REGISTRATION DOCUMENT

dated 19 May 2014

of

UBS AG
(a corporation limited by shares established under the laws of Switzerland)

which may also be acting through its Jersey branch:

UBS AG, Jersey Branch
(the Jersey branch of UBS AG)

or through its London branch:

UBS AG, London Branch
(the London branch of UBS AG)

This document has been prepared for the purpose of providing disclosure information with regard to UBS AG (the "**Issuer**") as issuer of debt or derivative securities and constitutes a registration document (the "**Registration Document**") within the meaning of Art. 5 (3) of Directive 2003/71/EC, as amended, in particular by Directive 2010/73/EU, (the "**Prospectus Directive**") and § 12 (1) of the German Securities Prospectus Act (*Wertpapierprospektgesetz* – "**WpPG**") in connection with Art. 14 and Annex XI of the Commission Regulation (EC) No. 809/2004 of 29 April 2004 (the "**Regulation**").

IMPORTANT NOTICES

This Registration Document has been approved by the Federal Financial Services Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "BaFin") in accordance with § 13 (1) of the WpPG. This Registration Document as well as any securities notes or (base) prospectuses, either incorporating information from this Registration Document by reference or of which this Registration Document forms part, are available to the public in printed format, free of charge, at the registered offices of the Issuer. In addition, the Registration Document as well as any securities notes or (base) prospectuses, either incorporating information from this Registration Document by reference or of which this Registration Document forms part, are published on the UBS website, at www.ubs.com/keyinvest or a successor address.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Registration Document, and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, or any trustee or any dealer appointed in relation to any issue of debt or derivative securities by the Issuer.

This Registration Document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, any trustee or any dealer appointed in relation to any issue of debt or derivative securities by the Issuer that any recipient of this Registration Document should purchase any debt or derivative securities issued by the Issuer. Each investor contemplating purchasing debt or derivative securities issued by the Issuer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. No part of this Registration Document constitutes an offer or invitation by or on behalf of the Issuer, any trustee or any dealer appointed in relation to any issue of debt or derivative securities by the Issuer or any of them to any person to subscribe for or to purchase any of the debt or derivative securities issued by the Issuer.

This Registration Document is valid for a period of twelve months from the date of its approval. Neither the delivery of this Registration Document or of any securities notes or (base) prospectuses, either incorporating information from this Registration Document by reference or of which this Registration Document forms part, nor the offering, sale or delivery of any debt or derivative securities shall, in any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof. The contents of this Registration Document will be updated in accordance with the provisions of the Prospectus Directive and the WpPG. Any dealer or trustee appointed in relation to any issue of debt or derivative securities by the Issuer expressly does not undertake to review the financial condition or affairs of the Issuer or its subsidiary undertakings during the life of such securities.

The distribution of this Registration Document and the offer or sale of securities issued by the Issuer may be restricted by law in certain jurisdictions. Persons into whose possession this Registration Document or any securities issued by the Issuer come must inform themselves about, and observe, any such restrictions.

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I. Persons Responsible

UBS AG, having its registered offices at Bahnhofstrasse 45, 8001 Zurich, Switzerland, and Aeschenvorstadt 1, 4051 Basel, Switzerland, accepts responsibility for the information contained in this Registration Document and declares that the information contained in this Registration Document is, to the best of its knowledge, accurate and that no material facts have been omitted.

Where this Registration Document contains information obtained from third parties, such information was reproduced accurately, and to the best knowledge of the Issuer - as far as it is able to ascertain from information provided or published by such third party - no facts have been omitted which would render the reproduced information inaccurate or misleading.

II. Statutory Auditors

Based on article 31 of the Articles of Association of UBS AG dated 7 February 2014 ("**Articles of Association**"), UBS AG shareholders elect the auditors for a term of office of one year. At the Annual General Meeting of shareholders of UBS ("**AGM**") on 3 May 2012, 2 May 2013 and 7 May 2014, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel ("**Ernst & Young**") were elected as auditors for the financial statements of UBS AG and the consolidated financial statements of the UBS Group for a one-year term.

Ernst & Young is a member of the Swiss Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

III. Risk Factors

Investing in the debt or derivative securities of the Issuer involves certain issuer-specific risks. Investments in debt or derivative securities of the Issuer should not be made until all these risk factors have been acknowledged and carefully considered. When making decisions relating to investments in the debt or derivative securities of the Issuer, potential investors should consider following risks factors in respect of the Issuer, which may affect the Issuer's ability to fulfil its obligations under its debt or derivative securities and, if necessary, consult their legal, tax, financial or other advisor.

Prospective investors in any debt or derivative securities of the Issuer should read the entire Registration Document and the relevant securities note or (base) prospectus, either incorporating information from this Registration Document by reference or of which this Registration Document forms part, containing disclosure on certain debt or derivative securities (and where appropriate, the relevant summary note applicable to the relevant debt or derivative securities).

As a global financial services provider, the business activities of UBS AG with its subsidiaries (together "**UBS Group**", "**Group**" or "**UBS**") are affected by certain risks, including those described below, which may impact UBS's ability to execute its strategy and affect its business activities, financial condition, results of operations and prospects. Because the business of a broad-based international financial services firm such as UBS is inherently exposed to risks that become apparent only with the benefit of hindsight, risks of which UBS is not presently aware or which it currently does not consider to be material could also impact its ability to execute its strategy and affect its business activities, financial condition, results of operations and prospects. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their consequences.

General insolvency risk

Each investor bears the general risk that the financial situation of the Issuer could deteriorate. The Securities constitute immediate, unsecured and unsubordinated obligations of the Issuer, which, in particular in the case of insolvency of the Issuer, rank *pari passu* with each other and all other current and future unsecured and unsubordinated obligations of the Issuer, with the exception of those that have priority due to mandatory statutory provisions. The obligations of the Issuer created by the Securities are not secured by a system of deposit guarantees or a compensation scheme. In case of an insolvency of the Issuer, Securityholders may, consequently, suffer a **total loss** of their investment in the Securities.

Effect of downgrading of the Issuer's rating
The general assessment of the Issuer's creditworthiness may affect the value of the Securities. This assessment generally depends on the ratings assigned to the Issuer or its affiliated companies by rating agencies such as Standard & Poor's Credit Market Services Europe Limited, Fitch Ratings Limited and Moody's Investors Service, Inc. As a result, any downgrading of the Issuer's rating by a rating agency may have a negative impact on the value of the Securities.

Regulatory and legislative changes may adversely affect UBS's business and ability to execute its strategic plans
Fundamental changes in the laws and regulations affecting financial institutions can have a material and adverse effect on UBS's business. In the wake of the 2007–2009 financial crisis and the following instability in global financial markets, regulators and legislators have proposed, have adopted, or are actively considering, a wide range of changes to these laws and regulations. These measures are generally designed to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. They include the following:

– significantly higher regulatory capital requirements;

– changes in the definition and calculation of regulatory capital;

– changes in the calculation of risk-weighted assets ("**RWA**");

– the introduction of a more demanding leverage ratio;

– new or significantly enhanced liquidity requirements;

– requirements to maintain liquidity and capital in jurisdictions in which activities are conducted and booked;

– limitations on principal trading and other activities;

– new licensing, registration and compliance regimes;

– limitations on risk concentrations and maximum levels of risk;

– taxes and government levies that would effectively limit balance sheet growth or reduce the profitability of trading and other activities;

– cross-border market access restrictions;

– a variety of measures constraining, taxing or imposing additional requirements relating to compensation;

– adoption of new liquidation regimes intended to prioritize the preservation of systemically significant functions;

– requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to manage, restructure, disassemble or liquidate, including ring-fencing certain activities and operations within separate legal entities; and

– requirements to adopt risk governance structures at a local jurisdiction level.

Many of these measures have been adopted and their implementation had a material effect on UBS's business. Others will be implemented over the next several years; some are subject to legislative action or to further rulemaking by regulatory authorities before final implementation. As a result, there remains a high level of uncertainty regarding a number of the measures referred to above, including whether (or the form in which) they will be adopted, the timing and content of implementing regulations and interpretations and / or the dates of their effectiveness. The implementation of such measures and further, more restrictive changes may materially affect UBS's business and ability to execute its strategic plans.

Notwithstanding attempts by regulators to coordinate their efforts, the measures adopted or proposed differ significantly across the major jurisdictions, making it increasingly difficult to manage a global institution. The absence of a coordinated approach, moreover, disadvantages institutions headquartered in jurisdictions that

impose relatively more stringent standards. Switzerland has adopted capital and liquidity requirements for its major international banks that are the strictest among the major financial centers. This could disadvantage Swiss banks such as UBS when they compete with peer financial institutions subject to more lenient regulation or with unregulated non-bank competitors.

