

# First Quarter 2008

6 May 2008

## Dear shareholders,

As pre-announced on 1 April 2008, UBS recorded a loss attributable to shareholders of CHF 11.5 billion in first quarter 2008, with losses on US mortgage market and related structured credit positions again heavily impacting results in our Investment Bank's fixed income, currencies and commodities (FICC) business.

The US residential mortgage market accelerated its downward spiral during first quarter 2008, negatively affecting other markets and securities and culminating in the rescue of a large US investment bank.

In addition, first quarter 2008 was characterized by lower capital markets activity, sharply reduced mergers and acquisitions and falling securities prices. Considering these unfavorable conditions, revenue performance in most of our businesses was satisfactory.

While profit levels reduced in our wealth and asset management businesses and Business Banking Switzerland, in comparison with fourth quarter 2007, they remained high in absolute terms. Lower invested assets, and therefore asset-based fee income, were primarily driven by the strengthening of the Swiss franc against the major currencies in which many client assets are denominated (US dollar, euro and British pound) and a second successive quarter of declining equity indices.

In the Investment Bank, revenues generated by our advisory and capital markets businesses fell from first quarter 2007, in the context of a more than 40% contraction in global fee volume. The equities business was negatively impacted by weaker proprietary trading results and lower revenues in derivatives and equity-linked instruments, which were only partially offset by improved contributions from cash commissions, exchange-traded derivatives and prime brokerage. Although trading results were weak in most FICC areas, there were some exceptions, such as rates, which had a strong quarter driven by government bond trading and the European swaps and options business, and the foreign exchange business, which benefited from higher volumes and good client flows. In commodities, lower revenues from energy trading were offset by good results in other areas such as metals.

Variable compensation expenses were reduced from fourth quarter 2007, as were most categories of non-personnel costs, but these could not compensate for the decrease in revenues. The result was an increase in cost/income ratios for all businesses compared with fourth quarter 2007. In the Investment Bank, cost cuts were partially offset by higher severance payments, following the restructuring in fourth quarter 2007, and higher legal provisions.

Falling expectations for equity market returns have led to modest deleveraging of private client portfolios and the near absence of corporate events has negatively affected private wealth creation. Despite this, our global wealth management businesses had net new money inflows of CHF 5.6 billion in first quarter 2008. However, Business Banking Switzerland saw net outflows

of CHF 1.9 billion and Global Asset Management recorded net outflows of CHF 16.5 billion. In Global Asset Management, we have reorganized management with the aim of improving investment performance consistently, and regaining institutional assets over time.

**Our capital base has been reinforced and will remain strong – and we would like to thank you for your support of the measures we have been able to take.** In February 2008, you approved the CHF 13 billion issue of mandatory convertible notes (MCNs), which are included in the Tier 1 ratio for first quarter 2008.

Two additional measures were taken in April and are effective in second quarter 2008. We issued EUR 1 billion of perpetual preferred securities and these now form part of Tier 1 capital. And, at the annual general meeting (AGM) on 23 April, your approval of the ordinary capital increase proposed by the Board of Directors will allow us to raise approximately CHF 15 billion of capital that has already been fully underwritten by four leading international banks. Taking into account both these measures, our pro-forma Tier 1 ratio on 31 March 2008 would have been 11.8% and our total capital ratio 15.6% – among the highest in the industry.

**The first step in leaving this crisis behind us is an open and honest review of what went wrong.** For this reason, a summary of UBS's report to the Swiss regulator was published on our website prior to April's AGM. The report explains the root causes of UBS's losses in the US residential mortgage securities markets through to year-end 2007. We are acutely conscious that the key findings of this report, and the huge financial losses in fourth quarter 2007 and first quarter 2008, are a severe disappointment to all our key constituencies – shareholders, clients, employees and regulators. We share this disappointment and we hope that by providing as much clarity as possible on what happened, we have made an important first step in recovering your confidence. We are personally committed to reforms that enable UBS to recover its reputation and its financial strength.

