

annual report

2008

UBS (Luxembourg) S.A.



UBS (Luxembourg) S.A.

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UBS (Luxembourg) S.A.

Annual Report 2008

Annual Accounts
and
Report of the Board of Directors
and
Independent Auditor's report
as of
December 31, 2008

Key Facts

CHF million, except where indicated	UBS (Luxembourg) S.A.			UBS Group		
	As of or for the year ended 31.12.08	As of or for the year ended 31.12.07	change from 31.12.07	As of or for the year ended 31.12.08	As of or for the year ended 31.12.07	change from 31.12.07
Financials						
Operating income	401	494	(19%)	796	31,721	(97%)
Net profit attributable to shareholders	208	275	(24%)	(21,292)	(5,247)	306%
Total balance sheet assets	20,611	25,105	(18%)	2,014,815	2,274,891	(11%)
Tier 1 ratio (%) ¹	10.72	9.68	11%	11.00	9.10	21%
Economic						
Tax expense ²	43	39	10%	(6,837)	1,369	n.a.
Distribution to shareholders (dividends & buybacks)	258	125	106%	(16)	(4,275)	(100%)
Salaries & bonuses	86	95	(10%)	12,207	20,715	(41%)
Social						
Personnel (FTE)	521	539	(3%)	77,783	83,560	(7%)
Women in ranked positions (% of total officer population)	30.4	27.9	9%	25.0	26.5	(6%)
Long-term ratings and benchmarks						
Fitch, London	-	-		A+	AA	
Moody's, New York	-	-		Aa2	Aaa	
Standard & Poors, New York	-	-		A+	AA	
Dow Jones Sustainability index ³	-	-		√	√	
FTSE4Good ³	-	-		√	√	
Interbrand: rank among 100 most valuable global brands	-	-		41	39	
Ratios						
Cost/income ratio of the financial businesses (%)	37.6	36.5	3%	753.0	111.0	578%
Return on equity as reported (%)	31.5	49.0	(36%)	(59.1)	(11.7)	405%

¹ Includes hybrid Tier 1 capital. ² From continuing operations. ³ Indicates UBS is included in the index. p.m. Climate Leadership Index excluded as not mentioned in UBS annual report 2008 anymore

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Board of Directors

Arthur Decurtins
Chairman

General Manager
UBS AG
Member of the Group Managing Board

Andreas Przewloka
Member

Managing Director
UBS AG

Felix B. Ronner
Member

Member of the Group Managing Board
UBS AG

José F. Sierdo
Member

Managing Director
UBS (Luxembourg) S.A.

Management Committee

José F. Sierdo
(Chairman of the Committee)

Managing Director
Chief Executive Officer (CEO)
UBS (Luxembourg) S.A.
Head Business Unit Benelux/Nordic Markets

Marcel Bruehwiler
Member

Managing Director
Head Markets, Deputy CEO

Viviane De Angelis
Member

Managing Director
Head Global Key Clients

Franco de Bortoli
Member

Executive Director
Head Human Resources & Education

René Egger
Member

Managing Director
Head Products & Services

Ulrich Hunziker
Member

Managing Director
Chief Financial Officer

Ralf Schroeter
Member

Managing Director
Chief Operations Officer

Report of the Board of Directors

April 23, 2009

Review

2008 was the most challenging year in the history of our bank and the entire financial sector. Over the past months, UBS, as a group, has aggressively managed the challenges of the financial crisis. UBS AG has raised capital from private investors and the Swiss government, cut costs, and substantially cleaned its balance sheet by reducing positions in troubled securities.

Despite the market turmoil and the difficulties our group has faced, UBS (Luxembourg) S.A. achieved solid results, based on a diversified business portfolio, and once more, was honoured as “Best Private Bank 2008” in Luxembourg by Euromoney.

Facing adverse market conditions, UBS (Luxembourg) S.A. was able to achieve revenues of CHF 437 million (-12%). Full year costs were reduced by 14% due to tight cost management. This resulted in a profit of CHF 208 million, which is a respectable result under these economic circumstances. Especially the fourth quarter was difficult, as markets and FX rates decreased substantially. But in spite of a significant decrease in assets under custody, it was also possible to achieve a strong increase in the number of Investment Funds. This success can certainly be attributed to the performance of the Luxembourg financial marketplace, recognized as an international centre of excellence for Private Banking and Investment Funds.

Looking at the current market situation, UBS (Luxembourg) S.A. decreased the number of employees by 4% to reach 446 full time equivalents in Luxembourg. We expanded our business in Belgium with the opening of a new UBS branch office in Ghent. Today, UBS (Luxembourg) S.A. employs over 600 people including our subsidiary in Belgium, and branches in Austria and Ireland.

In relation to the Madoff investment fraud, UBS (Luxembourg) S.A. is responding to inquiries of the Luxembourg regulator Commission de Surveillance du Secteur Financier (CSSF). CSSF has made inquiries concerning two third party funds established under Luxembourg law, the major portion of the assets of which were with Bernard L. Madoff Investment Securities LLC, and which now face severe losses. The two funds were in the magnitude of approx. USD 1.7 billion, although that figure is reflective of the last reported NAV

before the revelation of the fraud and therefore likely includes fictitious profit reported by Bernard L. Madoff Investment Securities LLC. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and that UBS's employees serve as board members. On 25th of February 2009, the CSSF issued a communiqué with respect to the larger of the two funds, stating that UBS (Luxembourg) S.A. had failed to comply with its due diligence responsibilities as custodian bank. The CSSF ordered UBS (Luxembourg) S.A. to review its infrastructure and procedures relating to its supervisory obligations as custodian bank. Whilst UBS (Luxembourg) S.A. does not agree with the CSSF's conclusion, the Board of Directors nonetheless takes the matter very seriously and has initiated a thorough assessment of all related facts and the processes in place. This assessment is supported by external counsel and will help to decide on the way forward. Against this background, certain alleged beneficiaries of the two funds and of other funds with Madoff related positions are trying to hold UBS (Luxembourg) S.A. (amongst others) liable for losses suffered by them in connection with the Madoff fraud. It is currently not possible to predict the outcome of this contingency. Further details of these claims are contained in note 17 to the accounts.

In 2008, the UBS Luxembourg Group introduced the ICAAP (Internal Capital Adequacy Assessment Process) Framework, which ensures that risks are managed in relation to capital hold. The ICAAP framework is supervised by the Management Committee and by the Board of Directors.

On October 1st, 2008, after almost 4 years with UBS (Luxembourg) S.A., Juergen Gerber handed over his duties as Chief Financial Officer of UBS (Luxembourg) S.A. to Ulrich Hunziker.

On April 1st, 2009, CEO José F. Sierdo handed over his duties to Andreas Przewloka, currently board member of UBS (Luxembourg) S.A. and UBS Fund Services (Luxembourg) S.A.

Peter Faes, Gerhard Fusenig and Hans-Karl Held have resigned during 2008 as members of the Board of Directors. In June 2008, Felix B. Ronner joined the Board.

Profit and Loss Account

In the year 2008, total net revenues amounted to CHF 437.5 million, compared to CHF 497.4 million in 2007. Commissions and fees contributed the main portion to overall revenues and decreased by 17% over the previous year. Despite the weak market conditions, net income of interests increased by 14%. General administrative expenses decreased from CHF 172.7 million in 2007 to CHF 140.6 million in 2008 as a consequence of the decrease in headcounts and the stringent cost control in both Austria and Luxembourg locations. After deduction of depreciation and other operating expenses a profit before tax of CHF 250.7 million was reported. The net profit, after income tax of CHF 42.8 million, amounts to CHF 207.9 million. This total compared to CHF 274.9 million in the previous year represents a reduction of 24 %.

Regarding the profit allocation of the year 2007, the Board of Directors proposed the payment of a dividend of CHF 275 million and a reduction of CHF 0.1 million of retained earnings. The General Assembly as of May 13th, 2008 however decided to allocate CHF 150 million to the reserves and the payment of dividends of an amount of CHF 125.25 million out of the profit 2007.

As of end of year 2008, the Board of Directors proposed a prepayment of dividends of CHF 188 million, whereof CHF 50 million have been removed out of the reserves and CHF 138 million have been prepaid out of the profit for the financial year 2008. A circular resolution of the shareholders as of December 12th, 2008 approved this proposal of the Board of Directors.

Balance Sheet

Client asset outflow with related cash positions and fewer short-term loans granted to third parties led to a balance sheet decrease of 18 % during 2008. Total assets amounted to CHF 19.7 billion (CHF 25.1 billion as of 31.12.2007). The transferable debt securities decreased from CHF 223.3 million to CHF 96.6 million as at December 31, 2008.