Regulatory and legislative changes in Switzerland
In September 2011, the Swiss Parliament adopted the "too-big- to-fail" ("**TBTF**") law to address the issues posed by large banks. The law became effective on 1 March 2012. Accordingly, Swiss regulatory changes have generally proceeded more quickly than those in other major jurisdictions, and the Swiss Financial Market Supervisory Authority ("**FINMA**"), the Swiss National Bank ("**SNB**") and the Swiss Federal Council are implementing requirements that are significantly more onerous and restrictive for major Swiss banks, such as UBS, than those adopted or proposed by regulatory authorities in other major global financial centers.

Capital regulation: The provisions of the revised banking ordinance and capital adequacy ordinance implementing the Basel III capital standards and the Swiss TBTF law became effective on 1 January 2013. As a systemically relevant Swiss bank, UBS is subject to base capital requirements, as well as a "progressive buffer" that scales with UBS's total exposure (a metric that is based on UBS's balance sheet size) and market share in Switzerland. In addition, the Swiss governmental authorities have the authority to impose an additional countercyclical buffer capital requirement of up to 2.5% of RWA. This authority has been exercised to impose an additional capital charge of 1% in respect of RWA arising from Swiss residential mortgage loans (increasing to 2% effective from the end of June 2014). In addition, UBS and FINMA have mutually agreed to an incremental operational capital requirement to be held against litigation, regulatory and similar matters and other contingent liabilities, which added CHF 22.5 billion to UBS's RWA at 31 December 2013. There can be no assurance that UBS will not in the future be subject to increases in capital requirements either from the imposition of additional requirements or changes in the calculation of RWA or other components of the existing minimum capital requirement.

Liquidity and funding: UBS is required to maintain a Liquidity Coverage Ratio ("**LCR**") of high-quality liquid assets to estimated stressed short-term funding outflows and will be required to maintain a Net Stable Funding Ratio ("NSFR") intended to ensure that UBS is not overly reliant on short-term funding and that it has sufficient long-term funding for illiquid assets. UBS currently calculates these ratios under supervisory guidance from FINMA, as neither the international nor Swiss standards for the calculation of these requirements have been fully implemented. These requirements, together with liquidity requirements imposed by other jurisdictions in which UBS operates, will likely require UBS to maintain substantially higher levels of overall liquidity. Increased capital requirements and higher liquidity requirements make certain lines of business less attractive and may reduce UBS's overall ability to generate profits. The LCR and NSFR calculations make assumptions about the relative likelihood and amount of outflows of funding and available sources of additional funding in a market or firm-specific stress situation. There can be no assurance that in an actual stress situation UBS's funding outflows would not exceed the assumed amounts.

Resolution planning and resolvability: The revised banking act and capital adequacy ordinances provide FINMA with additional powers to intervene to prevent a failure or resolve a failing financial institution. These measures may be triggered when certain thresholds are breached and permit the exercise of considerable discretion by FINMA in determining whether, when or in what manner to exercise such powers. In case of a threatened insolvency, FINMA may impose more onerous requirements on UBS, including restrictions on the payment of dividends and interest. Although the actions that FINMA may take in such circumstances are not yet defined, UBS could be required directly or indirectly, for example, to alter its legal structure (e.g., to separate lines of business into dedicated entities, with limitations on intra-group funding and certain guarantees), or to further reduce business risk levels in some manner. The banking act also provides FINMA with the ability to extinguish or convert to common equity the liabilities of a bank in connection with its resolution.

Swiss TBTF requirements require systemically important banks, including UBS, to put in place viable emergency plans to preserve the operation of systemically important functions despite a failure of the institution, to the extent that such activities are not sufficiently separated in advance. The Swiss TBTF law provides for the possibility of a limited reduction of capital requirements for systemically important institutions that adopt measures to reduce resolvability risk beyond what is legally required. Such actions would likely include an alteration of the legal structure of a bank group in a manner that would insulate parts of the group to exposure from risks arising from other parts of the group thereby making it easier to dispose of certain parts of the group in a recovery scenario, to liquidate or dispose of certain parts of the group in a resolution scenario or to execute a debt bail-in. In view of these factors, UBS intends to establish a group holding company through a share for share exchange offer, which will commence later this year, subject to regulatory approvals. UBS also

intends to establish a banking subsidiary in Switzerland in mid-2015. The scope of this future subsidiary's business is expected to include UBS's Retail & Corporate business and the Swiss-booked Wealth Management business. These structural changes have been discussed with FINMA and other regulatory authorities. The dialogue with regulators will continue and the changes remain subject to some uncertainties that may affect their feasibility, scope or timing.UBS may consider further changes to the legal structure of the Group in response to regulatory requirements in Switzerland or in other countries in which it operates, including to improve the resolvability of the UBS Group, to respond to Swiss and other capital requirements (including seeking potential reduction in the progressive buffer requirement as applied to UBS) and to respond to regulatory required changes in legal structure. Movement of businesses to a new subsidiary ("subsidiarization") will require significant time and resources to implement. "Subsidiarization" in Switzerland and elsewhere may create operational, capital, funding and tax inefficiencies and increase UBS's and counterparties' credit risk. Refer to "Regulatory and legislative changes outside Switzerland" for a description of other regulatory and legislative developments that may affect these decisions and further discussion of these risks.

In September 2013, the Swiss National Council approved two motions for the mandatory structural reform of banks in Switzerland that would, if also adopted by the Council of States, result in the submission to Parliament of a law requiring the separation of certain investment banking activities from systemically relevant activities, such as retail and commercial banking. No date has been set for the debate. It is unclear whether, when and in what form such a law will be adopted.

Market regulation: The Swiss government is working on fundamentally reviewing the rules on market infrastructure and on the relationship between UBS and its clients. These laws may, if enacted, have a material impact on the market infrastructure that UBS uses, available platforms, collateral management and the way UBS interacts with clients. In addition, these initiatives may cause UBS to incur material implementation costs.

Regulatory and legislative changes outside Switzerland

Regulatory and legislative changes in other locations in which UBS operates may subject UBS to a wide range of new restrictions both in individual jurisdictions and, in some cases, globally.

Banking structure and activity limitations: Some of these regulatory and legislative changes may subject UBS to requirements to move activities from UBS AG branches into subsidiaries. Such "subsidiarization" can create operational, capital and tax inefficiencies, increase UBS's aggregate credit exposure to counterparties as they transact with multiple UBS AG affiliates, expose UBS's businesses to higher local capital requirements, and potentially give rise to client and counterparty concerns about the credit quality of individual subsidiaries. Such changes could also negatively impact UBS's funding model and severely limit its booking flexibility.

For example, UBS has significant operations in the UK and currently uses UBS AG's London branch as a global booking center for many types of products. UBS is being required by the UK Prudential Regulatory Authority and by FINMA to increase very substantially the capitalization of its UK bank subsidiary, UBS Limited, and expects to be required to change its booking practices to reduce or even eliminate its utilization of UBS AG London branch as a global booking center for the ongoing business of the Investment Bank. In addition, the UK Independent Commission on Banking has recommended structural and non-structural reforms of the banking sector, most of which have been endorsed by the UK government and implemented in the Financial Services (Banking Reform) Act. Key measures proposed include the ring-fencing of retail banking activities in the UK (which UBS does not expect to impact UBS directly), additional common equity tier 1 capital requirements of up to 3% of RWA for retail banks, and the issuance by UK banks of debt subject to "bail-in" provisions. Furthermore, the European Commission's recent proposals in light of the Liikanen report also advocate a Volcker-style prohibition on proprietary trading together with a separation of trading from banking activities. The applicability and implications of such changes to branches and subsidiaries of foreign banks are not yet entirely clear, but they could have a material effect on UBS's businesses located or booked in the UK.

In February 2014, the Federal Reserve Board issued final rules for foreign banking organizations ("**FBO**") operating in the US (under section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) that include the following: (i) a requirement for FBO with more than USD 50 billion of US non-branch assets to establish an intermediate holding company ("**IHC**") to hold all US subsidiary operations, (ii) risk-based capital and leverage requirements for the IHC, (iii) liquidity requirements, including a 30-day onshore liquidity requirement for the IHC, (iv) risk management requirements including the establishment of a risk committee and the appointment of a US chief risk officer, (v) stress test and capital planning requirements and (vi) a debt-to-equity limit for institutions that pose "a grave threat" to US financial stability. Requirements differ based on the overall size of the foreign banking organization and the amount of its US-based assets. UBS expects that it

will be subject to the most stringent requirements based on its current operations. UBS will have until 1 July 2016 to establish an IHC and meet many of the new requirements. UBS must submit an implementation plan by 1 January 2015 and the IHC will not need to comply with the US leverage ratio until 1 January 2018.

