



Consolidated Statement of Financial Condition

(Unaudited)

UBS Financial Services Inc.

(a subsidiary of UBS Americas Inc.)

June 30, 2009

UBS Financial Services Inc.

*Consolidated Statement of Financial Condition
(Unaudited)*

June 30, 2009

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(in thousands of dollars)

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Assets

| | | |
|---|----|-------------------|
| Cash and cash equivalents | \$ | 531,003 |
| Cash and securities segregated and on deposit for federal and other regulations | | 1,302,303 |
| Financial instruments owned, at fair value | | 995,300 |
| Securities purchased under agreements to resell | | 6,377,769 |
| Securities borrowed | | 644,105 |
| Receivables: | | |
| Clients (net of allowance for doubtful accounts of \$124) | | 2,613,638 |
| Brokers and dealers | | 294,638 |
| Dividends and interest | | 22,382 |
| Fees and other | | 65,595 |
| Receivable from affiliated companies | | 95,296 |
| Office equipment and leasehold improvements (net of accumulated depreciation and amortization of \$726,011) | | 467,854 |
| Goodwill and Intangibles (net of accumulated amortization of \$44,897) | | 679,083 |
| Non-current assets held for sale | | 24,451 |
| Other assets | | 1,679,610 |
| Total Assets | \$ | <u>15,793,027</u> |

Liabilities and stockholder's equity

| | | |
|--|----|-------------------|
| Financial instruments sold, not yet purchased, at fair value | \$ | 8,694 |
| Securities sold under agreements to repurchase | | 3,611,260 |
| Securities loaned | | 796,502 |
| Payables: | | |
| Clients (including free credit balances of \$1,765,849) | | 2,883,505 |
| Brokers and dealers | | 206,102 |
| Dividends and interest | | 28,573 |
| Other liabilities and accrued expenses | | 1,397,819 |
| Accrued compensation and benefits | | 1,217,825 |
| Payable to affiliated companies | | 1,598,802 |
| | \$ | <u>11,749,082</u> |
| Long-term borrowings | | 155,000 |
| Commitments and Contingencies | | |
| Subordinated liabilities | | 2,362,000 |
| Stockholder's equity | | 1,526,945 |
| Total liabilities and stockholder's equity | \$ | <u>15,793,027</u> |

See Notes to Consolidated Statement of Financial Condition.

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1. Organization

The Consolidated Statement of Financial Condition includes the accounts of UBS Financial Services Inc. and its wholly owned subsidiaries (collectively the "Company"). All material intercompany balances and transactions have been eliminated. The Company is a wholly owned subsidiary of UBS Americas Inc. ("UBS Americas"), which is a wholly owned subsidiary of UBS AG ("UBS"). The Company engages in material transactions with its affiliates.

The Company is a registered broker-dealer under the Securities Exchange Act of 1934 and is registered with the Financial Industry Regulatory Authority ("FINRA").

The Company is engaged in one principal line of business that of serving the investment and capital needs of individual and institutional clients. The Company is a securities firm operating predominantly in the United States and Puerto Rico.

2. Summary of Significant Accounting Policies

Basis of presentation

The Consolidated Statement of Financial Condition is prepared in conformity with accounting principles generally accepted in the United States, which requires management to make judgments and assumptions that affect the amounts reported in the Consolidated Statement of Financial Condition and accompanying notes. Actual results could differ from those estimates.

Accounting Pronouncements

In September 2006, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands the required

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disclosures about an entity's fair value measurements. The Company adopted the provision of SFAS No. 157 for financial assets and liabilities on January 1, 2008, as required. Pursuant to FASB Staff Position ("FSP") FAS 157-2, "Effective Date of FASB Statement No. 157", the Company elected to defer the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities until fiscal year 2009.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), "Business Combinations" and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". These new standards change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. SFAS No. 141(R) and SFAS No. 160 are effective for the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS No. 141 (R) and SFAS No. 160 did not have a material impact on the Company's Consolidated Statement of Financial Condition.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities". SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and requires entities to provide enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts, and disclosures about credit-risk related contingent features in derivative agreements. SFAS No. 161 is effective for the fiscal years and interim periods beginning after November 15, 2008. Since SFAS No. 161 only requires additional disclosures,