Liabilities owed to customers decreased by CHF 5.3 billion. In direct relation to customer loans, the Bank has outstanding bond structures of CHF 2.7 billion as of year-end 2008. As of 31 December 2008, the Bank's subscribed capital

and reserves stood at CHF 660.1 million. 2007 profit was allocated as follows: CHF 125.25 million in the payment of dividends, CHF 150 million as a reserve and CHF 0.1 million as profit to be carried forward.

Except for the evolution of the "Madoff case", which is described above in the review part, no other significant events took place until now, after December 31, 2008.

As of December 31, 2008, the Bank has not acquired any of its own shares.

Proposal of the Board of Directors to the General Meeting

The Board of Directors recommends that the financial statements for 2008 be approved and that the amount of CHF 207.9 million available to the General Meeting be allocated as follows:

- Net profit according to Profit & Loss Account	CHF	207,864,510
- Profit brought forward from previous year	CHF	127,149
	CHF	207,991,659

Proposed allocation:

- Dividend prepayment in 2008	CHF	138,000,000
- Dividend payment in 2009	CHF	69,900,000
- Distribution to reserves	CHF	-
- Profit to be carried forward	CHF	91,659
	CHF	207,991,659

Risk Management

The different risk categories of the Bank are monitored through various tools, committees and reports. The risks are monitored in first instance by the Risk Management Support Functions and independently by the Risk Control Department. A Risk Committee chaired by the CFO and the risk managers takes place on a monthly basis to monitor the risks identified.

On a monthly basis, Risk Control produces a risk report summarising all the major risks identified with risk owner and deadline for solving the issue. This report is submitted to the Management Committee for discussion and approval. Checks, limits and controls have been put in place to control

the Bank on a daily basis, according to the Risk Management and control principles set-up by the UBS Group. All Management controls are also entered into the local Control Tool and regularly monitored by Risk Control. A complete set of policies regulates the businesses conducted by the Bank.

Finally the Bank has set-up an Operational Risk Framework and a semi annual self-certification process in order to ensure that all the risks are properly managed and controlled, and compliant with the Sarbanes-Oxley Act section 404. All risks are tracked and monitored in the Risk Inventory tool set-up by Risk Control and all operational gains or losses are input in a specific application for adequate follow-up.

Independent Controls and Risk Assessments have been standardized and introduced to the Risk Control function in 2008. Those assessments are documented in the Activity Map Tool, respectively those Controls in the Global Key Control Tool.

The UBS (Luxembourg) S.A. credit activity mainly covers the Traditional Wealth Management business and the 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 431,963,920.

In 2008, UBS (Luxembourg) S.A. for the first year introduced the Internal Capital Adequacy Assessment Process (ICAAP) related to the Pillar 2 of Basel II. This process enables the bank to manage its internal capital adequacy in relation to its internal risks. The result of the ICAAP implementation is documented in an ICAAP report approved by the Management Committee and by the Board of Directors.

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 disclosure according to Basel II Pillar 3.

Liquidity and funding risks

UBS (Luxembourg) S.A., as part of UBS Group, is fully integrated into the UBS Group framework for liquidity and funding risk. The overall funding strategy is based on nine core principles such as diversification of funding sources, minimizing funding costs and exposure to roll-over risk, the centralized management and the need of maintaining adequate secured funding capacity and sufficient "cash-capital". Besides, it was agreed on the principles to perform scenario analysis under stressed market conditions, to maintain franchise value of care client funding and obtaining liquidity support.

The general liquidity status of the Group is overseen by Group Treasury.

There is strong evidence that all these goals are best supported by a centralization of the funding and risk management processes. The central treasury approach means that both market risk limits and market access in relation to these processes are restricted to a limited number of treasury functions. This is why the liquidity and funding risk approach are managed by UBS (Luxembourg) S.A. and supported by the Group, while fully benefiting from the central UBS Group procedures.

During 2008, the liquidity ratio of the Bank slightly increased from 76.5%, as of December 31, 2007, to 77.26% as of December 31, 2008, exceeding the required minimum of 30%.

The solvency ratio was 10.72% as of December 31, 2008.

As of December 31, 2008, UBS (Luxembourg) S.A. did not have any subordinated loans.

Credit risk

In its credit business, the Bank maintains a strict policy in selecting its various credit clients and counterparties, focussing primarily on Wealth Management clients as well as Institutional Funds. All credits are granted in accordance with applicable policies approved locally or globally. In general, Lombard loans and other credit exposures are secured by assets pledged in favour of the Bank. Pledged assets always require a lending value covering the Bank's commitment. The lending value assigned to client assets is daily re-valued by the Bank and margin calls are initiated when required. To ensure proper segregation of duties, the limits for the uncommitted credit facilities are approved and reviewed on a regular basis by an independent department. Within the rules of a dedicated system in place, Client Advisors can handle themselves standard Lombard facilities up to a limited credit amount. The monitoring of all limits and client exposures in the system is performed daily by the respective unit within the monitoring framework. All drawings and payments are based on the 'four eyes' principle. Additional credit risk is related to "commercial loans", which are provided very selectively against cash collateral held with the Bank. UBS also performs securities lending operations for investment funds and large customers by acting as an agent. Commitments towards UBS Group entities represent a significant part of the total credit exposure.

2008, compared to year end 2007, the credit risk amount, as defined by the Bank's standard, resulting from Lombard loans to traditional Wealth Management clients and Funds reduced from CHF 3,624 billion to CHF 2,577 billion, whereas the exposure related to guarantees and margin exposure for foreign exchange and Exchange traded products increased from CHF 706 million to CHF 901 million.

Specifically, the drawings under the liquidity facilities for the more than 400 Institutional (Sub) Funds were fluctuating throughout the year in line with the underlying business needs, but remained overall stable, only exceptionally exceeding CHF 1 billion. In contrary, the Institutional Fund of Hedge Funds temporarily increased their utilization substantially in light of the September / October Market events resulting from a high volatility of the exchange rates with impact on the open currency hedge transactions and the liquidity needs to finance substantial redemption requests. However, these Funds managed to halve the respective exposure for end of the year numbers.

During this difficult market situation the Bank was also required to issue a number of margin calls or even to close out several of its Wealth Management clients and due to the extraordinary high market volatility and temporarily tightening market liquidity, not all clients in collateral shortfall could be successfully closed out timely to cover the credit exposure by the collateral market values. This resulted for two clients in total provisions amounting to CHF 1.25 million. In December, additional provisions had to be established for loans collateralized by "Madoff" managed Funds.

Market risk

The Bank has limited exposure with very limited FX and interest rate limits. The main task of the trading desk is to handle execution of client orders. The Bank deals in all financial products requested by clients and matches respective products with the brokers that are approved and monitored by UBS AG. In addition, the Bank is engaged in routing as many as possible orders for execution to UBS AG, in accordance with the Bank's MiFID (Markets in Financial Instruments Directive) Best Execution policy. A small business inventory limit is in place to enable a minimal handling space for the daily flows.

As at December 31, 2008, the Bank held a bond portfolio of CHF 96.6 million completely hedged with identical notes issued by UBS (Luxembourg) S.A. Nevertheless, none of these positions are trading positions, as the bank does not actively manage a proprietary trading book. Due to the limited FX and sensitivity limits available to the Bank, almost all money market and foreign exchange exposures are refinanced / hedged with UBS AG.

As of 31 December 2008, the Bank had an approved sensitivity limit of CHF 30,000 per basis point, with an utilisation of the sensitivity limit of CHF 12,049 per basis point, representing 40% of the limit. The interest rate stress test scenario of +200bp had an effect of CHF -2,381,674, whereby the scenario of -200bp had an effect of CHF 2,432,320. The sensitivity is part of the global UBS limit framework and is controlled daily on a local and group wide basis. The Bank has also a small FX spot limit of CHF 3 million intraday and CHF 1.5 million overnight (limited to single currency positions of CHF 200,000). These positions are monitored daily by the Risk Control Department and all overdrafts must be justified.

As a matter of principle, no derivative instruments are used for proprietary trading or leveraging purposes. All OTC transactions are executed through UBS AG. The main purpose of derivatives held by the Bank is to cover derivative transactions made by the Bank on behalf of its clients and to hedge interest rate risks.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural). The losses may be direct financial losses, or indirect, in the form of revenue forgone as a result of business suspension. They may also result from damage to our reputation and our franchise, which have longer term financial consequences.