US regulators published final regulations implementing the Volcker Rule in December 2013 and generally extended until 2015 the time to conform to this rule and the related regulations. In general, the Volcker Rule prohibits any banking entity from engaging in proprietary trading and from owning interests in hedge funds and other private fund vehicles. The Volcker Rule also broadly limits investments and other transactional activities between a bank and funds that the bank has sponsored or with which the bank has certain other relationships. The Volcker Rule permits UBS and other non-US banking entities to engage in certain activities that would otherwise be prohibited to the extent that they are conducted solely outside the US and certain other conditions are met. One impact will be the need to establish an extensive global compliance framework designed to ensure compliance with the Volcker Rule and the terms of the available exemptions. Moreover, the Volcker Rule could have an impact on the way in which UBS organizes and conducts certain business lines. UBS continues to evaluate the final rule and its impact on its activities. The Volcker Rule could have a substantial impact on market liquidity and the economics of market-making activities.

OTC derivatives regulation: In 2009, the G20 countries committed to require all standardized over-the-counter ("**OTC**") derivative contracts to be traded on exchanges or trading facilities and cleared through central counterparties by the end of 2012. This commitment is being implemented through the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US and corresponding legislation in the European Union, Switzerland and other jurisdictions, and will have a significant impact on UBS's OTC derivatives business, which is conducted primarily in the Investment Bank. For example, UBS expects that, as a rule, the shift of OTC derivatives trading to a central clearing model will tend to reduce profit margins in these products, although some market participants may be able to offset this effect with higher trading volumes in commoditized products. Although UBS is preparing for these thematic market changes, they are likely to reduce the revenue potential of certain lines of business for market participants generally, and UBS may be adversely affected.

UBS AG registered as a swap dealer with the Commodity Futures Trading Commission ("**CFTC**") in the US at the end of 2012, enabling the continuation of swaps business with US persons. UBS also expects that UBS AG will be required to register as a securities-based swap dealer with the US Securities and Exchange Commission ("**SEC**"). Regulations issued by the CFTC impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. Certain of the CFTC's regulations, including those relating to swap data reporting, recordkeeping, compliance and supervision, are expected to apply to UBS AG globally. In July 2013, the CFTC approved final cross-border guidance that defines the extraterritorial application of its swaps regulations. This guidance may allow non-US swap dealers, such as UBS AG, to operate on the basis of "substituted compliance," under which they may comply with home country requirements instead of the corresponding CFTC requirements if the CFTC determines the home country requirements to be "comprehensive and comparable." In December 2013, the CFTC issued comparability determinations for Switzerland (as well as the home countries of certain other non-US swap dealers) that will allow UBS to comply with relevant Swiss regulations instead of CFTC requirements for many, but not all, of the CFTC regulations for which substituted compliance is available. While the CFTC deferred a comparability determination on swap data reporting requirements as UBS continues to review the issue, it granted reporting no-action relief that allows UBS AG (and other non-US swap dealers) to delay reporting transactions with non-US persons for several months. The CFTC's regulations will apply to swaps between non-US persons and non-US swap dealers when US personnel are involved, but in January 2014, the CFTC delayed the applicability of US regulations in this context until 15 September 2014, giving additional time for foreign swap dealers to comply with US requirements regarding transactions with non-US persons conducted from the US. Application of these requirements to UBS's swaps business with non-US persons continues to present a substantial implementation burden, will likely duplicate or conflict with legal requirements applicable to UBS outside of the US and may place UBS at a competitive disadvantage to firms that are not CFTC-registered swap dealers.

Regulation of cross-border provision of financial services: In many instances, UBS provides services on a cross-border basis and is therefore sensitive to barriers restricting market access for third-country firms. In particular, efforts in the European Union ("**EU**") to harmonize the regime for third-country firms to access the European market may have the effect of creating new barriers that adversely affect UBS's ability to conduct business in these jurisdictions from Switzerland. In addition, a number of jurisdictions are increasingly regulating cross-border activities on the basis of some notion of comity (e.g., substituted compliance, equivalence determination). While the issuance of such determinations in particular jurisdictions may ensure market access for UBS to those jurisdictions, a negative determination in other jurisdictions may negatively influence UBS's

ability to act as a global firm. In addition, as jurisdictions tend to apply such determinations on a jurisdictional level rather than on an entity level, UBS will generally need to rely on jurisdictions' willingness to collaborate.

Resolution and recovery; bail-in
UBS is currently required to produce recovery and resolution plans in the US, UK, Switzerland and Germany and is likely to face similar requirements for its operations in other jurisdictions, including its operations in the EU as a whole, as part of the proposed EU Bank Recovery and Resolution Directive. Resolution plans may increase the pressure on UBS to make structural changes, such as the creation of separate legal entities, if the resolution plan in any jurisdiction identifies impediments that are not acceptable to the relevant regulators. Such structural changes may negatively impact UBS's ability to benefit from synergies between business units, and if they include the creation of separate legal entities, may have the other negative consequences mentioned above with respect to "subsidiarization" more generally.

In addition, a number of jurisdictions, including Switzerland, the US, the UK and the EU, have implemented or are considering implementing changes that would allow resolution authorities to write down or convert into equity unsecured debt to effectuate a so-called "bail-in." Some jurisdictions are also considering adopting requirements that regulated firms maintain specified amounts of unsecured debt that could increase loss-absorbing capacity. The scope of bail-in authority and the legal mechanisms that would be utilized for the purpose are subject to a great deal of development and interpretation. Depending upon the outcome, bail-in authority may have a significant effect on UBS's funding costs.

Possible consequences of regulatory and legislative developments
The planned and potential regulatory and legislative developments in Switzerland and in other jurisdictions in which UBS has operations may have a material adverse effect on UBS's ability to execute its strategic plans, on the profitability or viability of certain business lines globally or in particular locations, and in some cases on its ability to compete with other financial institutions. They are likely to be costly to implement and could also have a negative impact on UBS's legal structure or business model, potentially generating capital inefficiencies and resulting in an impact on UBS's profitability. Finally, the uncertainty related to or the implementation of legislative and regulatory changes may have a negative impact on UBS's relationships with clients and its success in attracting client business.

UBS's capital strength is important in supporting its strategy, client franchise and competitive position
UBS's capital position, as measured by the fully applied common equity tier 1 and total capital ratios under Basel III requirements, is determined by: (i) RWA (credit, non-counterparty related, market and operational risk positions, measured and risk-weighted according to regulatory criteria); and (ii) eligible capital. Both RWA and eligible capital may fluctuate based on a number of factors. RWA are driven by UBS's business activities and by changes in the risk profile of its exposures, as well as regulatory requirements. For instance, substantial market volatility, a widening of credit spreads (the major driver of UBS's value-at-risk), adverse currency movements, increased counterparty risk, a deterioration in the economic environment, or increased operational risk could result in a rise in RWA. Eligible capital would be reduced if UBS experiences net losses or losses through other comprehensive income, as determined for the purpose of the regulatory capital calculation, which may also render it more difficult or more costly for UBS to raise new capital. In addition, eligible capital can be reduced for a number of other reasons, including certain reductions in the ratings of securitization exposures, acquisitions and divestments changing the level of goodwill, adverse currency movements affecting the value of equity, prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, and changes in the value of certain pension fund assets and liabilities recognized in other comprehensive income. Any such increase in RWA or reduction in eligible capital could materially reduce UBS's capital ratios.

Risks captured in the operational risk component of RWA have become increasingly significant as a component of UBS's overall RWA as a result of significant reductions in market and credit risk RWA, as UBS executes its strategy, and increased operational risk charges arising from operational risk events (including charges arising from litigation, regulatory and similar matters). UBS has agreed with FINMA on a supplemental analysis that will be used to calculate an incremental operational risk capital charge to be held for litigation, regulatory and similar matters and other contingent liabilities. The incremental RWA calculated based on this supplemental analysis as of 31 December 2013 was CHF 22.5 billion. Future developments in and the ultimate elimination of the incremental RWA attributable to the supplemental analysis will depend on provisions charged to earnings for litigation, regulatory and similar matters and other contingent liabilities and on developments in these matters. There can be no assurance that UBS will be successful in addressing these matters and reducing or eliminating the incremental operational risk RWA.

The required levels and calculation of UBS's regulatory capital and the calculation of its RWA are also subject to changes in regulatory requirements or their interpretation, as well as the exercise of regulatory discretion. Changes in the calculation of RWA under Basel III and Swiss requirements (such as the revised treatment of certain securitization exposures under the Basel III framework) have significantly increased the level of UBS's RWA and, therefore, have adversely affected UBS's capital ratios. UBS has achieved substantial reductions in RWA, in part to mitigate the effects of increased capital requirements. However, there is a risk that UBS will not be successful in pursuing its plans to further reduce RWA, either because UBS is unable to carry out fully the actions it has planned or because other business or regulatory developments or actions to some degree counteract the benefit of its actions.

In addition to the risk-based capital requirements, UBS is subject to a minimum leverage ratio requirement for Swiss systemically relevant banks. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain UBS's business activities even if UBS is able to satisfy other risk-based capital requirements. UBS has achieved substantial reductions in its balance sheet size and anticipates further reductions as it winds down its Non-core and Legacy Portfolio positions. These reductions would improve UBS's leverage ratio and contribute to its ability to comply with the more stringent leverage ratio requirements scheduled to become effective in future years. There can be no assurance that these plans will be executed successfully. There is also a risk that the minimum leverage ratio requirement will be increased significantly beyond the levels currently scheduled to come into effect, making it more difficult for UBS to satisfy the requirements without adversely affecting certain of its businesses.