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the adoption did not have a material impact on the Company's Consolidated Statement of Financial Condition.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets". FSP FAS 142-3 removes the requirement of SFAS No. 142, "Goodwill and Other Intangible Assets" for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions associated with the intangible asset. FSP FAS 142-3 replaces the previous useful-life assessment criteria with a requirement that an entity considers its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of FSP FAS 142-3 did not have a material impact on the Company's Consolidated Statement of Financial Condition.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets". This FSP amends SFAS No. 132 to require additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. These required disclosures are similar to the disclosure requirements in SFAS No. 157, "Fair Value Measurement". FSP FAS 132(R)-1 also replaces the requirement to disclose the percentage of the fair value of total plan assets with a requirement to disclose the fair value of each major asset category. The FSP is effective for fiscal years ending after December 15, 2009. The Company is currently assessing the impact FSP FAS 132(R)-1 will have on the Company's disclosure requirements.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level

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of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 provides guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales in order to apply the existing fair value measurement guidance in SFAS No. 157. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the provision of SFAS No. 157 as required, and the adoption did not materially impact the Company's Consolidated Statement of Financial Condition.

Also in April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, which amends disclosure requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" and APB Opinion No. 28, "Interim Financial Reporting" by requiring an entity to provide qualitative and quantitative information about fair value estimates for any financial instruments not measured on the Consolidated Statement of Financial Condition at fair value. FSP FAS 107-1 and APB 28-1 are effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the provision of FSP FAS 107-1 and APB 28-1 as required. Since FSP FAS 107-1 only requires additional disclosures, the adoption did not impact the Company's Consolidated Statement of Financial Condition.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". The objective of SFAS No. 165 is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before the Consolidated Statement of Financial Condition is issued or is available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date - that is, whether that date represents the date the Consolidated Statement of

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Financial Condition was issued or was available to be issued. The Company evaluates subsequent events through the date that the Company's Consolidated Statement of Financial Condition is issued. SFAS No. 165 is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the provision of SFAS No. 165 as required, and the adoption did not impact the Company's Consolidated Statement of Financial Condition.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets", and SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)", which change the way entities account for securitizations and special purpose entities. SFAS No. 166 amends SFAS No. 140 and will require additional disclosures about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. In addition, it eliminates the concept of a qualified special purpose entity ("QPSE") and changes the requirements for derecognizing financial assets. SFAS No. 167 amends FIN 46R, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. SFAS No. 166 and SFAS No. 167 are effective for annual reporting periods that begin after November 15, 2009. The adoption of SFAS No. 166 and SFAS No. 167 does not have an impact on the Company's Consolidated Statement of Financial Condition.

In July 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a

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replacement of FASB Statement No. 162". SFAS No. 168 establishes the FASB Accounting Standards Codification ("Codification") to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. All existing accounting standard documents are superseded. All other accounting literature not included in the Codification will be considered non-authoritative. The Codification does not change current GAAP. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS No. 168 will not impact the Company's Consolidated Statement of Financial Condition.

Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased

Financial Instruments owned and financial instruments sold, not yet purchased, including derivative contracts held or issued for trading purposes, are recorded on a trade date basis at fair value. Fair value is generally based upon quoted market prices. If quoted market prices are not available or if liquidating the Company's position is reasonably expected to impact market prices, fair value is determined based upon other relevant factors, including dealer price quotations or price activity of similar instruments and pricing models. Pricing models consider time value and volatility factors underlying the financial instruments and other economic measurements.

Financial instruments sold, not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk as the Company's ultimate obligation to satisfy the financial instruments sold, not yet purchased may exceed the amount reflected in the Consolidated Statement of Financial Condition.

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Derivative Financial Instruments

A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument or index such as a forward, future, swap or option contract and other financial instruments with similar characteristics. A derivative financial instrument also includes firm or standby commitments for the purchase of securities.

The derivative definition does not include cash instruments whose values are derived from changes in the value of some asset or index, such as mortgage-backed securities. Derivative contracts used by the Company generally represent future commitments to exchange interest payment streams based on the gross contract or notional amount or to purchase or sell financial instruments at specified terms and future dates.

In order to facilitate client transactions, the Company may enter into transactions on a principal basis. In connection with this activity, the Company hedges its municipal obligations with treasury future contracts.