Unlike credit and market risks, operational risks are not risks that are actively entered into (only during a new business initiative) but, rather, risks that arise as a consequence of our business activity. The operational risk is composed of the following categories: transaction processing risk, compliance risk, legal risk, liability risk, security risk and tax risk.

In order to manage Operational Risk at group level, but also to comply with a number of fundamental regulatory requirements, most notably the new Basel capital accord (Basel II) and the Sarbanes-Oxley Act section 404, UBS Group designed and implemented an Operational Risk Framework (ORF).

All the risks detected in the context of the ORF are tracked and monitored within the Operational Risk Inventory. Furthermore, all operational gains and losses must be entered into a monitoring tool and properly approved by the management and by Risk Control.

The Board of Directors of UBS (Luxembourg) S.A. has initiated a thorough review of its custodian systems and processes in order to reconfirm compliance with the applicable regulatory rules.

Provisioning levels as per circular CSSF 08/386

As at December 31, 2008, the Bank held a general provision available for potential liabilities under the guarantee (A.G.D.L.) amounting to CHF 3,215,556 (2007: CHF 4,297,223). The amount is included in the balance sheet under "Provisions".

As per reference to the circular CSSF 08/386 payments of CHF 1,732,562 have been booked against the provision and a supplementary provision of 650,895 has been recorded in the year 2008.

The lump-sum provision as of December, 31 2008 ends up with a balance of CHF 7,457,579 (2007: CHF 35,173,034). The decrease of the provision is mainly due to collaterals negatively impacted by the potential 'Madoff' fraud. (CHF 26,465,455)

Activities of UBS (Luxembourg) S.A.

The main business streams of the bank can be divided into 4 main pillars;

The traditional wealth management business: this area represents the root of our business in Luxembourg. Our client advisors specialising in advice for clients living in geographical areas as Belgium, the Netherlands, France, Germany, United Kingdom, Middle-East, Scandinavia or Switzerland are well trained to provide wealth management solutions. In addition, Financial Intermediaries will find at UBS a vast array of products and services to cater for their need. Dedicated services are offered to Financial Intermediaries from Benelux and Switzerland.

The tailor-made structured solutions for key clients: dedicated solutions are worked out to suit the need of ultra-high net worth individuals. The tailor-made solutions include amongst other services personalised SICAV structures and consolidated asset and performance reporting.

The custodian bank: performs the custody Bank activities for UBS and third party investment funds booked in Luxembourg and other locations. The longstanding experience and streamlined as well as automated processes enable an efficient processing of securities.

The service hub: leverages mainly operations and information technology of UBS (Luxembourg) S.A. and makes these services available to other entities of UBS Group. By far, the most significant outsourcing activity lies with Locations Belgium and Austria, where both capitalize on the IT platform, operations and support functions provided.

A healthy balance of priorities and resources allocated to these 4 areas helps to develop new activities without jeopardising our well-established business lines.

Subsidiaries and branches of UBS (Luxembourg) S.A.

In December 2008, UBS (Luxembourg) S.A. operated three banking units. The risk framework of UBS Belgium SA/NV, UBS (Luxembourg) S.A. Austria Branch and UBS (Luxembourg) S.A. Dublin Branch is based on the same standards as those applicable to the Bank. All three locations have implemented a properly working Local Risk Control Committee and are monitored by Risk Control Luxembourg. UBS Belgium SA/NV and UBS (Luxembourg) S.A. Austria Branch have their treasury operations carried out by the Bank in Luxembourg. Both entities have small FX spot and sensitivity limits (respectively a FX spot limit of EUR 300,000 and CHF 400,000 and a sensitivity limit of CHF 500 per basis point for each entity). These limits are monitored on a daily basis.

Social and environment

UBS Luxembourg is committed to a set of fundamental social and environmental values, and is convinced that adopting those principles - "human rights", "labour standards", "environment" and "anti-corruption" - not only contributes to its stated objective, but also creates value for its share-

holders. Within the principle of human rights we assure that our business will support and respect the protection of internationally proclaimed human rights within their sphere of influence and make sure that they are not complicit in human rights abuses. Also UBS (Luxembourg) S.A. is committed to Labour Standards to uphold the freedom of association and the effective recognition of the right to collective bargaining, to force the elimination of all forms of forced and compulsory labour and eliminate discrimination in respect of employment and occupation. Related to Environmental issues we align our business to support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies. Finally we strongly agree on Anti-Corruption guidelines, to work against all forms of corruption including extortion and bribery.

We also seek to pursue opportunities in the financial market for environmentally-friendly products and services, such as Socially Responsible Investments (SRIs). We offer a variety of SRIs to our environmentally and socially engaged customer base.

We are committed to providing an environmentally safe work place to our staff, and to actively seeking ways to reduce our direct environmental impact on air, soil and water from in-house operations, with a primary focus on reducing greenhouse gas emissions. The major areas where UBS Luxembourg has a direct impact are, in order of importance, energy consumption, business travel, paper consumption, and waste. We will seek to assess the environmental impact of our suppliers' products and services, and to engage with them whenever necessary to limit environmental risks.

Outlook

The financial industry is changing rapidly and the financial sector needs to adjust its businesses to operate profitably and generate sustainable earnings. In light of this, UBS AG has replaced the Global Wealth Management & Business Banking division with two new business divisions; Wealth Management & Swiss Bank and Wealth Management Americas. The new structure will further help to focus on the UBS Group top priority: delivering first-class services to our clients.

2009 is expected to be a difficult year and a year of consolidation. The financial market conditions remain fragile. Although governments taking measures to ease fiscal and monetary conditions, company and household cash flows continue to deteriorate.

Our outlook therefore remains cautious, facing an ongoing decrease of our client's asset base and revenues. UBS (Luxembourg) S.A. will pursue managing our business in a disciplined fashion, while continuing to deliver outstanding services to our clients and will continue its program to maintain its financial position through continuing cost cautiousness. Having experienced over the years increasing growth, it is time to execute on our strategy and ensure we have a solid and scalable base to sustain future development. Looking ahead, our efforts will focus on restoring client and employee confidence.

The Board of Directors and the Management Committee members of UBS (Luxembourg) S.A. would like to take this opportunity to thank all our clients for their trust and loyalty as well as the staff members for their continuing support.



Arthur Decurtins
Chairman of the Board
UBS (Luxembourg) S.A.



Andreas Przewloka
Member of the Board and
Chief Executive Officer
UBS (Luxembourg) S.A.

Independent Auditor's Report

To the Board of Directors of
UBS (Luxembourg)
Société Anonyme
Luxembourg

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of UBS (Luxembourg) S.A., which comprise the balance sheet as at December 31, 2008 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts. This responsibility includes: designing; implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of UBS (Luxembourg) S.A. as of December 31, 2008, and of the results of its operations for the year then ended in accordance with the Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Without qualifying our opinion we draw attention to Note 17 to the financial statements, which makes reference to Madoff related issues and their potential impact on UBS (Luxembourg) S.A. The ultimate outcome of these matters cannot at present be determined. These issues, as set forth in Note 17, indicate the existence of a material uncertainty which, should the underlying risk materialize, may require the Bank to raise additional capital in order to continue as a going concern.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is in accordance with the annual accounts.

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Christoph Haas
Luxembourg, 5 May 2009

Balance Sheet

December 31, 2008
(expressed in Swiss francs)

Assets

	2008	2007
Cash, balances with central banks and post office banks	351,508,349	418,814,580
Loans and advances to credit institutions (Notes 3, 4)	15,097,055,502	18,899,259,147
a) repayable on demand	8,496,710,969	10,689,725,912
b) with agreed maturity dates or periods of notice (Note 4)	6,600,344,533	8,209,533,235
Loans and advances to customers (Notes 3, 4)	3,924,832,908	5,060,642,759
Debt securities and other fixed-income transferable securities (Note 5)	96,621,523	223,300,485
a) issued by credit institutions	4,221,225	72,446,445
b) issued by other borrowers	92,400,298	150,854,040
Shares and other variable-yield securities (Note 5)	9,819	121,293
Shares in affiliated undertakings (Notes 3, 6)	33,925,986	37,664,285
Intangible assets (Note 6)	2,179,859	5,506,875
Tangible assets (Note 6)	40,258,590	42,578,348
Other assets (Note 7)	17,698,682	38,809,913
Prepayments and accrued income	152,269,611	378,569,003
Total Assets	19,716,360,829	25,105,266,688

The accompanying notes form an integral part of the annual accounts.