Changes in the Swiss requirements for risk-based capital or leverage ratios, whether pertaining to the minimum levels required for large Swiss banks or to the calculation thereof, could have a material adverse effect on UBS's business and could affect UBS's competitive position internationally compared with institutions that are regulated under different regimes.

UBS may not be successful in completing its announced strategic plans or in implementing changes in its businesses to meet changing market, regulatory and other conditions

In October 2012, UBS announced a significant acceleration in the implementation of its strategy. The strategy included transforming UBS's Investment Bank to focus it on its traditional strengths, very significantly reducing Basel III RWA and further strengthening UBS's capital position, and significantly reducing costs and improving efficiency across the Group. UBS has made significant progress in implementing the strategy and as of the end of 2013 is ahead of the majority of its performance targets. There continues to be a risk that UBS will not be successful in completing the execution of its plans, or that its plans may be delayed or that the effects of its plans may differ from those intended.

Although UBS has substantially reduced the RWA and balance sheet usage associated with its Non-core and Legacy Portfolio positions, there can be no assurance that UBS will be able to exit them as quickly as its plans suggest or that it will not incur significant losses in doing so. The continued illiquidity and complexity of many of the legacy risk positions in particular could make it difficult to sell or otherwise exit these positions and reduce the RWA and the balance sheet usage associated with these exposures. At the same time, UBS's strategy rests heavily on its ability to reduce those RWA and balance sheet usage in order to meet its future capital targets and requirements without incurring unacceptable losses.

As part of its strategy, UBS has underway a program to achieve significant incremental cost reductions. The success of UBS's strategy and its ability to reach certain of the targets it has announced depends heavily on the effectiveness of the cost reduction and efficiency measures UBS is able to carry out. As is often the case with major cost reduction and efficiency programs, UBS's plans involve significant risks. Included among these are the risks that restructuring costs may be higher and may be recognized sooner than UBS has projected and that UBS may not be able to identify feasible cost reduction opportunities at the level of its objective that are also consistent with its business goals. In addition, when UBS implements its cost reduction and efficiency programs it may experience unintended consequences such as the loss or degradation of capabilities that UBS needs in order to maintain its competitive position and achieve its targeted returns.

UBS is exposed to possible outflows of client assets in its asset-gathering businesses and to changes affecting the profitability of its Wealth Management business division, and UBS may not be successful in implementing the business changes needed to address them. UBS experienced substantial net outflows of client assets in its wealth management and asset management businesses in 2008 and 2009. The net outflows resulted from a number of different factors, including UBS's substantial losses, the damage to UBS's reputation, the loss of client advisors, difficulty in recruiting qualified client advisors and tax, legal and regulatory developments concerning UBS's cross-border private banking business.

Many of these factors have been successfully addressed. UBS's Wealth Management and Wealth Management Americas business divisions recorded substantial net new money inflows in 2013.

Long-term changes affecting the cross-border private banking business model will, however, continue to affect client flows in the Wealth Management business division for an extended period of time. One of the important drivers behind the longer-term reduction in the amount of cross-border private banking assets, particularly in Europe but increasingly also in other regions, is the heightened focus of fiscal authorities on cross-border investments. Changes in local tax laws or regulations and their enforcement may affect the ability or the willingness of UBS's clients to do business with UBS or the viability of UBS's strategies and business model. In 2012 and 2013, UBS experienced net withdrawals in its Swiss booking center from clients domiciled elsewhere in Europe, in many cases related to the negotiation of tax treaties between Switzerland and other countries, including the treaty with Germany that was ultimately not ratified by Germany.

The net new money inflows in recent years in UBS's Wealth Management business division have come predominantly from clients in Asia Pacific and in the ultra high net worth segment globally. Over time, inflows from these lower-margin segments and markets have been replacing outflows from higher-margin segments and markets, in particular cross-border European clients. This dynamic, combined with changes in client product preferences as a result of which low-margin products account for a larger share of UBS's revenues than in the past, put downward pressure on UBS's return on invested assets and adversely affect the profitability of its Wealth Management business division. UBS has implemented changes in its product offerings and service improvements, and will continue its efforts to adjust to client trends and market dynamics as necessary, in an effort to overcome the effects of these changes in the business mix on its profitability, but there can be no assurance that UBS will be able to counteract those effects. In addition, UBS has made changes to its business offerings and pricing practices in line with the Swiss Supreme Court case concerning “retrocessions” and other industry developments. These changes may adversely affect UBS's margins on these products and the current offering may be less attractive to clients than the products it replaces. There can be no assurance that UBS will be successful in its efforts to offset the adverse impact of these trends and developments.

Global Asset Management experienced net outflows of client assets in 2012 and 2013. Further net outflows of client assets could adversely affect the results of this business division.

Material legal and regulatory risks arise in the conduct of UBS's business

The nature of its business subjects UBS to significant regulatory oversight and liability risk. As a global financial services firm operating in more than 50 countries, UBS is subject to many different legal, tax and regulatory regimes. UBS is involved in a variety of claims, disputes, legal proceedings and government investigations in jurisdictions where it is active. These proceedings expose UBS to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil penalties, in addition to potential regulatory restrictions on its businesses. The outcome of most of these matters, and their potential effect on UBS's future business or financial results, is extremely difficult to predict.

UBS is subject to a large number of claims, disputes, legal proceedings and government investigations and expects that its ongoing business activities will continue to give rise to such matters in the future. The extent of UBS's financial exposure to these and other matters could be material and could substantially exceed the level of provisions that UBS has established for litigation, regulatory and similar matters.

In December 2012, UBS announced settlements totaling approximately CHF 1.4 billion in fines by and disgorgements to US, UK and Swiss authorities to resolve investigations by those authorities relating to LIBOR and other benchmark interest rates. UBS AG entered into a non-prosecution agreement with the US Department of Justice and UBS Securities Japan Co. Ltd. also pled guilty to one count of wire fraud relating to the manipulation of certain benchmark interest rates. The settlements do not resolve investigations by other authorities or civil claims that have been or may in the future be asserted by private and governmental claimants with respect to submissions for LIBOR or other benchmark interest rates. The extent of UBS's financial exposure to these remaining matters is extremely difficult to estimate and could be material.

These settlements starkly illustrate the much-increased level of financial and reputational risk now associated with regulatory matters in major jurisdictions. Very large fines and disgorgement amounts were assessed against UBS, and the guilty plea of a UBS subsidiary was required, in spite of UBS's full cooperation with the authorities in the investigations relating to LIBOR and other benchmark interest rates, and in spite of UBS's receipt of conditional leniency or conditional immunity from antitrust authorities in a number of jurisdictions, including the US and Switzerland. UBS understands that, in determining the consequences to UBS, the

authorities considered the fact that it has in the recent past been determined to have engaged in serious misconduct in several other matters. The heightened risk level was further illustrated by the European Commission ("**EC**") announcement in December 2013 of fines against other financial institutions related to its Yen Interest Rate Derivatives ("**YIRD**") investigation. The EC stated that UBS would have been subject to fines of approximately EUR 2.5 billion had UBS not received full immunity for disclosing to the EC the existence of infringements relating to YIRD.

Under the non-prosecution agreement UBS entered into in connection with the LIBOR matter, UBS has agreed, among other things, that, for two years from 18 December 2012 it will not commit any US crime, and it will advise the Department of Justice of all potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. UBS is also obligated to continue to cooperate fully with the Department of Justice. Failure to comply with these obligations could result in termination of the non-prosecution agreement and potential criminal prosecution in relation to the matters covered by the non-prosecution agreement. As a result of this history and UBS's ongoing obligations under the non-prosecution agreement, UBS's level of risk with respect to regulatory enforcement may be greater than that of some of its peer institutions.

Considering UBS's overall exposures and the current regulatory and political climate affecting financial institutions, UBS expects charges associated with legal, regulatory and similar matters to remain at elevated levels through 2014.

Ever since its losses in 2007 and 2008, UBS has been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain its strategic flexibility. While UBS believes that it has remediated the deficiencies that led to the material losses during the 2007–2009 financial crisis, the unauthorized trading incident announced in September 2011 and the LIBOR-related settlements of 2012, the effects of these matters on its reputation and relationships with regulatory authorities have proven to be more difficult to overcome. For example, following the unauthorized trading incident FINMA informed UBS that it would not be permitted to undertake acquisitions in its Investment Bank unit (unless FINMA granted an exception), and that material new business initiatives in that unit would be subject to FINMA oversight. UBS is determined to address the issues that have arisen in the above and other matters in a thorough and constructive manner. UBS is in active dialogue with its regulators concerning the actions that it is taking to improve its operational risk management and control framework, but there can be no assurance that its efforts will have the effects desired. Although the special restrictions mentioned above have recently been withdrawn by FINMA, this example illustrates that difficulties associated with UBS's relationships with regulatory authorities have the potential to adversely affect the execution of its business strategy.