Derivative instruments held or issued for trading purposes are marked-to-market with the resulting unrealized gains and losses recorded on the Consolidated Statement of Financial Condition in financial instruments owned or financial instruments sold, not yet purchased and the related profit or loss reflected in principal transactions revenues on the consolidated statement of operations. The fair value of exchange-traded derivatives, such as futures and certain option contracts, are determined by quoted market prices while the fair value of derivatives negotiated in over-the-counter markets are valued based upon dealer price quotations or pricing models which consider time value and the volatility of the underlying instruments, as well as other economic factors.

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Substantially all of the Company's other financial instruments are carried at fair value or amounts approximating fair value. Assets, including securities segregated for regulatory purposes and certain receivables, are carried at fair value or contracted amounts which approximate fair value. Similarly, liabilities including short-term borrowings, certain payables and long-term and subordinated liabilities are carried at fair value or contractual amounts approximating fair value.

Collateralized Securities Transactions

Securities purchased under agreements to resell ("resale agreements") and securities sold under agreements to repurchase ("repurchase agreements"), principally U.S. government and agency securities, are accounted for as financing transactions and are recorded at their contractual amounts, plus accrued interest. It is Company policy to obtain possession or control of securities, which have a fair value in excess of the original principal amount loaned, in order to collateralize resale agreements. The Company is required to provide securities to counterparties in order to collateralize repurchase agreements.

On a daily basis, the Company monitors the fair value of the securities purchased and sold under these agreements. Should the fair value of the securities purchased decline, or the fair value of securities sold increase, additional collateral is requested or excess collateral is returned when deemed appropriate to maintain contractual margin protection. When specific conditions are met, including the existence of a legally enforceable master netting agreement, balances relating to resale agreements and repurchase agreements may be netted by counterparty in the Consolidated Statement of Financial Condition. Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received in connection with the transaction. Securities borrowed transactions require the Company to deposit cash

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or other collateral with the lender. With respect to securities loaned, the Company receives collateral. The initial collateral advanced or received has a fair value equal to or greater than the fair value of the securities borrowed or loaned. The Company monitors the fair value of the securities borrowed and loaned on a daily basis and requests additional collateral or returns excess collateral, as appropriate.

In the normal course of business, the Company has margin securities, and obtains securities under agreements to resell and securities borrowed on terms which permit it to repledge or resell the securities to others. At June 30, 2009, the Company obtained and had available securities with a fair value of approximately \$13,883,137 on such terms, of which approximately \$5,149,524 have been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy commitments under short sales.

Depreciation and Amortization

The Company depreciates office and other equipment using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining term of the lease.

Income Taxes

Certain income and expense items are accounted for in different periods for income tax purposes than for financial reporting purposes. Provisions for deferred taxes are made in recognition of these temporary differences in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes".

The Company is included in the consolidated federal income tax return and certain combined state and local tax returns of UBS Americas. Federal, state and local, and foreign taxes are provided for on a separate return basis.

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Tax benefits associated with share-based compensation

The SFAS No. 123 (R) "Share-Based Payment", states that, if upon settlement of share-based compensation, the tax deduction related to share-based compensation exceeds the cumulative compensation cost that the Company had recognized in the financial statements, the tax benefit associated with any excess deduction is considered a "windfall" and recognized in Shareholders' Equity as Additional Paid in Capital ("APIC"). However, an entity may not realize windfall tax benefits through APIC until such time as that benefit is realized as a reduction in the Company's actual taxes paid on its filed tax return. Currently, the Company's taxable income, without regard to the excess deduction, is less than the amount of current excess deductions, and accordingly, the benefit recorded in the current year is limited.

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments not held for resale, with a maturity of three months or less when purchased. Cash equivalents are carried at cost plus accrued interest, which approximates fair value.

Goodwill and Intangibles

Goodwill with an indefinite life is not amortized but must be tested annually for impairment. Identifiable intangible assets with finite lives are amortized over their useful life.

3. Fair Value Measurement

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement considers attributes specific to an asset or liability, for example restrictions, if any, on the sale or use of the asset at the measurement date.

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The transaction to sell an asset or transfer a liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price). A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

For financial instruments which are quoted in an active market, fair value is determined directly from those quoted market prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those quotes represent actual and regularly occurring market transactions on an arm's length basis.