Liabilities

	2008	2007
Amounts owed to credit institutions (Notes 3, 8)	2,731,250,866	1,768,292,759
a) repayable on demand	100,449,857	706,031,027
b) with agreed maturity dates or periods of notice (Note 8)	2,630,801,009	1,062,261,732
Amounts owed to customers (Notes 3, 8)	13,396,504,123	18,687,672,221
Other debts		
a) repayable on demand	8,230,162,701	11,242,393,657
b) with agreed maturity dates or periods of notice (Note 8)	5,166,341,422	7,445,278,564
Debts evidenced by certificates (Note 8)	2,674,352,367	3,303,815,616
Bonds issued	2,674,352,367	3,303,611,564
Other debt securities	-	204,052
Other liabilities (Note 9)	35,784,230	52,046,647
Accruals and deferred income	123,736,415	357,112,579
Provisions	24,601,169	25,809,717
a) Provisions for taxation	15,636,495	16,958,017
b) Other provisions (Notes 10, 18)	8,964,674	8,851,700
Subordinated liabilities (Notes 3, 11)	-	75,000,000
Shareholders' equity (Note 14)	730,131,659	835,517,149
a) Subscribed capital (Note 12)	150,000,000	150,000,000
b) Reserves (Note 13)	510,140,000	410,140,000
c) Profit brought forward	127,149	506,781
d) Interim dividends	(138,000,000)	-
e) Profit for the financial year	207,864,510	274,870,368
Total Liabilities & Shareholders' equity	19,716,360,829	25,105,266,688

Off - Balance Sheet

Contingent liabilities (Notes 3, 16)	198,951,416	107,006,010
of which:		
- Guarantees given	198,951,416	107,006,010
Commitments (Note 16)	427,823,227	-
of which:		
- Loan Commitments given	427,823,227	-
Fiduciary transactions (Note 16)	3,100,291,202	1,258,138,884

Profit and Loss Account

Profit and Loss Account
For the financial year ended December 31, 2008
(expressed in Swiss francs)

Charges

	2008	2007
Interest payable and similar charges	912,243,949	974,975,222
Commission payable	17,967,657	25,478,799
General administrative expenses	140,652,511	172,695,167
a) Staff costs (Note 23)	105,600,302	111,299,471
of which: - wages and salaries	85,613,799	95,281,326
- social security costs	10,198,343	11,050,760
of which: relating to pensions	8,986,607	8,648,636
b) Other administrative expenses	35,052,209	61,395,696
Value adjustments in respect of tangible and intangible assets	10,200,792	7,576,329
Other operating charges (Note 19)	6,574,218	3,311,453
Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments (Note 25)	29,330,719	-
Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings	3,882	-
Tax on profit on ordinary activities (Note 19)	42,820,488	38,934,543
Profit on ordinary activities after tax	207,864,510	274,870,368
Extraordinary result	-	-
Tax on extraordinary result	-	-
Other taxes not shown under the preceding items	-	-
Profit for the financial year	207,864,510	274,870,368
	1,367,658,726	1,497,841,881

The accompanying notes form an integral part of the annual accounts.

Income

	2008	2007
Interest receivable and similar income	1,012,766,084	1,063,152,880
of which: income from debt securities and other fixed-income securities	5,748,359	3,748,106
Income from securities	90	3,055
of which: income from shares and other variable-yield securities	90	55
of which: income from shares in affiliated undertakings	-	3,000
Commission receivable	296,936,406	360,358,881
Net profit on financial operations	26,339,406	26,768,957
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and commitments (Note 26)	27,715,455	-
Value re-adjustments in respect of transferable securities held as financial fixed assets, participating interest and shares in affiliated undertakings	-	174,193
Other operating income (Note 19)	3,901,285	47,383,915
Income from the reversal of amounts included in the fund for general banking risks	-	-
	1,367,658,726	1,497,841,881

Notes to the Accounts

December 31, 2008

1 General

Union de Banques Suisses (Luxembourg) S.A. was incorporated as a "société anonyme" in the Grand-Duchy of Luxembourg on August 20, 1973. On May 29, 1998, as a consequence of the worldwide group merger process, Union de Banques Suisses (Luxembourg) S.A. and Swiss Bank Corporation (Luxembourg) S.A. decided to merge. Union de Banques Suisses (Luxembourg) S.A. absorbed Swiss Bank Corporation (Luxembourg) S.A., which became retroactively effective from an accounting point of view on January 1, 1998. The merged entity changed its name to UBS (Luxembourg) S.A. ("the Bank").

As of August 31, 2002, the merger between UBS (Luxembourg) S.A. as absorbing company and Banque Ferrier Lullin (Luxembourg) S.A. as absorbed company became effective.

The Bank has opened a branch in Vienna, Austria, in May 2003 and a branch in Dublin, Ireland, in December 2005.

The main activities of the Bank are wealth management, structured solutions for key clients, custodian bank services and the service hub, that provides services to other UBS Group entities.

Consolidation

The Bank is a wholly owned subsidiary of UBS AG, which is incorporated in Switzerland. The annual accounts of the Bank are included in the consolidated financial statements of the UBS AG, which are available at UBS AG, P.O. Box, CH-8098 Zurich, Switzerland.

As per article 82 of the law of 17th of June 1992, the Bank is exempted to prepare consolidated accounts and a consolidated report of Board of Directors.

2 Summary of significant accounting policies

The annual accounts are prepared in accordance with Luxembourg legal and regulatory requirements. The annual accounts are prepared in Swiss francs, which is the currency of the share capital.

The significant accounting policies applied by the Bank are as follows:

Foreign currencies

Foreign currency transactions are denominated in a currency other than the functional currency of the bank.

The Bank maintains a multicurrency accounting system, as a result of which assets and liabilities are recorded in the currencies in which they are denominated.

For the preparation of the annual accounts, amounts in foreign currencies are translated into Swiss francs on the following basis:

Foreign currency transactions are recorded, on initial recognition in the functional currency, by applying to the foreign currency amounts the spot exchange rate at the date of the transaction.

Income, expenses and purchases of fixed assets are recorded in the currency in which they are collected or disbursed and are translated into Swiss francs at rates approximating those at the time of the transaction.

Exchange gains and losses arising on the translation of foreign currencies positions in the balance sheet are taken to the profit and loss account in the current year.

Unrealised exchange losses on forward foreign exchange contracts entered for own account are recognised in the statement of profit and loss.

Gains and losses on currency swap transactions transacted for treasury purposes are accrued on the straight-line basis over the period of the currency swap contract and are included in interest receivable or payable in the profit and loss account, as appropriate.

Net unrealised exchange gains and losses on forward foreign exchange contracts entered for clients and covered on the open market are recognised in the statement of profit and loss.

Exchange rates

The following significant spot exchange rates have been applied:

	31.12.2008	31.12.2007
EUR/CHF	1.4899423	1.654119
GBP/CHF	1.5552792	2.250946
RUB/CHF	0.0356451	0.046131
JPY/CHF	0.0117343	0.010153
USD/CHF	1.0663969	1.133620

Loans and advances

Loans and advances are stated at disbursement value less re-payments made and any value adjustments required.

Appropriate value adjustments are made against specific loans where, in the opinion of management, a risk relating to their ultimate recovery has been identified.

Provisions

The lump sum provision established in conformity with Luxembourg tax and banking legislation is recorded in the reporting currency. The provision relating to assets is presented as a reduction in the value of the assets upon which the calculation of the provision is based.

A provision on the basis of the law on deposit guarantee schemes (Provision AGDL) is reported in the category «Other provisions» (refer to Note 18).

Securities Portfolio

The Bank has divided its securities portfolio into two categories.

(i) Investment portfolio of financial fixed assets

This portfolio comprises fixed-income securities intended for use on a continuing basis in the Bank's activities. Such securities are valued at the lower of cost or market value.

It may also include participating interests and shares in affiliated undertakings of a fixed asset nature. These investments are valued at cost less permanent impairment in value.

As of 31 December 2008 the Bank does not have fixed-income securities classified as investment portfolio (2007: 0).

(ii) Structural portfolio

This portfolio comprises securities purchased for their investment return or yield, or held to establish a particular asset structure or a secondary source of liquidity. It also includes securities not contained in the other category. Securities in this portfolio are valued at the lower of cost or market value.

The Bank does not operate a security portfolio for trading purposes.

The Bank records the cost of securities using the weighted average price method.

Intangible and tangible fixed assets

Intangible and tangible fixed assets are valued at historical acquisition cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful life of the individual fixed assets.

Goodwill represents the excess of the cost of an acquisition over the fair value of the bank's share of net identifiable assets of the acquired entity or asset at the date of acquisition. Goodwill is amortized over a period of 5 years.