Operational risks may affect UBS's business

All of UBS's businesses are dependent on UBS's ability to process a large number of complex transactions across multiple and diverse markets in different currencies, to comply with requirements of many different legal and regulatory regimes to which UBS is subject and to prevent, or promptly detect and stop, unauthorized, fictitious or fraudulent transactions. UBS's operational risk management and control systems and processes are designed to help ensure that the risks associated with its activities, including those arising from process error, failed execution, unauthorized trading, fraud, system failures, cyber-attacks, breaches of information security and failure of security and physical protection, are appropriately controlled.

For example, cyber-crime is a fast growing threat to large organizations that rely on technology to support their business, like UBS. Cyber-crime can range from internet-based attacks that interfere with the organizations' internet websites, to more sophisticated crimes that target the organizations, as well as their clients, and seek to gain unauthorized access to technology systems in efforts to disrupt business, steal money or obtain sensitive information.

A major focus of US governmental policy relating to financial institutions in recent years has been fighting money laundering and terrorist financing. Regulations applicable to UBS and its subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their clients. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences, both in legal terms and in terms of UBS's reputation.

Although UBS is continuously adapting its capability to detect and respond to the risks described above, if its internal controls fail or prove ineffective in identifying and remedying them UBS could suffer operational

failures that might result in material losses, such as the loss from the unauthorized trading incident announced in September 2011.

Participation in high-volume and high-frequency trading activities, even in the execution of client-driven business, can also expose UBS to operational risks. UBS's loss in 2012 relating to the Facebook initial public offering illustrates the exposure participants in these activities have to unexpected results arising not only from their own systems and processes but also from the behavior of exchanges, clearing systems and other third parties and from the performance of third-party systems.

Certain types of operational control weaknesses and failures could also adversely affect UBS's ability to prepare and publish accurate and timely financial reports. UBS identified control deficiencies following the unauthorized trading incident announced in September 2011, and management determined that UBS had a material weakness in its internal control over financial reporting as of the end of 2010 and 2011, although this has not affected the reliability of UBS's financial statements for either year.

In addition, despite the contingency plans UBS has in place, its ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its businesses and the communities in which UBS is located. This may include a disruption due to natural disasters, pandemics, civil unrest, war or terrorism and involve electrical, communications, transportation or other services used by UBS or third parties with whom UBS conducts business.

UBS's reputation is critical to the success of UBS’s business

UBS's reputation is critical to the success of UBS’s strategic plans. Damage to its reputation can have fundamental negative effects on UBS's business and prospects. Reputational damage is difficult to reverse, and improvements tend to be slow and difficult to measure. This was demonstrated in recent years, as UBS's very large losses during the financial crisis, the US cross-border matter and other events seriously damaged UBS's reputation. Reputational damage was an important factor in UBS's loss of clients and client assets across UBS's asset-gathering businesses, and contributed to its loss of and difficulty in attracting staff, in 2008 and 2009. These developments had short-term and also more lasting adverse effects on UBS's financial performance, and UBS recognized that restoring its reputation would be essential to maintaining its relationships with clients, investors, regulators and the general public, as well as with its employees. More recently, the unauthorized trading incident announced in September 2011 and UBS's involvement in the LIBOR matter also adversely affected UBS's reputation. Any further reputational damage could have a material adverse effect on UBS's operational results and financial condition and on UBS’s ability to achieve its strategic goals and financial targets.

Performance in the financial services industry is affected by market conditions and the macroeconomic climate

The financial services industry prospers in conditions of economic growth; stable geopolitical conditions; transparent, liquid and buoyant capital markets and positive investor sentiment. An economic downturn, continued low interest rates or weak or stagnant economic growth in UBS's core markets, or a severe financial crisis can negatively affect UBS's revenues and ultimately its capital base.

A market downturn and weak macroeconomic conditions can be precipitated by a number of factors, including geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, war or terrorism. Because financial markets are global and highly interconnected, even local and regional events can have widespread impacts well beyond the countries in which they occur. A crisis could develop, regionally or globally, as a result of disruptions in emerging markets as well as developed markets that are susceptible to macroeconomic and political developments, or as a result of the failure of a major market participant. UBS has material exposures to a number of these markets, both as a wealth manager and as an investment bank. Moreover, UBS's strategic plans depend more heavily upon its ability to generate growth and revenue in emerging markets, causing UBS to be more exposed to the risks associated with them. The continued absence of sustained and credible improvements to unresolved issues in Europe, continued US fiscal and monetary policy issues, emerging markets fragility and the mixed outlook for global growth demonstrate that macroeconomic and political developments can have unpredictable and destabilizing effects. Adverse developments of these kinds have affected UBS's businesses in a number of ways, and may continue to have further adverse effects on UBS’s businesses as follows:

– a general reduction in business activity and market volumes, as UBS has recently experienced, affects fees, commissions and margins; local or regional economic factors, such as the ongoing European sovereign debt concerns, could also have an effect on UBS;

- a market downturn is likely to reduce the volume and valuations of assets UBS manages on behalf of clients, reducing its asset- and performance-based fees;

- the ongoing low interest rate environment will further erode interest margins in several of UBS's businesses;

- reduced market liquidity or volatility limits trading and arbitrage opportunities and impedes UBS's ability to manage risks, impacting both trading income and performance-based fees;

- deteriorating market conditions could cause a decline in the value of assets that UBS owns and accounts for as investments or trading positions;

- worsening economic conditions and adverse market developments could lead to impairments and defaults on credit exposures and on trading and investment positions, and losses may be exacerbated by declines in the value of collateral UBS holds; and

- if individual countries impose restrictions on cross-border payments or other exchange or capital controls, or change their currency (for example, if one or more countries should leave the euro), UBS could suffer losses from enforced default by counterparties, be unable to access its own assets, or be impeded in – or prevented from – managing its risks.

Because UBS has very substantial exposures to other major financial institutions, the failure of one or more of such institutions could have a material effect on UBS.

The developments mentioned above have in the past affected and could materially affect the performance of UBS's business units and of UBS as a whole, and ultimately its financial condition. As discussed below, there is also a somewhat related risk that the carrying value of goodwill of a business unit might suffer impairments and deferred tax assets levels may need to be adjusted.

UBS holds legacy and other risk positions that may be adversely affected by conditions in the financial markets; legacy risk positions may be difficult to liquidate

UBS, like other financial market participants, was severely affected by the financial crisis that began in 2007. The deterioration of financial markets since the beginning of the crisis was extremely severe by historical standards, and UBS recorded substantial losses on fixed income trading positions, particularly in 2008 and 2009. Although UBS has very significantly reduced its risk exposures starting in 2008, and more recently as it progresses its strategy and focuses on complying with Basel III capital standards, UBS continues to hold substantial legacy risk positions, primarily in its Non-core and Legacy Portfolio. In many cases these risk positions remain illiquid, and UBS continues to be exposed to the risk that the remaining positions may again deteriorate in value. In the fourth quarter of 2008 and the first quarter of 2009, certain of these positions were reclassified for accounting purposes from fair value to amortized cost; these assets are subject to possible impairment due to changes in market interest rates and other factors.

Moreover, UBS holds positions related to real estate in various countries, and could suffer losses on these positions. These positions include a very substantial Swiss mortgage portfolio. Although management believes that this portfolio has been very prudently managed, UBS could nevertheless be exposed to losses if the concerns expressed by the Swiss National Bank and others about unsustainable price escalation in the Swiss real estate market come to fruition. Other macroeconomic developments, such as the implications on export markets of any return of crisis conditions within the eurozone and the potential implications of the recent decision in Switzerland to reinstate immigration quotas for EU / EEA countries, could also adversely affect the Swiss economy, UBS's business in Switzerland in general and, in particular, UBS's Swiss mortgage and corporate loan portfolios.

In addition, UBS is exposed to risk in its prime brokerage, reverse repo and Lombard lending activities, as the value or liquidity of the assets against which UBS provides financing may decline rapidly.

UBS's global presence subjects it to risk from currency fluctuations

UBS prepares its consolidated financial statements in Swiss francs. However, a substantial portion of its assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the US dollar, the euro and the British pound. Accordingly, changes in foreign exchange rates, particularly between the

Swiss franc and the US dollar (US dollar revenues account for the largest portion of UBS's non-Swiss franc revenues) have an effect on UBS's reported income and expenses, and on other reported figures such as other comprehensive income, invested assets, balance sheet assets, RWA and tier 1 capital. For example, in 2011 the strengthening of the Swiss franc, especially against the US dollar and euro, had an adverse effect on UBS's revenues and invested assets. Because exchange rates are subject to constant change, sometimes for completely unpredictable reasons, UBS's results are subject to risks associated with changes in the relative values of currencies.