As discussed at the AGM, the Board of Directors (BoD) has initiated a re-organization of its structure that includes allocating the functions of the Chairman's Office – which will no longer exist – to a number of new BoD committees, each of which have a majority of independent directors. This will include a newly established risk committee, chaired by David Sidwell, who is an experienced banker and finance expert and was elected to the BoD at the AGM.

**We can see tangible effects as a result of our initial responses to the losses.** Our risk inventory has decreased since third quarter 2007: positions related to US sub-prime have decreased by approximately 60% through a combination of disposals and

writedowns. And, while our remaining exposure is still subject to swings in market conditions, we see market demand for these securities returning in certain areas and at the current level of valuations. Risk measurement systems have also undergone corrections, with the first stage in repositioning FICC now complete. The management structure of FICC has been simplified, the areas we wish to exit from are identified and the associated legacy positions are now managed separately by a work-out group. In a further step, we are in the process of creating a new entity to hold substantial parts of this portfolio, with the aim of reducing our exposure to this entity in a way which will optimize value for you, our shareholders, over time. Furthermore, as the results of first quarter illustrate, we have continued to reduce the size of our balance sheet, with an active cutback of trading inventories in our Investment Bank.

**We are focused on the profitability of our Investment Bank and this will continue throughout 2008.** Our vision, as we have frequently communicated, is to succeed in implementing a truly client-driven Investment Bank built upon UBS's traditional strengths – our global presence, particularly our strong footprint in Europe and Asia; our leading businesses in equities, equity capital markets and foreign exchange; our recent emergence as one of the preferred advisors on mergers and acquisitions; and our long-standing relationships with other financial institutions. Since joining the bank on 17 March 2008, Jerker Johansson has been instrumental in rapidly implementing this vision through his role as Chairman and Chief Executive Officer of the Investment Bank.

As the success of our "one firm" approach depends on the individual success of our businesses, we expect each of UBS's busi-

nesses – investment banking, wealth management, asset management and our Swiss retail banking business – to earn an appropriate return on equity. In order to steer management towards pursuing and developing businesses with the best balance between profit potential, risk and effective capital usage, UBS has introduced a new framework that attributes equity capital to individual business groups and business units, taking into account the differing natures, risk profiles and investor expectations. We now publish this measure in our quarterly reports, providing you with information that helps you assess our performance at a more granular level. In future, this will help to ensure that all businesses produce commensurate and sufficient returns to fund their own growth, by cooperating across the firm in the best interest of our clients, but without relying on cost, revenue, or capital cross-subsidies.

**The year started with tough business conditions for the financial industry as a whole.** We expect this difficult environment to remain and be characterized by a continuing unfavorable global economic climate, deleveraging by institutional and private investors, slower wealth creation and lower trading and capital market activity. The impact will affect all of our businesses and we are required to manage costs, resources and capacity very actively. The Investment Bank expects to employ around 19,000 people at the end of 2008. This will require a reduction of up to 2,600, of which the large majority, unfortunately, will be redundancies. In the other business groups, we will reduce personnel numbers mainly through natural attrition and internal redeployment, although we will not be able to avoid redundancies entirely. Assuming no change in market conditions, we estimate that by mid-2009, UBS as a whole will have about 5,500 fewer employees than today.

