

# Fourth Quarter 2007

14 February 2008

## Dear shareholders,

Last year was one of the most difficult in our history. When we announced our results for the first six months of the year, with a net profit of CHF 8,897 million, it looked as if we were heading for another record year. While most of our businesses, in particular our wealth management businesses, continued their strong revenue and profit growth momentum and finished the year with record results, these bright spots were overshadowed by the devastating development in our Investment Bank's US residential mortgage business. The sudden and serious deterioration in the US housing market, in combination with our large exposure in sub-prime mortgage-related securities and derivatives, has deeply impacted us.

As a result, we did not deliver on our return targets for shareholders. Losses and writedowns experienced on positions related to the US mortgage market resulted in a Group net loss attributable to shareholders of CHF 4,384 million for full-year 2007. This has clearly outweighed the outstanding performance of most of our other businesses.

On 10 December 2007, we announced that UBS might record a net loss for full-year 2007. This was based on information available and valuations made up to the end of November. Following this, in December, we experienced very weak trading revenues and additional losses and writedowns in our exposures related to the US residential mortgage market. After determining the final valuations of various exposures, especially illiquid fixed income securities, we pre-announced our results estimates for both fourth quarter and full-year 2007 on 30 January 2008.

The Group's net attributable loss for fourth quarter 2007 was CHF 12,451 million. This reflected very weak trading results in our fixed income, currencies and commodities (FICC) area, where most businesses suffered from the credit market dislocation. Severe losses of USD 13.7 billion (CHF 15.6 billion) were recorded on positions related to the US residential mortgage market for fourth quarter.

The markets for many of these financial instruments continue to be illiquid. In the absence of an active market for similar instruments, or other observable market data, we are required to value these instruments using models. The models attempt to project lifetime losses on the underlying mortgage pools and then estimate the implications of these losses, at first through the mortgage-backed securities structure and then onto the CDO structure. We began using these models in third quarter 2007 and have since then continuously reviewed their assumptions and recalibrated them in the light of new market information.

**Our client businesses produced another outstanding quarter.** Investment banking and equities achieved good results. It was a record year for our equity capital market and corporate advisory businesses, with our share of the global fee pool rising to 5.9%

from 4.9% a year earlier, moving UBS up from eighth to fifth place. The equities business saw a strong recovery from third quarter and ended the year with revenues up from 2006, despite reduced liquidity and increased market volatility. This was primarily felt in the results of our proprietary business. Commissions in cash equities remained strong and revenues in both exchange-traded derivatives and prime brokerage increased.

The wealth management business recorded total net new money inflows of CHF 31.5 billion in fourth quarter, bringing our full-year total for these businesses to CHF 151.7 billion. Profitability was high in fourth quarter, with record performances in Wealth Management International & Switzerland and our domestic US business.

While Global Asset Management reported strong results for fourth quarter, we were disappointed by net new money outflows in the institutional business. Past weak investment performance in some capabilities, notably core/value equities and fixed income, is at the root of this development. Over the last year, we have taken steps to address these issues by reorganizing our equities business. In addition, we have made changes to the management in these areas, focused on recruiting high-performing personnel, and added new investment capabilities.

Cost growth began to slow in 2007. Despite lower average bonus payments, personnel expenses for the year were up compared with 2006. This reflected charges for restructuring and accelerated amortization for deferred compensation as well as an increase in staffing levels, mainly in wealth management, which added 1,400 client and financial advisors. In the Investment Bank, we reduced staffing levels in fourth quarter 2007, in line with announcements, reversing the increase seen in the earlier part of the year. In 2007, general and administrative expenses were up, driven by business volumes and staff levels as well as higher legal fees. Cost management is a high priority for 2008.

**Towards the end of the year, we announced a range of capital improvement measures.** In addition, during fourth quarter 2007, we reduced the Investment Bank's balance sheet in trading assets, collateral trading and the loan book. This resulted in a lower level of risk-weighted assets in the Investment Bank and for UBS as a whole. Together with the rededication of treasury shares for disposal and the effect of replacing the cash dividend with the proposed stock dividend, this allowed us to end the year in a strong capital position. Our total BIS capital ratio stood at 12% and our BIS Tier 1 ratio was 8.8%.

Our capital position is strong, both in absolute terms and relative to our peers. However, as we have communicated earlier, we are determined to further strengthen our capital position. This is important to support our client franchise and is also a precautionary move in anticipation of continued uncertain market conditions. We are therefore convinced that the measures requiring your approval at the Extraordinary General Meeting on

27 February 2008 – the issuance of a mandatory convertible note and the granting of a stock dividend (as opposed to a cash dividend) – are appropriate. We believe these measures are ultimately beneficial to all stakeholders, in particular our shareholders. As set out in our letter of 10 January 2008, we remain committed to managing our capital in a disciplined fashion. We will strive, subject to regulatory requirements, to return to our usual pattern of redistributing shareholder capital not required to run our business once our profitability returns to a more normalized pattern.

