

Disclosure according to Basel II Pillar III

The scope of Basel II Pillar I and II exposures mentioned below applies to all entities of the UBS Luxembourg group i.e. UBS (Luxembourg) S.A. including its branches UBS (Luxembourg) S.A. Austria Branch and UBS (Luxembourg) S.A. Dublin Branch as well as its subsidiary UBS Belgium SA/NV. UBS Belgium SA/NV, because of its status of subsidiary and for regulatory reasons, has developed its own documentation and calculated its own Internal Capital. Its approach chosen to quantify risks is however equal as those chosen by the Parent Company. Because of the local Belgium requirements for the mother company to communicate in its financial statement the Basel II exposures of its subsidiary, these figures are communicated in the report.

The regulatory capital requirements (Pillar I) and the internal capital adequacy assessment process (ICAAP, Pillar II) for UBS Luxembourg and for UBS Belgium are listed below.

Regulatory Capital Requirements (Pillar I) UBS (Luxembourg) S.A.

Own Funds

UBS (Luxembourg) S.A. regulatory own funds are composed of Tier 1 capital, which consist mainly of Eligible capital and Eligible reserves. UBS Luxembourg does not hold any Tier 2 and Tier 3 capital as of 31/12/2008.

I. Original Own Funds

	Amounts in CHF as per 31.12.2008
Paid up capital	150 000 000
Reserves	510 267 233
Valuation differences eligible as original own funds	-1 710
(-) Intangible assets	-3 919 300
Original Own Funds	656 346 223

II. Additional Own Funds

	Amounts in CHF as per 31.12.2008
Subordinated Loan	0
Additional Own Funds	0

III. Additional Own Funds Specific for Market Risk cover

	Amounts in CHF as per 31.12.2008
Short-Term Subordinated Loan	0
Total additional Own Funds specific to cover Market Risk	0

IV. Capital Requirements

Credit Risk

	Amounts in CHF as per 31.12.2008
Administrative bodies and non-commercial undertakings	16 519
Institutions	238 793 707
Corporates	179 783 487
Retail	4 794 869
Other items	8 575 337
Total Capital Requirements for credit risk	431 963 919

Operational Risk

	Amounts in CHF as per 31.12.2008
Operational Risk Basic indicator approach	56 074 535
Total Capital Requirements for operational risk	56 074 535

Market Risk

	Amounts in CHF as per 31.12.2008
Foreign Exchange	1 643 788
Total Capital Requirements for market risk	1 643 788

III. Memorandum Items

	Amounts in CHF as per 31.12.2008
Total Own Funds	656 346 223
Total Capital Requirements	489 682 242
Surplus (+) / Deficit (-) of own funds	166 663 981
Solvency ratio (%)	10.72%
Internal assessment of capital needs	548 198 209

UBS (Luxembourg) S.A. retained the following methodologies for the solvency ratio calculation:

- for Credit Risk, the Standardised Approach (only cash collaterals and bank guarantees are considered),
- for Market Risk, the foreign exchange risk,
- for Operational Risk, the Basic Indicator approach.

Credit Risk

The Standardised Approach increases the risk sensitivity of the capital framework by recognising that different counterparties within the same loan category present different risks to the lending financial institution. Thus, instead of placing all commercial loans in the 100 percent risk weight basket, the Standardized Approach takes into account the credit rating of the borrower and additional risk mitigation collaterals.

UBS Luxembourg applies a conservative approach in its calculation as it does not take into account all credit risk mitigation techniques referred to in Part IX of the circular of the Commission de Surveillance du Secteur Financier (CSSF) 06/273. For instance, the eligible securities collaterals from Lombard exposures are not taken into account as the Bank has decided to only consider cash pledged and guarantees as eligible credit risk mitigations in its calculation. Additionally, for the counterparty risk the bank decided to take external ratings (Moody's) for corporates and country ratings for banks.

Exposure Class (Standardised Approach)	Risk-Weighted Assets as per 31.12.2008 in CHF	Capital Requirements as per 31.12.2008 in CHF	Share in %
Administrative bodies and non-commercial undertakings	206 495	16 519	0.00%
Institutions	2 984 921 336	238 793 707	55.28%
Corporates	2 247 293 585	179 783 487	41.62%

Retail	59 935 861	4 794 869	1.11%
Other items	107 191 720	8 575 337	1.99%
Total	5 399 548 997	431 963 919	100.00%

Operational Risk

Operational Risk is measured using the Basic Indicator Approach (BIA). The calculation is based on the arithmetic average of the last three years' sum of net interest income and net non-interest income, multiplied by 15%. The calculation of the simple arithmetic average shall be based on positive amounts. If, for any given observation, the sum of net interest income and net non interest income is equal to zero or negative, this figure shall not be taken into account in the calculation of the average for the determination of the Basic Indicator. The calculation performed by UBS (Luxembourg) S.A. is based on financial figures from the financial regulatory reporting based on local regulatory reporting standards (LuxGAAP).