The following depreciation rates are used:

Intangible fixed assets	20%
Buildings	2%
Furniture	10%
EDP equipment	20%
EDP software	50%

Derivative instruments

Commitments resulting from operations on forward financial instruments on interest rates, foreign exchange rates or on market rates are recorded in the statement of off-balance sheet items on the transaction date at the nominal value of the contracts.

(i) Interest rate swaps

Interest rate swaps contracted for own account are entered into to hedge selected balance sheet items. Accrued interest receivables and payables are included in the balance sheet captions "Prepayments and accrued income" and "Accruals and deferred income". Interest income and expense are recorded in the respective profit and loss accounts.

Interest rate swaps contracted for clients are matched with contracts with counterparties. Unrealised gains and losses are recorded net in the statement of profit and loss.

(ii) Options

Options are exclusively contracted for clients and covered on the open market.

Premiums on purchased/written OTC options are recorded in the balance sheet until the earlier of exercise or expiration date occurs.

Net realised and unrealised gains or losses on matched options traded on organised markets and net unrealised losses on matched positions on over-the-counter trades are recorded in the profit and loss account. Net unrealised gains on over-the-counter trades are recorded in the profit and loss account at realisation date, which is at the earlier of exercise or expiration date.

(iii) Futures

Futures are contracted by the Bank exclusively on behalf of clients. Related commitments towards clients and third parties are recorded off-balance sheet. The respective positions are revalued on a regular basis. The Bank operates margin accounts with its clients, through which unrealised and realised results are settled.

3. Affiliated undertakings

Transactions with other Group Companies

	2008	2007
	CHF	CHF
Assets (before allocation of lump-sum provision)		
Loans and advances to credit institutions	13,229,893,280	17,262,082,133
Loans and advances to customers	1,686,034	17,704,941
Shares in affiliated undertakings	33,925,986	37,664,285
Liabilities		
Amounts owed to credit institutions	2,300,267,076	1,425,435,938
Amounts owed to customers	608,182,889	677,331,613
Subordinated Liabilities	-	75,000,000
Off-balance sheet		
Contingent liabilities		
- Guarantees given	1,508,269	387,064
Commitments		
- Loan Commitments	51,798,144	-

Shares in affiliated undertakings

Shares in affiliated undertakings are recorded at cost less value adjustments for permanent impairment as estimated by the Board of Directors and can be summarised as follows:

Name	Registered office	Percentage owned	Acquisition cost CHF	31.12.2008 Shareholders' equity (unaudited) CHF **	Profit of the year 2008 (unaudited) CHF
UBS Belgium SA/NV	Brussels, Belgium	99.00%*	33,925,986	31,825,912	2,433,196

* Capital paid-in at 100 %

** Including the result of the year

As of December 31, 2008 and 2007, no value adjustment was recorded on the shares in affiliated undertakings as, according to the Management of the Bank, no permanent impairment in value has been incurred.

- UBS Belgium SA/NV is a credit institution incorporated in Belgium in 2002.

- UBS Belgium SA/NV is not quoted on an official Stock Exchange.

- The audited financial statements as at December 31, 2008 for the affiliated undertaking were not yet available at the date of completion of these annual accounts.

4. Maturity structure of certain asset categories

Loans and advances to credit institutions

	2008	2007
	CHF	CHF
	' 000	' 000
With agreed maturity dates or period of notice		
- not more than three months	4,997,452	6,840,312
- more than three months but not more than a year	488,291	211,542
- more than one year but not more than five years	1,110,183	1,154,186
- more than five years	4,419	3,493
	6,600,345	8,209,533

Loans and advances to customers

	2008	2007
	CHF	CHF
	' 000	' 000
Repayable on demand	1,279,363	2,053,234
With agreed maturity dates or period of notice		
- not more than three months	565,293	502,117
- more than three months but not more than a year	468,755	626,383
- more than one year but not more than five years	971,584	1,197,603
- more than five years	639,838	681,306
	3,924,833	5,060,643

5. Transferable securities

Listed and unlisted securities

	2008	2007
	CHF	CHF
Debt securities and other fixed-income securities		
- listed on an official Stock Exchange	96,621,523	223,300,485
- unlisted	-	-
	96,621,523	223,300,485
of which maturing within one year:	12,162,108	29,985,085
Shares and other variable-yield securities		
- listed on an official Stock Exchange	9,819	108,492
- unlisted	-	12,801
	9,819	121,293

All listed and unlisted securities are classified into the structural portfolio.

The credit and interest rate related exposure of the listed securities are hedged through credit default linked bonds issued by the Bank. They are recorded at acquisition cost.

6. Movement in fixed assets

(Expressed in thousand of Swiss francs)

Movement during the year in fixed assets may be summarized as follow:

	Gross book value at January 1st, 2008	Additions and <Disposals>	Other Adjustments	Gross book value at December 31, 2008	Accumulated value of adjustments at December 31, 2008	Net book value at December 31, 2008	Net book value at December 31, 2007
1. Shares in affiliated undertakings	37,664	-	3,738	33,926	-	33,926	37,664
2. Intangible assets	16,376	-	776	15,600	13,420	2,180	5,507
3. Tangible assets							
a) Lands and buildings	31,998	3,917	-	35,915	7,782	28,133	27,713
b) Other fixtures and fittings, tools and equipment	38,347	1,145	-	39,492	27,367	12,125	14,865

In May 2004 UBS (Luxembourg) S.A. Austria Branch bought client assets from Merrill Lynch Austria and in January 2005 UBS (Luxembourg) S.A. acquired selected client assets from American Express Private Banking (Luxembourg) S.A. The net book value of both goodwill items as at December 31, 2008 amounted to CHF 2,179,859 (2007: CHF 5,506,875).

The net book value of lands and buildings used by the Bank for its own operations amounts to CHF 28,133,729 as of December 31, 2008 (2007: CHF 27,713,294).

The total depreciation for fixed assets in 2008 amounted to CHF 5,900,119 (2007: CHF 7,576,329).

7. Other assets

The detail of other assets is split as follows:

	2008	2007
	CHF	CHF
Option premiums	15,282,054	33,445,026
Short term receivables	43,915	5,013,606
Receivables related to securities lending	1,190,000	-
Other receivables	1,182,713	351,281
	17,698,682	38,809,913

8. Maturity structure of certain liability categories

Amounts owed to credit institutions

	2008	2007
	CHF	CHF
	' 000	' 000
with agreed maturity dates or period of notice		
- not more than three months	2,367,033	762,749
- more than three months but not more than one year	187,954	159,005
- more than one year but not more than five years	71,395	135,881
- more than five years	4,419	4,627
	2,630,801	1,062,262

Amounts owed to customers

	2008	2007
	CHF	CHF
	' 000	' 000
with agreed maturity dates or period of notice		
- not more than three months	4,814,185	7,205,688
- more than three months but not more than one year	349,795	233,905
- more than one year but not more than five years	2,361	5,686
	5,166'341	7,445,279

Debts evidenced by certificates

	2008	2007
	CHF	CHF
	' 000	' 000
Deposit receipts and certificates of deposits		
- not more than three months	-	204
- more than three months but not more than one year	-	-
	-	204
Bonds issued		
- not more than three months	12,162	-
- more than three months but not more than one year	231,658	370,071
- more than one year but not more than five years	1,747,384	2,169,363
- more than five years	683,148	764,178
	2,674,352	3,303,612

As of December 31, 2008, the bonds issued can be summarized as follows:

Type	Currency	Amount	Date of issuance	Interest rate	Maturity
Bond	USD	17,234,000	16.06.2004	10.00 %	16.06.2009
Bond	USD	600,000,000	22.05.2006	8.25 %	23.05.2016
Bond	USD	200,000,000	14.07.2004	10.00 %	16.06.2009
Bond	USD	300,000,000	22.10.2004	8.375 %	24.10.2011
Bond	USD	300,000,000	11.02.2005	8.00 %	11.02.2010
Bond	USD	1,000,000,000	11.02.2005	6.23 %	11.02.2010
Notes	RUB	1,215,030,000	21.02.2007	7.23 %	12.02.2014
Notes	RUB	430,000,000	05.12.2006	10.70 %	29.11.2011
Notes	RUB	101,200,000	24.03.2006	10.50 %	20.03.2009
Notes	RUB	606,000,000	14.12.2006	7.40 %	05.12.2013
Notes	RUB	118,423,720	26.07.2007	8.40 %	19.07.2012
Notes	RUB	240,000,000	24.03.2006	10.50 %	20.03.2009

The bonds issued in USD are loan participation notes in relation to the respective loans to banks and corporates. The loan participation notes are quoted on the London and Luxembourg stock exchanges.

