b Reclassification of financial assets" in the "Financial information" section of this report for more information.

Client holdings: student loan auction rate securities

	Buy-back period			
	Par value of maximum required purchase as of 31.12.09	Remaining unpurchased holdings of private clients	Holdings of Institutional clients	Par value of maximum required purchase as of 31.12.08
USD million		period ends 4.1.11	30.6.10–2.7.12	
US student loan auction rate securities	**7,817**	93	7,724	11,775

Risk and treasury management

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