Basic Indicator Approach	Capital Requirements in CHF as per 31.12.2008
Total capital requirements for operational risk	56 074 535

Year	Net Operating Income in CHF	3y average in CHF	BIA	Capital Requirement in CHF
2005	291 418 619			56 074 535
2006	361 185 577	373 830 234	15%	
2007	468 886 506			

Market Risk

UBS Luxembourg has no trading book and calculates the capital requirement for foreign exchange risk associated with the overall banking business using the Standardised Approach.

The net currency position is obtained by:

- calculating the net open position in every currency,
- the position is considered 'long' if purchases > sales, and vice versa,
- calculating the overall net currency position in CHF.

Market Risk Class (Standardised Approach)	Capital Requirements in CHF as per 31.12.2008	Share in %
Foreign Exchange	1 643 788	100.00%
Total	1 643 788	100.00%

Besides the regulatory capital requirement, the Bank has to perform in reference to the circulars CSSF 06/273, 07/290 and 07/301 an internal capital adequacy assessment process.

Internal Capital Adequacy Assessment Process (ICAAP, Pillar 2)

For Pillar 2, the approach retained by UBSL to evaluate its internal capital is the "Pillar 1 plus" approach. The basic rule of this approach is that for each of the three risk categories which exist under Pillar 1 and Pillar 2 (i.e. credit risk, market risk and operational risk), the higher evaluation between Pillar 1 and Pillar 2 is taken.

The second rule relating to this approach is that, additionally to the sum of the three risks mentioned in the previous paragraph, Business risk, Reputation risk and Liquidity risk are to be quantified.

The methodologies and approaches retained for the management of risks within UBSL are described in a fully dedicated document named "Risk Handbook". A summary of the approaches taken for the main risk categories are described in the following chapters.

Credit Risk

The UBSL credit activity mainly covers the following business:

- Traditional Wealth Management
- Investment Funds

The credit instruments related to these businesses are mainly Lombard Loans and guarantees. These are done solely on a collateralised basis (cash, securities). These credit activities and the corresponding collaterals are monitored on a daily basis, checking that the collateral coverage is sufficient (haircuts re UBS Group) and that their diversifications are also respected. Therefore, the Bank has conservatively decided to use the Pillar 1 standardised approach as its quantification for the credit risk under Pillar 2. As per 31.12.2008, the capital allocated for credit risk represented CHF 431 963 919.

Operational Risk

The measurement of the operational risk at UBSL is based on two components:

1. **Identified Risk Evaluation:** This evaluation is the sum of all operational risk issues already identified and evaluated in the UBS Group-wide Operational Risk Inventory tool (ORI). These risks do not only reflect risks which already occurred in the past, but also identified risks which could lead to a potential loss for the Bank. The sum of expected losses at the date of 31st December 2008 has been evaluated at CHF 2.9 million.
2. **Stress Analysis:** UBS Luxembourg has adopted an approach based on generic scenarios, combining information from several different data sources. The scenario component is based on a forward-looking (or prospective) view of potential operational losses that may occur in stressed cases based on the operational risk issues facing the Bank. The aim of the scenario / stress analysis is to estimate the unexpected operational risk losses.

The following scenarios have been discussed and evaluated for unexpected losses:

- IT Operations & Service and Data Management (retained scenario),
- Business Continuity,
- Transaction & Static Data Integrity,
- Anti Money Laundering / Know your client (AML/KYC),
- Client Monitoring & Treatment,
- Financial Statement,
- Fraud.

A dedicated document has been created describing elaborated scenarios and a high level reminder of already existing processes to avoid the occurrence of severe situations for the Bank. It also comprises a financial evaluation based on losses that could arise if, despite all the processes and controls, such an event would occur. Evaluation has been performed on the basis of expert judgments (i.e. specialised risk management support functions, compliance and accounting) and of their knowledge of the business. The scenario representing the highest amount has been retained to quantify unexpected losses. This amount has been evaluated at CHF 14.0 million.

The above described dual approach is based on a categorisation of operational risk events (Low & High Severity, Low & High Probability). The approach of UBSL covers both most important areas of the operational risk event categorisation i.e. "High Severity/Low Probability" with the "Self-Assessment/Stress Analysis" and "Low Severity/High Probability" with the "Historical Event Analysis" and opened risk items in ORI.

UBSL calculates the operational risk internal capital charge as follows:

Operational Risk Internal Capital Charge

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Sum of Identified Risks Evaluated in ORI + Maximum Loss resulting from the Stress Scenario Analysis

The internal capital assessment of operational risk amounts to CHF 16.9 million in total, which is significantly lower than the regulatory requirement under pillar 1.