For financial instruments which do not have directly available quoted market prices, fair values are estimated using valuation techniques based wherever possible on assumptions supported by observable market prices or rates existing at the measurement date. This is the case for the majority of OTC derivatives and for many unquoted instruments and other items which are not traded in active markets.

For a portion of financial instruments, fair values cannot be obtained directly from quoted market prices, or indirectly using valuation techniques or models supported by observable market prices or rates. This is the case for certain complex or structured financial instruments. In these cases fair value is estimated indirectly using valuation techniques or models for which the inputs are believed by management to be reasonable assumptions, based on market conditions.

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Financial instruments are valued at the bid price for long positions and the offer price for short positions. For financial instruments with offsetting market risks, the mid-market price is used to determine fair value. Where a residual exposure exists, a mid-to-bid or mid-to-offer valuation adjustment is recorded.

In an attempt to increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy outlined in SFAS No. 157 prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical financial instruments (level 1) and the lowest priority to unobservable inputs (level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires considerable judgment and involves considering a number of factors specific to the financial instrument.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical financial instruments that the reporting entity has the ability to access at the measurement date. An active market for the financial instrument is a market in which transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the financial instrument, either directly or indirectly. Level 3 inputs are unobservable inputs for the financial instrument.

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At June 30, 2009, the financial instruments owned (including those pledged to creditors) and financial instruments sold, not yet purchased, recorded at fair value, consisted of the following:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|---|---|--|-------------------|
| Financial Instruments Owned: | | | | |
| Commercial paper and other short-term debt | \$ 542,063 | \$ | \$ | \$ 542,063 |
| U.S. government and agency securities | 133,701 | | | 133,701 |
| Equity securities | 38,769 | | | 38,769 |
| Mortgage-backed securities | | 2,152 | | 2,152 |
| State and municipal obligations | 274,457 | | | 274,457 |
| Corporate debt obligations | | 4,158 | | 4,158 |
| | <u>\$ 988,990</u> | <u>\$ 6,310</u> | <u>\$</u> | <u>\$ 995,300</u> |

| | | | | |
|---|-----------------|-----------------|-----------|-----------------|
| Financial Instruments Sold, Not Yet Purchased: | | | | |
| Equity securities | \$ 6,282 | \$ | \$ | \$ 6,282 |
| State and municipal obligations | 252 | | | 252 |
| Mortgage-backed securities | | 2,059 | | 2,059 |
| Corporate debt obligations | | 101 | | 101 |
| | <u>\$ 6,534</u> | <u>\$ 2,160</u> | <u>\$</u> | <u>\$ 8,694</u> |

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In addition, the Company has investments in exchange memberships in the amount of \$4,512 which are accounted for as level 1 assets. This amount is included in other assets in the accompanying Consolidated Statement of Financial Condition.

4. Related Party Transactions

In the normal course of business, the Company enters into transactions with affiliated companies. At June 30, 2009, the Consolidated Statement of Financial Condition included the following balances with affiliates:

Assets

| | | |
|--|----|-----------|
| Securities purchased under agreements to resell | \$ | 4,033,849 |
| Securities borrowed | | 644,105 |
| Cash and securities segregated and on deposit for federal and other regulations | | 1,302,303 |
| Receivables from affiliated companies | | 95,296 |

Liabilities

| | | |
|--|----|-----------|
| Securities sold under agreements to repurchase | \$ | 3,571,759 |
| Securities loaned | | 796,502 |
| Payable to affiliated companies | | 1,598,802 |
| Subordinated liabilities | | 2,362,000 |
| Long-term borrowings | | 155,000 |

In the normal course of business, the Company enters into resale and repurchase agreements and securities lending transactions with affiliated companies in order to facilitate client transactions and to meet its short-term financing needs.

Included in cash and securities segregated and on deposit for federal and other regulations on the Consolidated Statement of Financial Condition are securities purchased under agreements to resell with an affiliate, UBS Securities LLC ("UBSS LLC"), of \$1,097,500 which are maintained in a special reserve account, at a third party bank, pursuant to the Securities and Exchange Commission ("SEC") Rule 15c3-3. In addition, cash and securities

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segregated and on deposit for federal and other regulations includes \$163,550 of cash and securities sent to UBSS LLC and maintained in a special reserve account.