**Looking ahead, our efforts will focus on restoring client, employee and investor confidence.** In January 2008, we began restructuring FICC in order to strengthen its client-facing businesses, improve cooperation with other parts of UBS and introduce stronger risk discipline.

As part of this, a workout group has been created for the mortgage-backed securities, asset-backed securities and CDO portfolios. The remainder of our real estate securitization business will be repositioned to focus on intermediating client flows while scaling back origination efforts. Real estate finance will be increasingly aligned to the needs of our investment banking and wealth management clients. It will also provide commercial real estate financing solutions designed to distribute risk via the securitization or loan syndication market.

Risk discipline in our FICC business will be strengthened overall through the addition of a dedicated risk management position for real estate and securitization.

In addition, our plan to exit selected proprietary credit businesses in the US, Asia and Europe will help reduce risk and balance sheet utilization. This will allow us to focus resources on

more profitable, client-driven businesses such as global syndicated finance and the flow credit businesses (investment grade, high yield trading and loans sales and trading).

The measures we are currently taking in our FICC area are expected to reduce its balance sheet utilization.

**A new funding framework has been implemented.** Until recently, the Investment Bank funded the majority of its trading assets on a short-term basis and therefore at short-term rates. This allowed individual business lines in the Investment Bank to benefit from the low, short-term funding rates available to UBS as a whole. Now, in order to encourage more disciplined use of UBS's balance sheet, the Investment Bank will fund its positions at terms that match the liquidity of its assets as assessed by Treasury. As a result of this change, the cost of funding in the Investment Bank now better reflects the liquidity of its underlying assets and is comparable with the costs applicable to our peer group.

**Outlook –** In the first few weeks of 2008, equity markets worldwide have fallen by an average 12% and credit spreads have continued to widen as investors have become increasingly risk averse. Economic data has deteriorated, especially, but not only, in the US. The Federal Reserve has cut US interest rates. While such policy action will, in time, ease pressures in both the real and the financial economy, it is uncertain when this will be. We expect 2008 to be another difficult year.

Our employees and senior management are committed to managing our business in a disciplined fashion, while continuing to deliver outstanding services to clients. We believe this is the best way to earn your confidence.

14 February 2008

UBS



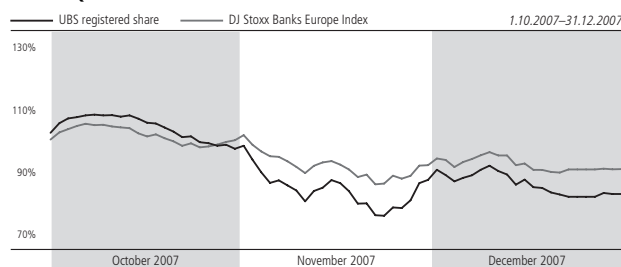
Marcel Ospel  
Chairman



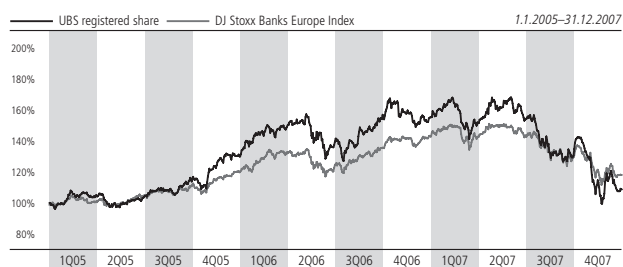
Marcel Rohner  
Chief Executive Officer

## UBS share performance

## Fourth Quarter 2007



## Since 2005



## Shareholder returns

	Quarter ended			% change from		Year ended	
	31.12.07	30.9.07	31.12.06	3Q07	4Q06	31.12.07	31.12.06
<b>Diluted EPS (CHF)<sup>1</sup></b>							
as reported	(6.51)	(0.44)	1.66			(2.28)	5.95
from continuing operations	(6.53)	(0.49)	1.54			(2.49)	5.57
<b>Return on equity attributable to UBS shareholders (%)<sup>2</sup></b>							
as reported						(9.4)	28.2
from continuing operations						(10.2)	26.4

## Financial strength &amp; ratings

	As of		
	31.12.07	30.9.07	31.12.06
BIS Tier 1 capital ratio (%) <sup>3</sup>	8.8	10.6	11.9
<b>Long-term ratings</b>			
Fitch, London	AA	AA+	AA+
Moody's, New York	Aaa	Aaa	Aa2
Standard & Poor's, New York	AA	AA+	AA+