UBS is dependent upon its risk management and control processes to avoid or limit potential losses in its counterparty credit and trading businesses

Controlled risk-taking is a major part of the business of a financial services firm. Credit risk is an integral part of many of UBS's retail, corporate, wealth management and Investment Bank activities, and UBS's non-core activities transferred to Corporate Center – Non-core and Legacy Portfolio, including lending, underwriting and derivatives activities. Changes in interest rates, credit spreads, securities' prices, market volatility and liquidity, foreign exchange levels and other market fluctuations can adversely affect UBS's earnings. Some losses from risk-taking activities are inevitable, but to be successful over time, UBS must balance the risks it takes against the returns it generates. UBS must, therefore, diligently identify, assess, manage and control its risks, not only in normal market conditions but also as they might develop under more extreme (stressed) conditions, when concentrations of exposures can lead to severe losses.

As seen during the financial crisis of 2007–2009, UBS is not always able to prevent serious losses arising from extreme or sudden market events that are not anticipated by UBS's risk measures and systems. Value-at-risk, a statistical measure for market risk, is derived from historical market data, and thus by definition could not have anticipated the losses suffered in the stressed conditions of the financial crisis. Moreover, stress loss and concentration controls and the dimensions in which UBS aggregates risk to identify potentially highly correlated exposures proved to be inadequate. Notwithstanding the steps UBS has taken to strengthen its risk management and control framework, UBS could suffer further losses in the future if, for example:

– UBS does not fully identify the risks in its portfolio, in particular risk concentrations and correlated risks;

– UBS's assessment of the risks identified or its response to negative trends proves to be untimely, inadequate, insufficient or incorrect;

– markets move in ways that UBS does not expect – in terms of their speed, direction, severity or correlation – and UBS's ability to manage risks in the resultant environment is, therefore, affected;

– third parties to whom UBS has credit exposure or whose securities UBS holds for its own account are severely affected by events not anticipated by UBS's models, and accordingly UBS suffers defaults and impairments beyond the level implied by its risk assessment; or

– collateral or other security provided by UBS's counterparties proves inadequate to cover their obligations at the time of their default.

UBS also manages risk on behalf of its clients in its asset and wealth management businesses. The performance of assets UBS holds for its clients in these activities could be harmed by the same factors. If clients suffer losses or the performance of their assets held with UBS is not in line with relevant benchmarks against which clients assess investment performance, UBS may suffer reduced fee income and a decline in assets under management, or withdrawal of mandates.

If UBS decides to support a fund or another investment that it sponsors in its asset or wealth management businesses, it might, depending on the facts and circumstances, incur charges that could increase to material levels.

Investment positions, such as equity holdings made as a part of strategic initiatives and seed investments made at the inception of funds that UBS manages, may also be affected by market risk factors. These investments are often not liquid and generally are intended or required to be held beyond a normal trading horizon. They are subject to a distinct control framework. Deteriorations in the fair value of these positions would have a negative impact on UBS's earnings.

Valuations of certain positions rely on models; models have inherent limitations and may use inputs which have no observable source

If available, fair values of a financial instrument or non-financial asset or liability are determined using quoted prices in active markets for identical assets or liabilities. Where the market is not active, fair value is established using a valuation technique, including pricing models. Where available, valuation techniques use market observable assumptions and inputs. If such information is not available, inputs may be derived by reference to similar instruments in active markets, from recent prices for comparable transactions or from other observable market data. If market observable data is not available, UBS selects non-market observable inputs to be used in its valuation techniques. UBS also uses internally developed models. Such models have inherent limitations; different assumptions and inputs would generate different results, and these differences could have a significant impact on UBS's financial results. UBS regularly reviews and updates its valuation models to incorporate all factors that market participants would consider in setting a price, including factoring in current market conditions. Judgment is an important component of this process, and failure to make the changes necessary to reflect evolving market conditions could have a material adverse effect on UBS's financial results. Moreover, evolving market practice may result in changes to valuation techniques that have a material impact on financial results. Changes in model inputs or calibration, changes in the valuation methodology incorporated in models, or failure to make the changes necessary to reflect evolving market conditions could have a material adverse effect on UBS's financial results.

Liquidity and funding management are critical to UBS's ongoing performance

The viability of UBS's business depends upon the availability of funding sources, and UBS's success depends upon its ability to obtain funding at times, in amounts, for tenors and at rates that enable UBS to efficiently support its asset base in all market conditions. A substantial part of UBS's liquidity and funding requirements is met using short-term unsecured funding sources, including retail and wholesale deposits and the regular issuance of money market securities. The volume of UBS's funding sources has generally been stable, but could change in the future due to, among other things, general market disruptions or widening credit spreads, which could also influence the cost of funding. A change in the availability of short-term funding could occur quickly. Reductions in UBS's credit ratings can increase UBS's funding costs, in particular with regard to funding from wholesale unsecured sources, and can affect the availability of certain kinds of funding. In addition, as UBS experienced in connection with Moody's downgrading of UBS's long-term rating in June 2012, ratings downgrades can require UBS to post additional collateral or make additional cash payments under master trading agreements relating to UBS's derivatives businesses. UBS's credit ratings, together with its capital strength and reputation, also contribute to maintaining client and counterparty confidence and it is possible that ratings changes could influence the performance of some of UBS's businesses.

More stringent Basel III capital and liquidity requirements will likely lead to increased competition for both secured funding and deposits as a stable source of funding, and to higher funding costs. The addition of loss-absorbing debt as a component of capital requirements and potential future requirements to maintain senior unsecured debt that could be written down in an insolvency or other resolution of UBS, or a subsidiary, may increase UBS's funding costs or limit the availability of funding of the types required.

UBS might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees

The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. UBS faces competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to UBS in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. UBS expects these trends to continue and competition to increase. UBS's competitive strength and market position could be eroded if UBS is unable to identify market trends and developments, does not respond to them by devising and implementing adequate business strategies, adequately developing or updating its technology, particularly in trading businesses, or is unable to attract or retain the qualified people needed to carry them out.

The amount and structure of UBS's employee compensation are affected not only by UBS's business results but also by competitive factors and regulatory considerations. Constraints on the amount or structure of employee compensation, higher levels of deferral, performance conditions and other circumstances triggering the forfeiture of unvested awards may adversely affect UBS's ability to retain and attract key employees, and may in turn negatively affect UBS's business performance. UBS has made changes to the terms of compensation awards to reflect the demands of various stakeholders, including regulatory authorities and shareholders. These terms include the introduction of a deferred contingent capital plan with many of the features of the loss-absorbing capital that UBS has issued in the market but with a higher capital ratio write-down trigger,

increased average deferral periods for stock awards, and expanded forfeiture provisions for certain awards linked to business performance. These changes, while intended to better align the interests of UBS's staff with those of other stakeholders, increase the risk that key employees will be attracted by competitors and decide to leave UBS, and that UBS may be less successful than its competitors in attracting qualified employees. The loss of key staff and inability to attract qualified replacements, depending upon which and how many roles are affected, could seriously compromise UBS's ability to execute its strategy and to successfully improve its operating and control environment.

In a referendum in March 2013, the Swiss cantons and voters accepted an initiative to give shareholders of Swiss listed companies more influence over board and management compensation (the Minder Initiative). In November 2013, the Swiss Federal Council issued the final transitional ordinance implementing the constitutional amendments resulting from this initiative, which came into force on 1 January 2014. The ordinance requires public companies to specify in their articles of association ("**AoA**") a mechanism to permit a "say-on-pay" vote, setting out three requirements: (i) the vote on compensation must be held annually, (ii) the vote on compensation must be binding rather than advisory and (iii) the vote on compensation must be held separately for the board of directors and members of the executive board. In addition, shareholders will need to determine the details of the "say- on-pay" vote in the AoA, in particular the nature of the vote, timing aspects and the consequences of a "no" vote. Each company affected by the Minder Initiative must undertake a first binding vote on management compensation and remuneration of the board of directors at its 2015 annual general meeting.

The EU has adopted legislation that caps the amount of variable compensation in proportion to the amount of fixed compensation for employees of a bank active within the EU. This legislation will apply to employees of UBS in the EU. These and other similar initiatives may require UBS to make further changes to its compensation structure and may increase the risks described above.

UBS's financial results may be negatively affected by changes to accounting standards

UBS reports its results and financial position in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("**IASB**"). Changes to IFRS or interpretations thereof may cause UBS's future reported results and financial position to differ from current expectations. Such changes may also affect UBS's regulatory capital and ratios. UBS monitors potential accounting changes and when these are finalized by the IASB, UBS determines the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact UBS's reported results, financial position and regulatory capital in the future.