6 May 2008

UBS

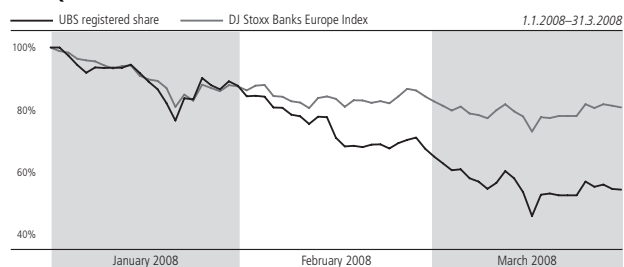


Peter Kurer  
Chairman

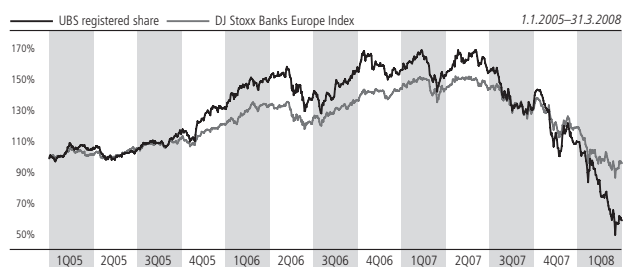
Marcel Rohner  
Chief Executive Officer

## UBS share performance

## First Quarter 2008



## Since 2005



## Performance indicators

|  | Quarter ended    |                  |         | % change from |      |
|--|------------------|------------------|---------|---------------|------|
|  | 31.3.08          | 31.12.07         | 31.3.07 | 4Q07          | 1Q07 |
| <b>Diluted EPS (CHF)<sup>1</sup></b>                                     |                  |                  |         |               |      |
| as reported  | (5.60)           | (6.45)           | 1.43    | 13            |      |
| from continuing operations   | (5.63)           | (6.47)           | 1.43    | 13            |      |
| <b>Return on equity attributable to UBS shareholders (%)<sup>2</sup></b> |                  |                  |         |               |      |
| as reported  | (178.8)          | (11.3)           | 26.8    |               |      |
| from continuing operations   | (180.0)          | (12.2)           | 26.8    |               |      |
| Cost / income ratio (%) <sup>3</sup>                                     | N/A <sup>4</sup> | N/A <sup>4</sup> | 69.6    |               |      |
| Net new money (CHF billion) <sup>5</sup>                                 | (12.8)           | 15.5             | 52.8    |               |      |

## Group results

| CHF million   | Quarter ended |          |         | % change from |      |
|---|---------------|----------|---------|---------------|------|
|   | 31.3.08       | 31.12.07 | 31.3.07 | 4Q07          | 1Q07 |
| Operating income  | (3,952)       | (4,132)  | 13,486  | 4             |      |
| Operating expenses  | 7,847         | 8,918    | 9,380   | (12)          | (16) |
| Operating profit before tax (from continuing and discontinued operations) | (11,679)      | (13,016) | 4,112   | 10            |      |
| Net profit attributable to UBS shareholders                               | (11,535)      | (12,967) | 3,031   | 11            |      |

## Long-term ratings

|                             | As of            |          |         |
|-----------------------------|------------------|----------|---------|
|                             | 31.3.08          | 31.12.07 | 31.3.07 |
| Fitch, London               | AA <sup>-6</sup> | AA       | AA+     |
| Moody's, New York           | Aa1 <sup>6</sup> | Aaa      | Aa2     |
| Standard & Poor's, New York | AA <sup>-6</sup> | AA       | AA+     |

**Footnotes:** 1 For the EPS calculation, see Note 8 of the first quarter 2008 report. 2 Net profit attributable to UBS shareholders from continuing operations year to date (annualized as applicable) / average equity attributable to UBS shareholders less distributions (estimated as applicable). 3 Operating expenses / operating income before credit loss expense or recovery. 4 The cost / income ratio is not meaningful due to negative income. 5 Excludes interest and dividend income. 6 Reflects rating on 1 April 2008.

## Balance sheet and capital management

| CHF million                               | As of     |           |           | % change from |         |
|---|-----------|-----------|-----------|---------------|---------|
|   | 31.3.08   | 31.12.07  | 31.3.07   | 31.12.07      | 31.3.07 |
| Total assets                              | 2,231,019 | 2,272,768 | 2,514,359 | (2)           | (11)    |
| Equity attributable to UBS shareholders   | 16,386    | 35,219    | 51,311    | (53)          | (68)    |
| Market capitalization                     | 59,843    | 108,654   | 149,157   | (45)          | (60)    |
| BIS Tier 1 capital ratio (%) <sup>1</sup> | 6.9       | 8.7       | 11.6      |               |         |