The notes issued in RUB are credit default notes linked to debt securities classified under the balance sheet caption Debt securities and other fixed-income transferable securities.

9. Other liabilities

	2008	2007
	CHF	CHF
Option premiums	15,392,805	33,615,457
Liabilities related to taxes (VAT, withholding tax)	12,014,678	13,134,985
Settlement accounts	7,090,007	172,143
Pension plan book reserve	1,090,648	1,191,581
Short term payables	196,092	3,932,481
	35,784,230	52,046,647

10. Other provisions

	2008	2007
	CHF	CHF
Provision AGDL (Note 18)	3,215,556	4,297,223
Other provisions	5,749,118	4,554,477
	8,964,674	8,851,700

11. Subordinated liabilities

Subordinated liabilities are governed by the following principles:

In the event of liquidation of the credit institution, the claim ranks after those of non-subordinated creditors. Any early redemption or repurchase or any debt substitution are

subject to prior authorisation by the Commission for the Supervision of the Financial Sector. The debt is subject to Luxembourg law.

As of December 31, 2007, the subordinated liabilities are composed as follows:

Type	Amount CHF	Date of issuance	Interest rate	Maturity
Subordinated Loan UBS AG	50,000,000	21.09.2005	2.66 %	Unlimited
Subordinated Loan UBS AG	25,000,000	20.12.2007	2.66 %	Unlimited

During the course of the year 2008, the subordinated liabilities outstanding as at December 31, 2007 were entirely repaid.

12. Subscribed capital

As at December 31, 2008 and 2007 the authorised and issued share capital, which is fully paid, represents 150,000 registered shares, with no par value.

13. Reserves

Legal reserve

In accordance with Luxembourg law, the Bank has transferred at least 5% of its annual profit to the legal reserve until it amounts to 10% of subscribed capital, which it does. The legal reserve is not distributable.

Free reserve

The free reserve represents profits of prior years, which have been appropriated by the Annual General Meeting of Shareholders. This reserve may be distributed after approval by the Annual General Meeting of Shareholders.

Other reserve

Luxembourg tax legislation provides for a reduction of the net worth tax on the condition that a special non-distributable reserve is established for a period of 5 years and for an amount equal to 5 times the net worth tax liability of a given year. This reserve is included under other reserves and amounts to EUR 108.9 million as of year end 2008 and has been approved by the last General Assembly as of 13 May 2008.

14. Shareholders' equity

The movements of Shareholders' equity may be summarised as follows:

	Subscribed capital	Reserves	Profit brought forward	Profit for the financial year	Interim dividend	Total
	CHF	CHF	CHF	CHF		CHF
Balance at December 31, 2007	150,000,000	410,140,000	506,781	274,870,368	-	835,517,149
Allocation to profit 2007	-	150,000,000	(379,632)	(149,620,368)	-	-
Dividend paid	-	-	-	(125,250,000)	-	(125,250,000)
Other distribution	-	(50,000,000)	-	-	-	(50,000,000)
Profit of the financial year	-	-	-	207,864,510	-	207,864,510
Interim dividend 2008	-	-	-	-	(138,000,000)	(138,000,000)
Balance at December 31, 2008	150,000,000	510,140,000	127,149	207,864,510	(138,000,000)	730,131,659

The Board of Directors of the Bank has decided on 12 December 2008 to distribute an interim dividend on current year profits as of 31 October 2008 amounting to CHF 138 m. The dividend was paid out on 29 December 2008.

During the month of December 2008 the Bank has distributed an amount of CHF 50 m to the shareholders.

The profit allocation for 2007 was approved by the Shareholders of the Bank during the annual general meeting held on 13 May 2008.

15. Currency positions

	2008	2007
	CHF	CHF
	' 000	' 000
Total assets in foreign currencies	17,785,700	22,203,099
Total liabilities in foreign currencies	17,714,485	22,209,462

16. Contingent liabilities, commitments, fiduciary transactions

Contingent liabilities included in off-balance sheet items at 31 December 2008 are as follows:

	2008	2007
	CHF	CHF
Guarantees given	198,951,416	107,006,010

Commitments included in off-balance sheet items at 31 December 2008 are as follows:

	2008	2007
	CHF	CHF
Loan Commitments	427,823,227	-

Fiduciary transactions included in off-balance sheet items at 31 December 2008 are as follows:

	2008	2007
	CHF	CHF
Fiduciary transactions	3,100,291,202	1,258,138,884

17 Commitments and contingencies

In relation to the Madoff investment fraud, UBS (Luxembourg) S.A. is responding to inquiries of the Luxembourg regulator, Commission de Surveillance du Secteur Financier (CSSF). CSSF has made inquiries concerning two third party funds established under Luxembourg law for which UBS (Luxembourg) S.A. has acted, among others, as custodian and UBS employees served as board members. The major portion of the assets of these funds were sub-custodized with Bernard L. Madoff Investment Securities LLC, who operated as well as Broker-Dealer for these structures. Based on the Madoff fraud, these funds now face severe losses. The two funds were in the magnitude of approx. USD 1.7 billion, although it needs to be noted that this amount is reflective of the last reported NAV in November 2008 and as such includes a substantial amount of what UBS (Luxembourg) S.A. from today's viewpoint believes is fictitious profit reported by Bernard L. Madoff Investment Securities LLC.

In connection with the above and with other funds with Madoff related positions, as at 23 April 2009, UBS (Luxembourg) S.A. had approximately 61 claims from investors pending. Four claims relate to unsatisfied redemption requests delivered to these funds prior to the revelation of the Madoff fraud, of which one has been resolved in UBS's favour, but is on appeal, whilst another was resolved in the investor's favour but is also on appeal. The other claims seek reimbursement of the investments or compensation for losses for these funds. The outcome of such claims is at present uncertain and the related payout, if any, impossible to predict. The case is therefore in a too early stage to determine whether a future outflow of economic resources is probable or to estimate any such outflow. In the event that the uncertainties materialize and they result in a substantial payout being required that could not otherwise be borne by UBS (Luxembourg) S.A., in order to continue as a going concern, UBS (Luxembourg) S.A. may need to raise additional capital at the appropriate time.

Given the current status of the matter, the accompanying financial statements of UBS (Luxembourg) S.A. do not include

adjustments for any claims in connection with the Madoff fraud.

18. The Luxembourg association for the guarantee of deposits

The Bank is a member of the non-profit making organisation "Association pour la Garantie des Dépôts, Luxembourg" (AGDL), which was established on September 25, 1989. The articles of association of the AGDL were revised following a general meeting of shareholders held on December 14, 2000.

The AGDL has as its sole objective the establishment of a mutual system for the guarantee of cash deposits for the benefit of customers of the member credit institutions of the Association and for claims arising from investment transactions in favour of investors with the credit institutions and investment firms which are members of the Association.

The guarantee of cash deposits and of claims arising from investment transactions in favour of clients, individuals and certain companies as defined by the regulators, is limited to a maximum amount fixed as the equivalent value in all currencies of EUR 20,000 per cash deposit and EUR 20,000 per claim arising out of investment transactions. If the guarantee is called, the annual payment to be made by each member is limited to 5% of shareholders' equity.

As at December 31, 2008, the Bank held a general provision available for potential liabilities under the guarantee amounting to CHF 3,215,556 (2007: CHF 4,297,223). The amount is included in the balance sheet under "Other provisions" (refer to Note 10).

The following amounts have been booked in the year 2008:

Balance as at 01.01.2008	CHF	4,297,223
Payments 2008	CHF	(1,732,562)
Allocation 2008	CHF	650,895
Total balance as at 31.12.2008	CHF	3,215,556

19. Profit and loss account

Tax charge

The Bank is liable to taxes on income and net assets. The Luxembourg tax authorities have issued assessments for the years up to and including 2003. Tax liabilities are recorded under "Provisions for taxation" in the balance sheet.

In order to comply with Luxembourg tax regulations, the Bank must prepare a fiscal balance sheet in Euro. In its fiscal balance sheet the Bank may neutralise unrealised currency gains on the investment of its shareholders' funds.