A substantial portion of the payable to affiliated companies represents amounts due to UBS Cayman Ltd., which facilitates the funding between the Company and affiliates. Interest on intercompany balances is based on the federal funds rate or the London Interbank Offered Rate ("LIBOR").

On February 27, 2009, the Company sold its ownership interest in UBSS LLC in exchange for a cash payment of \$335,000, which equaled its carrying value at the time of the sale.

Pursuant to a service level agreement, assignments and subleases, the Company has obligations to UBS and certain other affiliates which have entered into various noncancelable operating lease agreements on the Company's behalf.

The Company clears commodity transactions on an omnibus basis and also clears certain mortgage-backed transactions on a fully disclosed basis through UBSS LLC.

The Company did not pay any dividends to UBS Americas during the six-month period ended June 30, 2009.

5. Short-Term Borrowings

The Company meets its short-term financing needs by borrowing from affiliates, obtaining bank loans, on either a secured or unsecured basis, entering into agreements to repurchase, whereby securities are sold with a commitment to repurchase at a future date, and through securities lending activity.

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6. Long-Term Borrowings

At June 30, 2009 the total amount of secured promissory notes due to UBS Americas is \$155,000 (the "Notes"). The amounts of \$105,000 and \$50,000 are due on October 31, 2010 and June 29, 2011, respectively. The Notes bear interest from the closing dates on the unpaid principal amount thereof at a rate per annum equal to the USD overnight LIBOR as posted daily by the British Bankers Association. These Notes are classified as long-term borrowings, collateralized by certain assets of the Company, totaling \$363,057 (the "Collateral"). UBS Americas' sole recourse is limited to the Collateral and in accordance with net capital rules as discussed in Note (11), \$155,000 of such assets are included as allowable assets in the calculation of regulatory capital.

7. Subordinated Liabilities

Under the terms of the Junior Subordinated Revolving Credit Agreement between the Company and UBS Americas, UBS Americas has agreed to make revolving credit loans to the Company up to a maximum of \$2,500,000, from time to time, until March 1, 2009. In addition, each loan shall have a March 1, 2010 maturity date and bear interest at a rate based upon USD overnight LIBOR as posted daily by the British Bankers Association. At June 30, 2009, there was \$2,305,000 outstanding which is due March 1, 2010.

Under the terms of the Junior Subordinated Revolving Credit Agreement between UBS Financial Services Incorporated of Puerto Rico ("UBS FSI of PR") and UBS Americas, UBS Americas has agreed to make revolving credit loans to UBS FSI of PR up to a maximum of \$75,000 from time to time until March 31, 2012. At June 30, 2009, there was \$57,000 outstanding under this credit facility. Interest on borrowings under the terms of the revolving credit

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facility is calculated at a rate based on USD overnight LIBOR, as posted daily by the British Bankers Association.

These loans are subordinated to claims of general creditors, is covered by an agreement approved by FINRA and other regulatory authorities and are included by the Company for purposes of computing net capital under the SEC Uniform Net Capital Rule and NYSE Rule 326. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

8. Risk Management

Financial instrument transactions involve varying degrees of both market and credit risk. The Company monitors its exposure to market and credit risk on a daily basis and through a variety of financial, security position and credit exposure reporting and control procedures.

Market Risk

Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates, equity prices and foreign currency exchange rates. The Company has a variety of methods to monitor its market risk profile. The senior management of each business area is responsible for reviewing trading positions, exposures, profits and losses, and trading strategies. The Company has a risk control group which reviews the Company's risk profile and aids in setting and monitoring risk policies of the Company, including monitoring adherence to the established limits, performing market risk modeling, and reviewing trading positions and hedging strategies.

Market risk modeling is based on estimating potential loss through models such as Value-at-Risk. Other

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market risk control procedures include monitoring inventory agings, reviewing traders' marks, and regular meetings between the senior management of the business groups and the risk control group.

Credit Risk in Proprietary Transactions

Counterparties to the Company's financing activities are primarily affiliates and other financial institutions, including banks, brokers and dealers, investment funds and insurance companies. Credit losses could arise should counterparties fail to perform and the value of any collateral prove inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral where appropriate.