Market Risk

Based on CSSF circular 08/338 the Bank has to perform a stress test on the Interest rate risk of the Banking book (i.e. all own positions of the Bank excluding trading activities). The requested scenario is a 200bp shift. The result of the stress test on the interest rate risk is taken as Pillar 2 capital requirement.

A regulatory reporting has been sent to the CSSF since 30/06/2008 on a semi-annual basis. The stress test is performed on all interest rate risk positions (incl. FX). As per 31.12.2008, the capital allocated to this risk represented CHF 2 441 431.

UBS (Luxembourg) S.A. does not quantify the liquidity and funding risk. This is managed centrally in the UBS Group within Group Treasury. UBS (Luxembourg) S.A. is fully integrated into this global liquidity and funding framework.

The capital allocated for Market Risk under Basel2/pillar 2 is thus CHF 2.5 million.

No capital is allocated to Business Risk (due to the Luxembourg 4-pillar strategy which proved to be mitigating) and to Reputation Risk as this risk is a consequence of low performance in the other risks.

Summary internal capital adequacy assessment process (CHF million)

Risk	Pillar 1	Pillar 2	ICAAP
Credit Risk	432.0	432.0	432.0
Market Risk	1.6	2.5	2.5
Operational Risk	56.1	16.9	56.1
Total	489.7	451.4	490.6

Roles and Responsibilities regarding the Internal Capital Adequacy Assessment Process

Roles and responsibilities for maintenance and continuous improvement of ICAAP were defined as follows throughout the Bank:

The **Board of Directors** (BoD) is responsible for:

- setting the risk strategy, the risk capacity and the risk appetite,
- promoting an internal risk culture and risk awareness,
- delegating to the Management Committee (hereinafter "MC") the implementation of the risk strategy,
- approving, on an annual basis, UBSL's risk and capital management processes,
- ensuring the independence of the control functions: the Internal Audit, the Compliance Function and Risk Control,
- verifying that independent control functions operate correctly (to this effect, the MC submits an annual report to the BoD).

The **Management Committee** (MC) is responsible for:

- implementing the UBSL risk strategy, by setting a management structure, an internal controls organisation and systems in place,
- overseeing and managing the risk profile and capital management of UBSL,
- approving standards, concepts and methodologies for controlling risk and managing capital within the principles approved by the BoD,
- establishing the Risk Handbook and the Capital Management & Policy policy,
- communicating the risk policy and the capital policy within the Bank,

- periodically reviewing the adequacy and implementation of the risk policy and capital policy as well as the underlying processes and controls,
- reporting to the BoD on the adequacy of the risk and capital management framework.

Every single member of the Management Committee is responsible for the identification, management and monitoring of the arising risks, in their dedicated business area. Even if this responsibility cannot be delegated, functions may have specialised Risk Management Support functions to assist line management in the execution of this Risk Management role. They actively participate in the definition and review of corrective measures and provide support for the risk reporting.

Risk Control, which is an independent unit reporting directly to the local CFO and functionally to the central Risk Control Unit of UBS WM&SB, is responsible for the development, implementation, monitoring as well as handling of the UBS risk control principles, frameworks, limits and process. This includes the supervision of the local Operational Risk Framework, along with the coordination of the various respective tools. Furthermore, Risk Control is the coordinator of the key risk reports and the single point of entry for any new initiative (new products / new business line).

Accounting monitors minimum capital requirements and capital adequacy ratio. Accounting regularly assesses the necessary level of capital, monitors that the regulatory minimum levels are fulfilled at all time and that the capital does not fall below the regulatory minimum in adverse situations. In addition, this department is also responsible for the regular reporting of the available capital situation to other departments and to senior management.

As mentioned above, in order to fulfil the local requirements of UBS Belgium SA/NV, their exposures in respect to the regulatory capital requirements (Pillar I) are listed below.

Regulatory Capital Requirements (Pillar I) UBS Belgium SA/NV

UBS Belgium's regulatory own funds are composed of Tier 1 capital, which consist mainly of Eligible capital and Eligible reserves. UBS Belgium does not hold any Tier 2 and Tier 3 capital.

I. Original Own Funds

	Amounts in EUR as per 31.12.2008
Paid up capital	23 000 000
Reserves	-3 272 581
Intangible assets	-26 329
Original Own Funds	19 701 090

II. Additional Own Funds

	Amounts in EUR as per 31.12.2008
Subordinated Loan	0
Additional Own Funds	0

III. Additional Own Funds Specific to cover Market Risk

	Amounts in EUR as per 31.12.2008
Short-Term Subordinated Loan	0
Total additional Own Funds specific to cover Market Risk	0

IV. Capital Requirements

Credit Risk based on Standardised Approach (SA)