Other operating income

	2008	2007
	CHF	CHF
Release of accruals	3,418,243	24,291,553
Realised gain on sale of real estate	-	21,977,380
Transaction processing gains	483,042	1,114,982
	3,901,285	47,383,915

Other operating charges

	2008	2007
	CHF	CHF
Transaction processing losses	3,003,590	2,763,574
Charges related to the employees' share plan	3,570,628	547,879
	6,574,218	3,311,453

20. Financial instrument disclosures

As at December 31, 2008, the information is as follows (in CHF):

Primary non-trading financial instruments

	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Total
Financial assets					
Cash, balances with central banks and post office banks	351,508,349	-	-	-	351,508,349
Loans and advances to credit institutions	13,494,163,115	488,290,838	1,110,182,334	4,419,215	15,097,055,502
Loans and advances to customers	1,844,655,693	468,754,245	971,584,830	639,838,140	3,924,832,908
Debt securities and other fixed-income securities	12,162,108	-	41,149,549	43,309,866	96,621,523
Shares and other variable-yield securities	9,819	-	-	-	9,819
				Total	19,470,028,101
Financial liabilities					
Amounts owed to credit institutions	2,467,482,920	187,953,355	71,395,376	4,419,215	2,731,250,866
Amounts owed to customers	13,044,347,618	349,795,325	2,361,180	-	13,396,504,123
Debt evidenced by certificates	12,162,108	231,657,664	1,747,384,589	683,148,006	2,674,352,367
Guarantees and other direct substitutes for credit	64,904,892	62,525,047	36,765,952	34,755,525	198,951,416
Subordinated Liabilities	-	-	-	-	-
				Total	19,001,058,772

Primary trading financial instruments

None.

As at December 31, 2007, the information is as follows (in CHF):

Primary non-trading financial instruments

	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	Total
Financial assets					
Cash, balances with central banks and post office banks	418,814,580	-	-	-	418,814,580
Loans and advances to credit institutions	17,530,037,842	211,542,075	1,154,185,765	3,493,465	18,899,259,147
Loans and advances to customers	2,555,351,675	626,382,712	1,197,602,692	681,305,680	5,060,642,759
Debt securities and other fixed-income securities	-	29,985,085	109,309,647	84,005,753	223,300,485
Shares and other variable-yield securities	121,293	-	-	-	121,293
				Total	24,602,138,264
Financial liabilities					
Amounts owed to credit institutions	1,468,779,543	159,005,198	135,880,933	4,627,085	1,768,292,759
Amounts owed to customers	18,448,080,590	233,905,416	5,686,215	-	18,687,672,221
Debt evidenced by certificates	204,052	370,071,115	2,169,362,636	764,177,813	3,303,815,616
Guarantees and other direct substitutes for credit	149,938	4,234,380	70,984,247	31,637,445	107,006,010
Subordinated Liabilities	-	-	-	75,000,000	75,000,000
				Total	23,941,786,606

Primary trading financial instruments

None.

Derivative instruments

The Bank carries out the following non-trading transactions on its own behalf:

Operations linked to currencies:

- forward currency contracts
- forward currency swaps

Operations linked to interest rates:

- interest rate swaps

The Bank carries out the following transactions on behalf of its customers:

Operations linked to currency exchange rates:

- interest rate swaps
- cross currency interest rate swaps
- foreign exchange contracts
- futures on currencies
- options on currencies

Operations linked to interest rates:

- futures on interest rates
- options on interest rates

Operations linked to other market rates:

- futures on equities
- options on securities

20. Financial instrument disclosures (continued)

As at December 31, 2008, the transactions in derivative instruments on customers' behalf are as follows:

	2008 by maturities (CHF)				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Foreign exchange contracts OTC (nominal value)					
currencies to be delivered to customers	8,524,232,863	1,510,104,127	21,110,312	-	10,055,447,302
currencies to be received from customers	8,867,220,514	1,473,949,053	21,717,295	-	10,362,886,862
currencies to be delivered to credit institutions	8,996,700,901	1,743,755,469	37,093,628	-	10,777,549,998
currencies to be received from credit institutions	8,656,651,448	1,779,937,643	36,536,622	-	10,473,125,713
Replacement values of foreign exchange contracts OTC					
positive replacement values	767,125,723	128,545,350	2,202,947	-	897,874,020
negative replacement values	764,185,880	128,543,281	2,153,559	-	894,882,720
Currency options (nominal value)					
purchase of call options - counterparty: credit institutions - strike price	10,648,401	381,025	-	-	11,029,427
purchase of call options - counterparty: customers - strike price	5,291	1,094,171	-	-	1,099,462
purchase of put options - counterparty: credit institutions - strike price	17,220,366	2,244,694	-	-	19,465,060
purchase of put options - counterparty: customers - strike price	392,656	1,660,352	-	-	2,053,008
sale of call options - counterparty: credit institutions - strike price	5,291	1,256,263	-	-	1,261,554
sale of call options - counterparty: customers - strike price	10,648,401	218,933	-	-	10,867,334
sale of put options - counterparty: credit institutions - strike price	392,656	1,660,352	-	-	2,053,008
sale of put options - counterparty: customers - strike price	17,220,366	2,244,693	-	-	19,465,059
Replacement values of currency options					
positive replacement values	5,048,146	4,591,164	-	-	9,634,310
negative replacement values	5,048,146	4,591,164	-	-	9,634,310

As at December 31, 2008, the transactions in derivative instruments on customers' behalf are as follows (continued):

	2008 by maturities (CHF)				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Bond Options					
Organised Markets					
purchase of put options - counterparty: customers - strike price	11,456,040,546	2,287,312,497	-	-	13,743,353,041
sale of put options - counterparty: credit institutions - strike price	11,456,040,546	2,287,312,497	-	-	13,743,353,041
Replacement values of bond options					
positive replacement values	9,338	293	-	-	9,631
negative replacement values	9,338	293	-	-	9,631
Stock options					
Organised Markets (nominal value)					
purchase of call options - counterparty: credit institutions - strike price	28,531,001	7,552,740	12,757,711	-	48,841,452
purchase of call options - counterparty: customers - strike price	74,219,164	11,535,844	15,724,414	-	101,479,423
purchase of put options - counterparty: credit institutions - strike price	29,337,790	2,802,553	2,195,069	-	34,335,412
purchase of put options - counterparty: customers - strike price	76,650,216	17,037,703	14,991,153	-	108,679,072
sale of call options - counterparty: credit institutions - strike price	84,155,686	12,664,134	21,020,136	-	117,820,794
sale of call options - counterparty: customers - strike price	18,594,479	6,443,613	7,461,989	-	32,500,081
sale of put options - counterparty: credit institutions - strike price	79,488,918	19,100,311	16,445,068	-	115,034,297
sale of put options - counterparty: customers - strike price	26,499,088	739,945	741,154	-	27,980,187
Replacement values of stock options					
positive replacement values	11,895,933	6,728,005	12,343,842	-	30,967,780
negative replacement values	11,895,933	6,728,005	12,343,842	-	30,967,780

20. Financial instrument disclosures (continued)

As at December 31, 2007, the transactions in derivative instruments on customers' behalf are as follows:

	2007 by maturities (CHF)				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Foreign exchange contracts OTC (nominal value)					
currencies to be delivered to customers	4,358,389,671	8,908,916,172	72,621,623	-	13,339,927,466
currencies to be received from customers	4,362,926,291	8,812,207,603	70,850,938	-	13,245,984,832
currencies to be delivered to credit institutions	4,174,201,811	8,980,613,725	72,662,713	-	13,227,478,249
currencies to be received from credit institutions	4,172,464,163	9,079,482,726	74,444,495	-	13,326,391,384
Replacement values of foreign exchange contracts OTC					
positive replacement values	-	-	-	-	210,593,854
negative replacement values	-	-	-	-	205,621,997
Currency options (nominal value)					
purchase of call options - counterparty: credit institutions - strike price	13,650,941	21,576,717	-	-	35,227,658
purchase of call options - counterparty: customers - strike price	109,131,575	81,001,765	-	-	190,133,340
purchase of put options - counterparty: credit institutions - strike price	29,894,112	117,256,342	13,435,782	-	160,586,236
purchase of put options - counterparty: customers - strike price	105,764,990	2,340,586,543	-	-	2,446,351,533
sale of call options - counterparty: credit institutions - strike price	109,131,575	81,001,765	-	-	190,133,340
sale of call options - counterparty: customers - strike price	13,650,941	21,576,717	-	-	35,227,658
sale of put options - counterparty: credit institutions - strike price	105,764,990	2,340,586,543	-	-	2,446,351,533
sale of put options - counterparty: customers - strike price	29,894,112	117,256,342	13,435,782	-	160,586,236
Replacement values of currency options					
positive replacement values	-	-	-	-	119,185,924
negative replacement values	-	-	-	-	119,185,436