Personnel<sup>2</sup>

| Full-time equivalents (FTE) | As of         |               |               | % change from |          |
|-----------------------------|---------------|---------------|---------------|---------------|----------|
|                             | 31.3.08       | 31.12.07      | 31.3.07       | 31.12.07      | 31.3.07  |
| Switzerland                 | 27,946        | 27,884        | 27,261        | 0             | 3        |
| UK                          | 8,484         | 8,813         | 8,692         | (4)           | (2)      |
| Rest of Europe              | 5,049         | 4,776         | 4,497         | 6             | 12       |
| Middle East / Africa        | 142           | 139           | 119           | 2             | 19       |
| USA                         | 29,666        | 29,921        | 29,952        | (1)           | (1)      |
| Rest of Americas            | 2,100         | 2,054         | 1,817         | 2             | 16       |
| Asia Pacific                | 10,452        | 9,973         | 8,299         | 5             | 26       |
| <b>Total</b>                | <b>83,839</b> | <b>83,560</b> | <b>80,637</b> | <b>0</b>      | <b>4</b> |

## Reporting by Business Group and Unit

| CHF million  | Total operating income |               |             | Total operating expenses |              |             | Performance before tax from continuing operations |              |             |
|--|------------------------|---------------|-------------|--------------------------|--------------|-------------|---|--------------|-------------|
|  | 31.3.08                | 31.3.07       | % change    | 31.3.08                  | 31.3.07      | % change    | 31.3.08   | 31.3.07      | % change    |
| <b>Global Wealth Management &amp; Business Banking</b> |                        |               |             |                          |              |             |   |              |             |
| Wealth Management International & Switzerland          | 3,054                  | 3,071         | (1)         | 1,625                    | 1,568        | 4           | 1,429   | 1,503        | (5)         |
| Wealth Management US                                   | 1,527                  | 1,610         | (5)         | 1,344                    | 1,455        | (8)         | 183   | 155          | 18          |
| Business Banking Switzerland                           | 1,268                  | 1,301         | (3)         | 728                      | 769          | (5)         | 540   | 532          | 2           |
| <b>Global Asset Management</b>                         | <b>791</b>             | <b>997</b>    | <b>(21)</b> | <b>461</b>               | <b>602</b>   | <b>(23)</b> | <b>330</b>  | <b>395</b>   | <b>(16)</b> |
| <b>Investment Bank</b>                                 | <b>(14,813)</b>        | <b>6,238</b>  |             | <b>3,415</b>             | <b>4,699</b> | <b>(27)</b> | <b>(18,228)</b>                                   | <b>1,539</b> |             |
| <b>Corporate Center</b>                                | <b>4,221</b>           | <b>269</b>    |             | <b>274</b>               | <b>287</b>   | <b>(5)</b>  | <b>3,947</b>                                      | <b>(18)</b>  |             |
| <b>UBS</b>   | <b>(3,952)</b>         | <b>13,486</b> |             | <b>7,847</b>             | <b>9,380</b> | <b>(16)</b> | <b>(11,799)</b>                                   | <b>4,106</b> |             |

**Footnote:** <sup>1</sup> For further details please refer to the capital management section of the first quarter 2008 report. <sup>2</sup> Excludes personnel from Industrial Holdings.

**Cautionary statement regarding forward-looking statements** | This report contains statements that constitute "forward-looking statements", including but not limited to statements relating to the risks arising from the current market crisis, other risks specific to UBS's business and the implementation of strategic initiatives, as well as other statements relating to UBS's future business development and economic performance and UBS's intentions with respect to future returns of capital. While these forward-looking statements represent UBS's judgments and future expectations concerning the development of its business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the United States subprime market and in other market segments that have been affected by the current market crisis; (2) other market and macro-economic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these developments on other markets and asset classes; (4) changes in internal risk control and in the regulatory capital treatment of UBS's positions, in particular those affected by the current market crisis; (5) limitations in the effectiveness of UBS's internal risk management processes, of its risk measurement, control and modeling systems, and of financial models generally; (6) developments relating to UBS's access to capital and funding, including any changes in UBS's credit ratings; (7) changes in the financial position or creditworthiness of UBS's customers, obligors and counterparties, and developments in the markets in which they operate; (8) management changes and changes to the structure of UBS's Business Groups; (9) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; (10) legislative, governmental and regulatory developments; (11) competitive pressures; (12) technological developments; and (13) the impact of all such future developments on positions held by UBS, on its short-term and longer-term earnings, on the cost and availability of funding and on UBS's BIS capital ratios. In addition, these results could depend on other factors that we have previously indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2007. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.