Receivables and payables with brokers and dealers, agreements to resell and repurchase securities, and securities borrowed and loaned are generally collateralized by cash, and U.S. government and agency securities. Additional collateral is requested when considered necessary. The Company may pledge clients' margin securities as collateral in support of securities loaned and bank loans, as well as to satisfy margin requirements at clearing organizations. For margin loans, the amounts loaned or pledged are limited to the extent permitted by applicable margin regulations. Should the counterparty fail to return the clients' securities, the Company may be required to replace them at prevailing market prices. At June 30, 2009, the market value of client securities loaned to other brokers approximated the amounts due or collateral obtained.

Credit Risk in Client Activities

Client transactions are entered on either a cash or margin basis. In a margin transaction, the Company extends credit to a client, using the securities purchased and/or other securities held on behalf of the client, as collateral for amounts loaned. Amounts

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loaned are limited by margin regulations of the Federal Reserve Board and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Market declines could, however, reduce the value of any collateral below the principal amount loaned, plus accrued interest, before the collateral can be sold.

Client transactions include positions in commodities and financial futures, financial instruments sold, not yet purchased and written options. The risk to the Company's clients in these transactions can be substantial, principally due to price volatility which can reduce the clients' ability to meet their obligations. Margin deposit requirements pertaining to commodity futures and options transactions are generally lower than those for exchange-traded securities. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take market action and credit losses could be realized.

Client trades are recorded on a settlement date basis. Should either the client or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices.

Trades pending at June 30, 2009 were settled without material adverse effect on the Consolidated Statement of Financial Condition, taken as a whole.

Concentrations of Credit Risk

Concentrations of credit risk that arise from financial instruments (whether on- or off-balance sheet) exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet obligations to be similarly affected by economic, industry or geographic factors. The Company seeks to control its credit risk and the potential for risk concentration through a variety of reporting and control procedures.

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The Company's most significant industry concentration, which arises within its normal course of business activities, is with affiliates and other financial institutions including banks, brokers and dealers, investment funds and insurance companies.

Operational Risk

Operational risk focuses on the Company's ability to accumulate process and communicate information necessary to conduct its daily operations. Deficiencies in technology, financial systems and controls, and losses attributable to operational problems all pose potential operating risks. In order to mitigate these risks, the Company has established and maintains an operational risk framework which incorporates various control mechanisms. The framework involves various oversight functions, such as risk, audit, accounting, controllers, legal and compliance. Certain of these functions are performed by affiliates on the Company's behalf.

9. Commitments and Contingencies

Leases

The Company leases office space and equipment under noncancelable operating and capital lease agreements which expire at various dates through 2023. At June 30, 2009, the aggregate minimum future payments required by operating leases with initial or remaining lease terms exceeding one year were as follows:

| | Total Rent Payments | Total Sublease Receipts |
|------------|---------------------|-------------------------|
| 2009 | \$ 93,187 | \$ 13,315 |
| 2010 | 170,644 | 26,444 |
| 2011 | 155,440 | 26,658 |
| 2012 | 142,353 | 27,077 |
| 2013 | 132,451 | 26,996 |
| Thereafter | 618,810 | 120,498 |
| Total | \$ 1,312,885 | \$ 240,988 |

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Other Commitments and Contingencies

At June 30, 2009 the Company is contingently liable under standby letters of credit issued by third party banks, totaling \$39,572 which approximated fair value.

In meeting the financing needs of certain of its clients, the Company may also issue standby letters of credit, which are fully collateralized by customer margin securities. At June 30, 2009, the Company had outstanding \$191,641 of such standby letters of credit.

In the normal course of business, the Company enters into when-issued transactions and underwriting commitments in its subsidiary, UBS FSI of PR . Settlement of these transactions at June 30, 2009 would not have had a material impact on the Consolidated Statement of Financial Condition, taken as a whole.

Various claims and legal proceedings generally incidental to the normal course of business are pending or threatened against the Company. While the ultimate liability from these proceedings is presently indeterminable, in the opinion of management of the Company, after consultation with various counsels handling the matters, any additional liability is not expected to have a material adverse effect on the Consolidated Statement of Financial Condition.

10. Stockholder's Equity

There are one hundred shares authorized, issued and outstanding of one dollar par value common stock.