As at December 31, 2007, the transactions in derivative instruments on customers' behalf are as follows (continued):

	2007 by maturities (CHF)				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Bond options					
Organised Markets					
purchase of put options - counterparty: customers - strike price	-	-	-	-	-
sale of put options - counterparty: credit institutions - strike price	-	-	-	-	-
Replacement values of bond options					
positive replacement values	-	-	-	-	-
negative replacement values	-	-	-	-	-
Stock options					
Organised Markets (nominal value)					
purchase of call options - counterparty: credit institutions - strike price	105,265,991	11,589,381	-	-	116,855,372
purchase of call options - counterparty: customers - strike price	22,672	494,517,709	19,445,196	-	513,985,578
purchase of put options - counterparty: credit institutions - strike price	146,873,402	199,138,641	-	-	346,012,043
purchase of put options - counterparty: customers - strike price	4,462,813	17,563,461,627	12,355,204	-	17,580,279,643
sale of call options - counterparty: credit institutions - strike price	519,899,387	9,112,599	-	-	529,011,986
sale of call options - counterparty: customers - strike price	3,346,282	51,938,253	46,544,428	-	101,828,963
sale of put options - counterparty: credit institutions - strike price	17,622,330,487	2,432,749	-	-	17,624,763,236
sale of put options - counterparty: customers - strike price	1,612,766	194,974,412	104,941,273	-	301,528,451
Replacement values of stock options					
positive replacement values	-	-	-	-	17'593'496
negative replacement values	-	-	-	-	17'593'592

20. Financial instrument disclosures (continued)

As at December 31, 2008, the transactions in derivative instruments on customer's behalf are as follows:

	2008 (CHF) by maturities				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Forward currency transactions					
<i>Futures on an organized market</i>					
nominal amounts credit institutions	1,259,175	-	-	-	1,259,175
nominal amounts customers	1,259,175	-	-	-	1,259,175
Operations linked to interest rate					
<i>Interest rate futures</i>					
nominal amounts credit institutions	164,009,666	402,887,832	-	-	566,897,498
nominal amounts customers	164,009,666	402,887,832	-	-	566,897,498
Operations linked to other market rates					
<i>Futures</i>					
nominal amounts credit institutions	90,625,355	-	62,018,848	62,801,068	215,445,271
nominal amounts customers	90,625,355	-	62,018,848	62,801,068	215,445,271
Other rates					
<i>Futures</i>					
nominal amounts credit institutions	-	521,788	-	-	521,788
nominal amounts customers	-	521,788	-	-	521,788
<i>Replacement values of futures</i>					
positive replacement values	56,193,127	5,286,170	29,612,603	29,724,349	120,816,249
negative replacement values	56,193,127	5,286,170	29,612,603	29,724,349	120,816,249

As at December 31, 2007, the transactions in derivative instruments on customer's behalf are as follows:

	2007 by maturities (CHF)				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Forward currency transactions					
<i>Futures on an organized market</i>					
nominal amounts credit institutions	-	-	49,000,710	-	49,000,710
nominal amounts customers	-	-	49,000,710	-	49,000,710
Operations linked to interest rate					
<i>Interest rate futures</i>					
nominal amounts credit institutions	16,174,249,179	1,788,118,397	89,022,280	-	18,051,389,856
nominal amounts customers	16,174,249,179	1,788,118,397	89,022,280	-	18,051,389,856
Operations linked to other market rates					
<i>Futures</i>					
nominal amounts credit institutions	14,273,029,259	142,188	-	-	14,273,171,447
nominal amounts customers	14,273,029,259	142,188	-	-	14,273,171,447
Other rates					
<i>Futures</i>					
nominal amounts credit institutions	576,967	-	-	-	576,967
nominal amounts customers	576,967	-	-	-	576,967
<i>Replacement values of futures</i>					
positive replacement values	-	-	-	-	40,578,925
negative replacement values	-	-	-	-	40,578,925

20. Financial instrument disclosures (continued)

As at December 31, 2008, the transactions in derivative instruments on the Bank's own behalf are as follows:

	2008 by maturities (CHF)				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Interest rate swaps ⁽¹⁾					
nominal amounts with positive replacement values	-	-	-	-	-
nominal amounts with negative replacement values ⁽²⁾	-	-	105,912,738	-	105,912,738
Replacement values					
negative replacement values	-	-	8,633,701	-	8,633,701

⁽¹⁾ Shown at residual maturity date.

⁽²⁾ Hedge of a loan, with fixed interest rate, which is funded by a deposit at floating rate of interests.

As at December 31, 2007, the transactions in derivative instruments on the Bank's own behalf are as follows:

	2007 by maturities (CHF)				Total
	≤ 3 months	> 3 months ≤ 1 year	> 1 year ≤ 5 years	> 5 years	
Interest rate swaps ⁽¹⁾					
nominal amounts with positive replacement values	-	-	-	-	-
nominal amounts with negative replacement values ⁽²⁾	-	-	151,178,459	-	151,178,459
Replacement values					
negative replacement values	-	-	10,836,347	-	10,836,347

⁽¹⁾ Shown at residual maturity date.

⁽²⁾ Hedge of a loan, with fixed interest rate, which is funded by a deposit at floating rate of interests.

Credit risk information – OTC derivative instruments

As at December 31, 2008, the information is as follows:

Credit risk on OTC derivative instruments (in CHF)	(use of initial risk method)			
Counterparty	Notional amount (1)	Risk-equivalent amounts (2)	Collateral (3)	Net risk exposure (4) = (2) - (3)
Credit institutions - Foreign exchange contracts	10,772,606,263	405,673,272	-	405,673,272
Customers - Foreign exchange contracts	10,961,280,334	702,891,031	- (*)	702,891,031
Credit institutions - Interest rate contracts	105,912,738	5,295,637	-	5,295,637
			Total	1,113,859,940

(*) Transactions are predominantly with investment funds where no collateral is taken by the Bank. Regarding the collateral held relating to private customers, the required margins are covered by available lending value and daily monitored by the Credit Risk Control department.

As at December 31, 2007, the information is as follows:

Credit risk on OTC derivative instruments (in CHF)	(use of initial risk method)			
Counterparty	Notional amount (1)	Risk-equivalent amounts (2)	Collateral (3)	Net risk exposure (4) = (2) - (3)
Credit institutions - Foreign exchange contracts	13,326,391,384	267,733,465	-	267,733,465
Customers - Foreign exchange contracts	13,245,984,832	265,864,595	- (*)	265,864,595
Credit institutions - Interest rate contracts	151,178,459	6,047,138	-	6,047,138
			Total	539,645,198

(*) Transactions are predominantly with investment funds where no collateral is taken by the Bank. Collateral held relating to private customers is not disclosed as this represents the minority of customer transactions.

21. Geographical analysis of income

The Bank carries out operations in various geographic markets, with the majority of business in the countries of the European Union and other industrialised countries. The Bank does not consider that these markets differ substantially from one another.

22. Management and agency services to third parties

The Bank has provided management and representative services to third parties in the normal course of its business during the financial year.

These services include:

- Portfolio management and advice
- Custody and administration of securities
- Fiduciary agency

23. Staff and Directors

Staff

Average number of employees during the financial year:

	2008	2007
Senior management	63	40
Management	168	213
Employees	328	245
Workers	-	-
	559	498

Management and Directors

During the financial year, the Management Committee (7 members) (2007: 9 members) received remuneration amounting to CHF 5,677,422 (2007: CHF 6,533,720) in respect of their duties. No specific remuneration was paid to the members of the Board of Directors in respect of their duties as such.

No expenses in respect of pensions were recorded for the members of the Management Committee and the members of the Board of Directors in 2008 or 2007.

No loans and guarantees have been given to the members of the Management Committee and the members of the Board of Directors in 2008 or 2007.

24. Fees paid to external auditors

The Bank paid during the last two financial years following fees for external audit and other professional services rendered:

	2008 (CHF)	2007 (CHF)
Ernst & Young S.A.:		
audit fees	660,498	673,145
audit related fees	210,082	41,353
	870,580	714,498

25. Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments

	2008 (CHF)	2007 (CHF)
Impairments on loans	27,715,455	-
Provisions for legal cases	964,369	-
Provisions for AGDL	650,895	-
	29,330,719	-

26. Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments

During the year 2008, the bank has reduced the lump sum provision for loans and advances by CHF 27,715,455 (2007: CHF 0). As of December 31, 2008, the lump sum provision amounts to CHF 7,457,579 (2007: CHF 35,173,034).

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