UBS's financial results may be negatively affected by changes to assumptions supporting the value of UBS's goodwill

The goodwill UBS has recognized on the respective balance sheets of its operating segments is tested for impairment at least annually. UBS's impairment test in respect of the assets recognized as of 31 December 2013 indicated that the value of UBS's goodwill is not impaired. The impairment test is based on assumptions regarding estimated earnings, discount rates and long-term growth rates impacting the recoverable amount of each segment and on estimates of the carrying amounts of the segments to which the goodwill relates. If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of UBS's goodwill may become impaired in the future, giving rise to losses in the income statement. In the third quarter of 2012, for example, the recognition by the Investment Bank of a full impairment of goodwill and of an impairment of other non-financial assets resulted in a charge of almost CHF 3.1 billion against UBS's operating profit before tax.

The effect of taxes on UBS's financial results is significantly influenced by reassessments of its deferred tax assets

The deferred tax assets UBS has recognized on its balance sheet as of 31 December 2013 in respect of prior years' tax losses reflect the probable recoverable level based on future taxable profit as informed by its business plans. If the business plan earnings and assumptions in future periods substantially deviate from current forecasts, the amount of recognized deferred tax assets may need to be adjusted in the future. These adjustments may include write-downs of deferred tax assets through the income statement.

UBS's effective tax rate is highly sensitive both to its performance and to the accuracy of new business plan forecasts. UBS's results in recent periods have demonstrated that changes in the recognition of deferred tax assets can have a very significant effect on UBS's reported results. If the Group's performance is expected to improve, particularly in the US, UK or Switzerland, UBS could potentially recognize additional deferred tax

assets as a result of that assessment. The effect of doing so would be to significantly reduce the Group's effective tax rate in years in which additional deferred tax assets are recognized. Conversely, if UBS's performance in those countries is expected to produce diminished taxable profit in future years, UBS may be required to write down all or a portion of the currently recognized deferred tax assets through the income statement. This would have the effect of increasing the Group's effective tax rate in the year in which any write-downs are taken.

In 2014, notwithstanding the effects of any potential reassessment of the level of deferred tax assets, UBS expects its effective tax rate to be in the range of 20% to 25%. Consistent with past practice, UBS expects to revalue its overall level of deferred tax assets in the second half of 2014 based on a reassessment of future profitability taking into account updated business plan forecasts. The full year effective tax rate could change significantly on the basis of this reassessment. It could also change if aggregate tax expenses for locations other than Switzerland, the US and UK differ from what is expected. UBS's effective tax rate is also sensitive to any future reductions in statutory tax rates, particularly in the US and Switzerland. Reductions in the statutory tax rate would cause the expected future tax benefit from items such as tax loss carry-forwards in the affected locations to diminish in value. This in turn would cause a write-down of the associated deferred tax assets.

In addition, statutory and regulatory changes, as well as changes to the way in which courts and tax authorities interpret tax laws could cause the amount of taxes ultimately paid by UBS to materially differ from the amount accrued.

This is a potential risk particularly as UBS considers reorganizations of its legal entity structures in the US, UK and Switzerland in response to regulatory changes. The tax authorities in these countries may prevent the transfer of tax losses incurred in one legal entity to newly organized or reorganized subsidiaries or affiliates that are expected to carry on businesses formerly conducted by the transferor. Were this to occur in situations where there were also limited planning opportunities to utilize the tax losses in the originating entity, the deferred tax assets associated with such tax losses could be written down through the income statement.

In 2011, the UK government introduced a balance sheet based levy payable by banks operating or resident in the UK. A net charge of CHF 124 million was recognized in operating expenses (within operating profit before tax) in 2013. The Group's bank levy expense for future years will depend on both the rate of the levy and the Group's taxable UK liabilities at each year-end; changes to either factor could increase the cost. This expense will likely increase if, for example, UBS changes its booking practices so as to book more liabilities into its UK bank subsidiary, UBS Limited. UBS expects that the annual bank levy charge will continue to be recognized for IFRS purposes as an expense arising in the final quarter of each financial year, rather than being accrued throughout the year, as it is charged by reference to the year-end balance sheet position.

IV. Information about UBS AG

UBS AG ("**Issuer**") with its subsidiaries (together "**UBS Group**", "**Group**" or "**UBS**") draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. UBS's business strategy is centered on its (in its own opinion) pre-eminent global wealth management businesses and its (in its own opinion) leading universal bank in Switzerland, complemented by its Global Asset Management business and its Investment Bank, with a focus on capital efficiency and businesses that offer a superior structural growth and profitability outlook. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.

On 31 March 2014 UBS's common equity tier 1 capital ratio[1] was 13.2% on a fully applied basis and 17.9% on a phase-in basis, invested assets stood at CHF 2,424 billion, equity attributable to UBS shareholders was

[1] Based on the Basel III framework, as applicable to Swiss systemically relevant banks. The common equity tier 1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. The information provided on a fully applied basis entirely reflects the effects of the new capital deductions and the phase out of ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects during the transition period. For information as to how common equity tier 1 capital is calculated, refer to the "Capital management" section of UBS AG's first quarter 2014 report.

CHF 49,023 million and market capitalization was CHF 70,180 million. On the same date, UBS employed 60,326 people[2].

The rating agencies Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), Fitch Ratings Limited ("**Fitch Ratings**") and Moody's Investors Service, Inc., ("**Moody's**") have published credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfill in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings and Standard & Poor's may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has long-term senior debt ratings of A (negative outlook) from Standard & Poor's, A2 (stable outlook) from Moody's and A (stable outlook) from Fitch Ratings.

The following table gives an overview of the rating classes as used by the three major rating agencies and their respective meaning. UBS's rating is indicated by the red box.

Standard & Poor's			**Moody's**		**Fitch Ratings**	
Long-term issuer credit rating			Long-term rating		Long-term Issuer Default Rating	
AAA	Extremely strong capacity to meet financial commitments		Aaa	Highest quality	AAA	Highest credit quality
AA+	Very strong capacity to meet financial commitments		Aa1	High quality	AA+	Very high credit quality
AA			Aa2		AA	
AA-			Aa3		AA-	
A+	Strong capacity to meet its financial commitments		A1	Upper-medium grade	A+	High credit quality
A			A2		A	
A-			A3		A-	
BBB+	Adequate capacity to meet its financial commitments		Baa1	Medium grade	BBB+	Good credit quality
BBB			Baa2		BBB	
BBB-			Baa3		BBB-	
BB+	Significant speculative characteristics	Less vulnerable in the near term than other lower-rated obligors	Ba1	Speculative, subject to substantial credit risk	BB+	Speculative
BB			Ba2		BB	
BB-			Ba3		BB-	
B+		More vulnerable than the obligors rated 'BB'	B1	Speculative, subject to high credit risk	B+	Highly speculative
B			B2		B	
B-			B3		B-	
CCC+		Currently vulnerable	Caa1	Speculative, of poor standing and subject to very high credit risk	CCC	Substantial credit risk
CCC			Caa2		CC	Very high levels of credit risk
CCC-			Caa3		C	Exceptionally high levels of credit risk
CC		Currently highly vulnerable	Ca	Highly speculative, likely in, or very near, default with some prospect of recovery of principal and interest	RD	Restricted default
R	Under regulatory supervision		C	Typically in default, with little prospects for recovery of principal or interest	D	Default
SD	Selective default					
D	Default					

Standard & Poor's and Fitch Ratings are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "**CRA Regulation**"). Moody's is not established in the EEA and is not certified under the CRA Regulation, but the rating it has issued is endorsed by Moody's Investors Service Ltd., a credit rating agency established in the EEA and registered under the CRA Regulation.

[2] Full-time equivalents.

Corporate Information

The legal and commercial name of the Issuer is UBS AG.

The company was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CHE-101.329.561.

UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

According to article 2 of the Articles of Association, the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad.

UBS AG shares are listed on the SIX Swiss Exchange and the New York Stock Exchange.

The addresses and telephone numbers of UBS AG's two registered offices and principal places of business are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, telephone +41 44 234 1111; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, telephone +41 61 288 5050.

V. Business Overview

Business Divisions and Corporate Center

UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Retail & Corporate, Global Asset Management and the Investment Bank) and a Corporate Center. Each of the business divisions and the Corporate Center are described below. A description of the Group's strategy can be found in the annual report 2013 of UBS AG as of 31 December 2013 in the English language (the "**Annual Report 2013**", attached to this Registration Document as Appendix 2), on pages 26-29 (inclusive); a description of the businesses, strategies, clients, organizational structures, products and services of the business divisions and the Corporate Center can be found in the Annual Report 2013, on pages 33-49 (inclusive).

Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world - except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services.

Wealth Management Americas

Wealth Management Americas provides advice-based solutions and banking services through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US business, the domestic Canadian business and international business booked in the US.

Retail & Corporate

Retail & Corporate maintains, in its own opinion, a leading position across retail, corporate and institutional client segments in Switzerland and constitutes a central building block of UBS Switzerland's pre-eminent (in its own opinion) universal bank model. It provides comprehensive financial products and services embedded in a true multi-channel experience, offering clients convenient access. It continues to enhance the range of life-cycle products and services offered to clients, while pursuing additional growth in advisory and execution services.