11. Regulatory Requirements

The Company is subject to the SEC Uniform Net Capital Rule (15c-3-1) and the New York Stock Exchange ("NYSE") Growth and Business Reduction

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capital requirements. Under the alternative method of computing capital requirements adopted by the Company, minimum net capital shall not be less than 2% of combined aggregate debit items arising from client transactions, plus excess margin collected on resale agreements, as defined. A reduction of business is required if net capital is less than 4% of such aggregate debit items. Business may not be expanded if net capital is less than 5% of such aggregate debit items. At June 30, 2009, the Company's net capital of \$919,187 was 24.73% of its aggregate debit items as of this date and its net capital in excess of the minimum required was \$832,665.

Advances to UBS Americas and its affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rules of the SEC, NYSE and FINRA.

12. Employee Incentive Awards

Employees of the Company are covered under UBS' various Stock, Option and Award Plans which provide for the granting of restricted stock, nonqualified stock options, cash and restricted stock awards, and other stock based awards.

Officers and other key employees are granted nonqualified stock options to purchase shares of UBS common stock at a price not less than the fair market value of the stock on the date the option is granted. The rights generally expire within seven to ten years after the date of grant.

Restricted stock awards are granted to key employees through the UBS Equity Ownership Plan. These awards are mandatory deferrals from the employee's year-end incentive bonus that is above a certain level and are expensed up front in the performance year. The awards

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contain restrictions on sale or transfer lapsing over three years. These restricted stock awards are subject to forfeiture if the employee terminates prior to the end of the prescribed restriction period for cause or to join a competitor. Restricted stock awards were also granted as part of a new hire recruiting package. The new hire awards generally contain restrictions on sale or transfer lapsing over three or ten years.

In 2009, discretionary awards of Stock Appreciation Rights ("KESAP") were granted to key employees at the Company.

These restricted stock awards are subject to forfeiture if the employee terminates prior to the end of the prescribed restriction period for cause or to join a competitor.

Certain eligible employees of the Company participate in the Company's PartnerPlus Plan (the "PartnerPlus Plan"), a nonqualified deferred compensation plan. Under the PartnerPlus Plan, the Company makes annual contributions and the employee may elect to make voluntary pre-tax contributions, subject to a maximum percent of the Company contribution. The Company and employee contributions earn tax-deferred interest and are subject to certain vesting provisions, generally over a six to ten year period.

The Company has entered into various agreements with certain of its financial advisors whereby these financial advisors receive a forgivable loan. These employee forgivable loans have been capitalized and are being amortized on a straight-line basis over the terms specified in each agreement.

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13. Employee Benefit Plans

Eligible employees of the Company were included in the non-contributory defined benefit pension plan, which was frozen in 1998.

Employees of the Company are eligible to participate in the Company 401(k) Plus Plan, which allows employees to save a portion of their compensation and also provides company contributions via company match and retirement contribution.

The Company also provides certain life insurance and health care benefits to employees of the Company.

14. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For financial reporting purposes, net deferred tax assets are included in other assets in the Consolidated Statement of Financial Condition and are reflected with a reduction for a valuation allowance.

In accordance with SFAS 109, a valuation allowance is to be recorded whenever the ultimate realization of deferred tax assets is, more likely than not, not going to be realized. In assessing the recoverability of the deferred tax assets, the Company considered all available positive and negative evidence, including history of earnings as well as all possible tax planning strategies.

After consideration of all relevant evidence, the Company believes that it is more likely than not that a benefit will not be realized for certain of its federal, state and local foreign deferred tax assets, and accordingly, a valuation allowance of \$1,213,142 has been recorded.

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The components of the Company's deferred tax assets and liabilities as of June 30, 2009 were as follows:

| Deferred tax assets: | |
|--|-------------------|
| Employee benefits | \$ 746,952 |
| Accelerated income and deferred deductions | 364,319 |
| Book over tax depreciation | 43,824 |
| Valuation of trading assets and investments | 17,117 |
| Net operating loss carryforwards | 443,156 |
| | <hr/> |
| | 1,615,368 |
| Valuation Allowance | (1,213,142) |
| Total deferred tax assets | <hr/> 402,226 |
| Deferred tax liabilities: | |
| Valuation of trading liabilities and investments | 14,223 |
| Accelerated deductions and deferred income | 216,663 |
| Total deferred tax liabilities | <hr/> 230,886 |
| | <hr/> |
| Net deferred tax asset | <u>\$ 171,340</u> |

At June 30, 2009, the Company's net operating loss carryforwards for federal, state and local foreign income tax purposes which will begin to expire in 2028, 2018, and 2012, respectively. Generally, for state and local foreign income tax purposes there is no carryback allowed.