	Amounts in EUR as per 31.12.2008
Institutions	1 805 254
Corporates	249 277
Retail	1 099 476
Short-term claims on institutions and corporates	4 687 678
Collective investments undertakings	1 410
Other items	851 369
Total Capital Requirements for credit risk	8 694 464

Operational Risk

	Amounts in EUR as per 31.12.2008
Operational Risk Basic indicator approach	2 342 706
Total Capital Requirements for operational risk	2 342 706

Market Risk

	Amounts in EUR as per 31.12.2008
Foreign Exchange	66 635

Commodities	6 953
Total Capital Requirements for market risk	73 588

V. Memorandum Items

	Amounts in EUR as per 31.12.2008
Surplus (+) / Deficit (-) of own funds	8 590 331
Solvency ratio (%)	14.2 %
Surplus (+) / shortfall (-) of own funds with respect to fixed assets requirements	18 170 332
Material fixed assets	1 530 758
Surplus (+) / shortfall of own funds with respect to the general solvency ratio requirements	7 788 239
Liabilities	356 541 039
First tranche	1 500 000
Second tranche	4 000 000
Third tranche	3 750 000
Fourth tranche	2 662 850
Surplus (+) / shortfall (-) of own funds with respect to legal minimum capital	13 501 090

UBS Belgium SA/NV retained the following methodologies for the solvency ratio calculation:

- for Credit Risk, the Standardised Approach (simplified plus) where only cash collaterals and bank guarantees are considered.
- for Market Risk, the foreign exchange risk,
- for Operational Risk, the Basic Indicator approach.

Credit Risk

The Standardised Approach increases the risk sensitivity of the capital framework by recognising that different counterparties within the same loan category present different risks to the lending financial institution. Thus, instead of placing all commercial loans in the 100 percent risk weight basket, the

Standardised Approach takes into account the credit rating of the borrower and additional risk mitigation collaterals.

UBS Belgium applies a conservative approach in its calculation as it does not take into account all credit risk mitigation techniques referred to in Title V, Chapter V of the circular of the Commission Bancaire, Financière et des Assurances (CBFA) 2006/03582. For instance, the eligible securities collaterals from Lombard exposures are not taken into account as the Bank has decided to only consider cash pledged and guarantees as eligible credit risk mitigations in its calculation. Additionally, for the counterparty risk the bank decided to take external ratings (Moody's) for corporates and banks.

Exposure Class (Standardised Approach)	Risk-Weighted Assets in EUR as per 31.12.2008	Capital Requirements in EUR as per 31.12.2008	Share in %
Institutions	66 951 423	1 805 254	20.76%
Corporates	52 802 046	249 277	2.87%
Retail	13 743 448	1 099 475	12.65%
Short-term claims on institutions and corporate	257 051 076	4 687 678	53.91%
Collective investments undertakings	17 625	1 410	0.02%
Other items	10 642 119	851 369	9.79%
Total	401 207 740	8 694 464	100.00%

Operational Risk

Operational Risk is measured using the Basic Indicator Approach. The calculation is based on the arithmetic average of the last three years' sum of net interest income and net non-interest income, multiplied by 15%. The calculation of the simple arithmetic average shall be based on positive amounts. If, for any given observation, the sum of net interest income and net non interest income is equal to zero or negative, this figure shall not be taken into account in the calculation of the average for the determination of the Basic Indicator. The calculation performed by UBS Belgium SA/NV is based on financial figures from the financial regulatory reporting, based on local regulatory reporting standards (2005/2006/2007).

Basic Indicator Approach	Capital Requirements in EUR as per 31.12.2008
Total capital requirements for operational risk	2 342 706

Year	Net Operating Income in EUR	3y average in EUR	BIA	Capital Requirement in EUR
2005	10 734 705			2 342 706
2006	15 522 979	15 618 040	15%	
2007	20 596 437			

Market Risk

UBS Belgium SA/NV has no trading book and calculates the capital requirement for foreign exchange risk associated with the overall banking business using the Standardised Approach.

The net currency position is obtained by:

- calculating the net open position in every currency,
- the position is considered 'long' if purchases > sales, and vice versa,
- calculating overall the net currency position in EUR.

Market Risk Class (Standardised Approach)	Capital Requirements in EUR as per 31.12.2008	Share in %
Foreign Exchange	66 635	90.55%
Commodity Risk	6 953	9.45%
Total	73 588	100.00%

Internal Capital Adequacy Assessment Process (ICAAP, Pillar 2)

The internal capital adequacy assessment process as well as the roles and responsibilities for UBS Belgium SA/NV are the same as for UBS Luxembourg. Please refer to the corresponding section.

Summary internal capital adequacy assessment process (EUR million)

Risk	Pillar 1	Pillar 2	ICAAP
Credit Risk	8.6	8.6	8.6
Market Risk	0.06	0.1	0.1
Operational Risk	2.3	4.9	4.9
Total	11.5	13.6	13.6