## UBS net profit

CHF million	Quarter ended			% change from		Year ended	
	31.12.07	30.9.07	31.12.06	3Q07	4Q06	31.12.07	31.12.06
Net profit attributable to UBS shareholders	(12,451)	(830)	3,407			(4,384)	12,257
Net profit attributable to minority interests	111	117	96	(5)	16	539	493
Operating profit before tax (from continuing and discontinued operations)	(12,702)	(726)	3,904			(2,800)	15,523

## Other key figures

CHF million	As of			% change from	
	31.12.07	30.9.07	31.12.06	30.9.07	31.12.06
Equity attributable to UBS shareholders	35,585	48,229	49,686	(26)	(28)
Market capitalization	108,654	127,525	154,222	(15)	(30)

**Footnotes:** <sup>1</sup> For the EPS calculation, see note 8 of the fourth quarter 2007 report. <sup>2</sup> Net profit attributable to UBS shareholders year to date (annualized as applicable) / average equity attributable to UBS shareholders less distributions (estimated as applicable). <sup>3</sup> Includes hybrid Tier 1 capital, please refer to the BIS capital and ratios table in the capital management section of the fourth quarter 2007 report.

## Key figures Financial Businesses

## Income statement

CHF million	Quarter ended			% change from		Year ended	
	31.12.07	30.9.07	31.12.06	3Q07	4Q06	31.12.07	31.12.06
Operating income	(4,135)	6,169	12,272			31,032	47,171
Operating expenses	8,594	7,123	8,645	21	(1)	34,503	32,782
Net profit attributable to UBS shareholders	(12,483)	(1,086)	3,055			(4,970)	11,253
Net profit attributable to UBS shareholders from continuing operations	(12,483)	(1,086)	3,055			(5,235)	11,249

## Performance indicators

	Quarter ended			Year ended	
	31.12.07	30.9.07	31.12.06	31.12.07	31.12.06
Cost/income ratio (%)	N/A <sup>1</sup>	115.2	70.6	110.3	69.7
Net new money (CHF billion)	15.5	38.3	25.5	140.6	151.7

## Personnel

Full-time equivalents	As of			% change from	
	31.12.07	30.9.07	31.12.06	30.9.07	31.12.06
Switzerland	27,884	27,863	27,018	0	3
Rest of Europe / Middle East / Africa	13,728	13,702	12,687	0	8
Americas	31,975	32,422	30,819	(1)	4
Asia Pacific	9,973	9,827	7,616	1	31
<b>Total</b>	<b>83,560</b>	<b>83,814</b>	<b>78,140</b>	<b>0</b>	<b>7</b>

## Reporting by Business Group and Unit

CHF million	Total operating income			Total operating expenses			Performance before tax from continuing operations		
	31.12.07	31.12.06	% change	31.12.07	31.12.06	% change	31.12.07	31.12.06	% change
<b>Global Wealth Management &amp; Business Banking</b>									
Wealth Management International & Switzerland	3,292	2,813	17	1,646	1,395	18	1,646	1,418	16
Wealth Management US	1,678	1,582	6	1,473	1,408	5	205	174	18
Business Banking Switzerland	1,396	1,305	7	736	708	4	660	597	11
<b>Global Asset Management</b>	<b>1,077</b>	<b>943</b>	<b>14</b>	<b>601</b>	<b>543</b>	<b>11</b>	<b>476</b>	<b>400</b>	<b>19</b>
<b>Investment Bank</b>	<b>(11,615)</b>	<b>5,602</b>		<b>3,846</b>	<b>4,246</b>	<b>(9)</b>	<b>(15,461)</b>	<b>1,356</b>	
<b>Corporate Center</b>	<b>37</b>	<b>27</b>	<b>37</b>	<b>292</b>	<b>345</b>	<b>(15)</b>	<b>(255)</b>	<b>(318)</b>	<b>20</b>
<b>Financial Businesses</b>	<b>(4,135)</b>	<b>12,272</b>		<b>8,594</b>	<b>8,645</b>	<b>(1)</b>	<b>(12,729)</b>	<b>3,627</b>	

**Footnote:** <sup>1</sup> The cost/income ratio is not meaningful this quarter due to negative income.

**Cautionary statement regarding forward-looking statements** | This report contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to the consummation of the measures to increase capital referred to in this report and our intentions with respect to future returns of capital. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the subprime market and in other market segments, (2) the occurrence of other market and macro-economic trends, whether as a result of subprime market developments or due to other unanticipated market trends, (3) the impact of such future developments on positions held by UBS and on our short-term and longer-term earnings; (4) the successful consummation of certain of the measures to increase capital referred to in this report, (5) changes in internal risk control and/or regulatory capital treatment of US mortgage positions and (6) the impact of all these matters on UBS's BIS capital ratios and on the timing and amount of future returns of capital. 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 2006. 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.