As of June 30, 2009, the federal consolidated group, of which the Company is a member, remains under examination by the Internal Revenue Service ("IRS") for the tax years 2000 through 2004, although the Company considers the IRS exam to be effectively settled as of June 30, 2008. In anticipation of the formal closing of the IRS exam in the coming months, federal, state and local reserves related to the previously unrecognized benefits have been adjusted to reflect the results of the examination. In 2009 there were no material changes to the federal and state and local reserves.

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15. Subsequent Events

On August 31, 2009 the Company entered into an agreement with UBS Americas in which UBS Americas has made a \$600,000 subordinated term loan to the Company with a maturity date of September 1, 2016, and bearing interest at overnight LIBOR, as posted daily by the British Bankers Association.

On August 31, 2009, the Junior Subordinated Revolving Credit Agreement between UBS Americas and the Company was amended to extend the maturity to March 1, 2015 and to reduce the the maximum amount available under this line from \$2,500,000 to \$2,000,000. In addition, the Company repaid \$600,000 of the amount that was outstanding on August 31, 2009. As of September 15, 2009, the amount outstanding is \$1,705,000.

Following an agreement announced in March 2009, the Company will sell 56 branches to Stifel, Nicolaus & Company, Incorporated for an upfront cash payment of approximately \$28,500. The Company will also receive annual earn-out payments for the two year-period following the closing of the transaction principally based on the performance of the Company's financial advisors who become Stifel employees, as well as aggregate payments of up to approximately \$19,000 for net fixed assets and employee forgivable loans. The transaction is expected to close in four separate closings during the second half of 2009. The assets held for sale is reflected on the Company's Consolidated Statement of Financial Condition as a separate line item.

The Company has updated its subsequent event disclosure through September 15, 2009, the date of issue of the Company's Consolidated Statement of Financial Condition.

Account Protection

UBS Financial Services Inc. and its U.S. broker-dealer affiliates are members of the Securities Investor Protection Corporation (SIPC). SIPC provides protection for your account(s) at member firms for up to \$500,000 per customer, including a maximum of \$100,000 for free cash balances at the firm in the unlikely event that the firm fails financially. The SIPC asset protection limits apply to all accounts that you hold in a particular capacity. For example, if you have two accounts at the firm where you are the sole account holder and a third account where you are a joint account holder, the two accounts are protected under SIPC up to a combined \$500,000 (not \$500,000 each), and the joint account is protected under SIPC separately for \$500,000. The firm, together with certain affiliates, has also purchased supplemental protection. The maximum amount payable, to all clients collectively, under the supplemental policy is \$500 million as of March 23, 2009. Subject to the policy conditions and limitations, cash is further protected up to \$1.9 million in the aggregate for all your accounts held in a particular capacity at UBS Financial Services Inc. A full copy of the policy wording is available upon request. The SIPC protection and the supplemental protection both do not apply to (a) certain financial assets controlled by (and included in your account value) but held away from UBS Financial Services Inc. (e.g., certain (i) cash on deposit at UBS Bank USA, (ii) insurance products, including variable annuities, and (iii) shares of mutual funds where such shares are registered directly in the name of the account holder on the books and records of the applicable issuer or transfer agent); (b) certain investment contracts or investment interests (e.g., limited partnerships and private placements) that are not registered under the Securities Act of 1933; and (c) commodities contracts (e.g., foreign exchange and precious metal contracts), including futures contracts and commodity option contracts. The SIPC protection and the supplemental protection do not apply to these assets even if they otherwise appear on your statements. The SIPC protection and the supplemental protection do not protect against changes in the market value of your investments (whether as a result of market movement, issuer bankruptcy or otherwise). More information is available upon request. You may obtain more information about SIPC, including the SIPC brochure, by contacting SIPC at 202-371-8300 or by visiting the SIPC website at www.sipc.org.

UBS Financial Services Inc. is not a bank. Unless otherwise disclosed, securities and other investments held through UBS Financial Services Inc. ARE NOT FDIC INSURED, ARE NOT BANK GUARANTEED, AND MAY LOSE VALUE.



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