Global Asset Management

Global Asset Management is, in its own opinion, a large-scale asset manager with diversified businesses across investment capabilities, regions and distribution channels. It offers investment capabilities and styles across all

major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services including fund set-up, accounting and reporting for both traditional investment funds and alternative funds.

Investment Bank

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative financial solutions, outstanding execution and comprehensive access to the world's capital markets. It offers financial advisory and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through its two business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

Corporate Center

The Corporate Center comprises Corporate Center – Core Functions and Corporate Center – Non-core and Legacy Portfolio. Corporate Center – Core Functions provides Group-wide control functions including finance, risk control (including compliance) and legal. In addition, it provides all logistics and support functions including operations, information technology, human resources, corporate development, regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical security, information security, offshoring and treasury services such as funding, balance sheet and capital management. Corporate Center – Core Functions allocates most of its treasury income, operating expenses and personnel associated with the abovementioned activities to the businesses. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions previously part of the Investment Bank.

Competition

The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. UBS faces competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to UBS in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. UBS expects these trends to continue and competition to increase.

Recent Developments:

*UBS's results as of and for the quarter ended 31 March 2014, as presented in UBS AG's first quarter 2014 report in the English language (including unaudited consolidated financial statements of UBS Group) (the "**First Quarterly Report at 31 March 2014**", attached to this Registration Document as Appendix 1)*

UBS Group: Net profit attributable to UBS shareholders for the first quarter of 2014 was CHF 1,054 million compared with CHF 917 million in the fourth quarter of 2013. Operating profit before tax was CHF 1,393 million compared with CHF 449 million in the prior quarter. Operating income increased by CHF 951 million, mainly due to an increase in net interest and trading income as well as due to higher other income. Operating expenses were virtually unchanged. On an adjusted[3] basis, profit before tax was CHF 1,486 million compared with CHF 755 million in the prior quarter. Adjusted operating income increased by CHF 732 million to CHF 7,147 million, reflecting an increase of CHF 597 million in adjusted net interest and trading income as well as CHF 77 million higher adjusted other income. Adjusted operating expenses were virtually unchanged at CHF 5,661 million, reflecting an increase of CHF 214 million in personnel expenses and CHF 114 million higher charges for provisions for litigation, regulatory and similar matters, offset by a reduction of CHF 328 million in other non-personnel expenses. UBS recorded a net tax expense of CHF 339 million compared with a net tax benefit of CHF 470 million.

[3] Unless otherwise indicated, first-quarter 2014 "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level: own credit gain of CHF 88 million, gains on sales of real estate of CHF 23 million and net restructuring charges of CHF 204 million. For the fourth quarter of 2013, the items excluded were an own credit loss of CHF 94 million, gains on sales of real estate of CHF 61 million, a loss related to the buyback of debt in a public tender offer of CHF 75 million and net restructuring charges of CHF 198 million.

Wealth Management: Profit before tax was CHF 619 million in the first quarter of 2014, an increase of CHF 148 million compared with the fourth quarter of 2013. Adjusted[3] for restructuring charges, profit before tax increased by CHF 147 million to CHF 659 million. This reflects CHF 84 million higher operating income, largely as a result of higher transaction-based income, and a CHF 63 million decline in adjusted operating expenses, mainly as CHF 86 million higher charges for provisions for litigation, regulatory and similar matters were more than offset by lower other general and administrative expenses and lower variable compensation expenses. The gross margin on invested assets increased 2 basis points to 87 basis points. Net new money was CHF 10.9 billion compared with CHF 5.8 billion in the prior quarter.

Wealth Management Americas: Profit before tax was USD 272 million in the first quarter of 2014 compared with USD 254 million in the fourth quarter of 2013. Adjusted[3] for restructuring charges, profit before tax increased slightly to USD 284 million. Total operating income increased to USD 1,865 million from USD 1,851 million, as continued growth in managed account fees was partly offset by lower net interest income and lower other income as the prior quarter included a USD 15 million insurance reimbursement. The first quarter included credit loss recoveries of USD 19 million compared with credit loss expenses of USD 9 million in the prior quarter. Total operating expenses decreased by USD 2 million to USD 1,594 million. The first quarter included USD 12 million of restructuring charges compared with USD 29 million in the prior quarter. Net new money inflows decreased to USD 2.1 billion from USD 4.9 billion in the prior quarter.

Retail & Corporate: Profit before tax was CHF 386 million in the first quarter of 2014 compared with CHF 332 million in the fourth quarter of 2013. Adjusted[3] for restructuring charges, profit before tax increased by CHF 57 million to CHF 401 million, mainly as adjusted operating expenses decreased by CHF 55 million, primarily as a result of lower charges for provisions for litigation, regulatory and similar matters. Operating income was virtually unchanged. The annualized net new business volume growth rate for the retail business was 4.3% compared with negative 0.3% in the prior quarter.

Global Asset Management: Profit before tax was CHF 122 million in the first quarter of 2014 compared with CHF 130 million in the fourth quarter of 2013. Adjusted[3] for restructuring charges, profit before tax was CHF 126 million compared with CHF 143 million due to lower operating income partly offset by lower operating expenses. Excluding money market flows, net new money inflows were CHF 13.0 billion compared with net outflows of CHF 4.6 billion in the prior quarter.

Investment Bank: Profit before tax was CHF 425 million in the first quarter of 2014 compared with CHF 297 million in the fourth quarter of 2013. Adjusted[3] for restructuring charges, profit before tax was CHF 549 million compared with CHF 386 million. This increase was mainly due to higher revenues in both Investor Client Services and Corporate Client Solutions, partly offset by an increase in operating expenses. Fully applied risk-weighted assets were unchanged at CHF 62 billion.

Corporate Center – Core Functions recorded a loss before tax of CHF 176 million in the first quarter of 2014 compared with a loss of CHF 565 million in the prior quarter. The first quarter included operating expenses remaining in Corporate Center – Core Functions, after service allocations, of CHF 227 million and treasury income remaining in Corporate Center – Core Functions of negative CHF 46 million, partly offset by an own credit gain of CHF 88 million.

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 225 million in the first quarter of 2014 compared with a loss of CHF 446 million in the prior quarter, mainly due to an improvement of CHF 49 million in debit valuation adjustments, revaluation gains in UBS's credit business and lower losses from unwind and novation activities. Furthermore, the fourth quarter of 2013 included a charge of CHF 68 million for the annual UK bank levy. The first quarter included total operating expenses of CHF 254 million compared with CHF 317 million in the prior quarter. Fully applied risk-weighted assets decreased by CHF 3 billion to CHF 60 billion.

Balance sheet: As of 31 March 2014, UBS's balance sheet assets stood at CHF 983 billion, a decrease of CHF 36 billion from 31 December 2013, primarily due to a continued reduction in positive replacement values in both Corporate Center – Non-core and Legacy Portfolio and the Investment Bank. Funded assets, which represent total assets excluding positive replacement values and collateral delivered against over-the-counter derivatives, increased by CHF 3 billion to CHF 742 billion. This increase mainly reflected client-driven increases in trading portfolio assets in the Investment Bank and lending activity in Wealth Management, partly offset by reduced collateral trading assets in Corporate Center – Core Functions. Excluding currency effects, funded assets increased by approximately CHF 6 billion.

<u>Capital management</u>: UBS's fully applied common equity tier 1 ("**CET1**") capital ratio improved 0.4 percentage points to 13.2% as of 31 March 2014. Fully applied CET1 capital increased by CHF 1.0 billion to CHF 29.9 billion, mainly due to the first quarter net profit. On a phase-in basis, CET1 capital ratio declined 0.6 percentage points to 17.9%, mainly due to the CHF 1.0 billion decrease in phase-in CET1 capital to CHF 41.2 billion, mostly arising from the effect of capital deductions related to transitional effects applicable from 1 January 2014, partly offset by the first quarter net profit. Risk-weighted assets increased by CHF 2 billion to CHF 227 billion on a fully applied basis and by CHF 1 billion to CHF 230 billion on a phase-in basis. UBS's Swiss SRB leverage ratio improved 0.3 percentage points to 5.0% on a phase-in basis due to the reduction of the leverage ratio denominator as well as through the issuance of low-trigger, loss-absorbing, Basel III-compliant subordinated notes.

UBS announces further plans to modify legal structure

As stated by means of a news release issued on 6 May 2014, UBS has already announced a series of measures to improve the resolvability of the Group. As a substantial step on this path, UBS intends to establish a group holding company through a share for share exchange offer, which will commence later this year, subject to regulatory approvals. UBS anticipates that the measures to improve resolvability will allow the firm to qualify for a capital rebate under the Swiss "too-big-to-fail" requirements. This rebate would result in lower overall capital requirements for UBS.

Following completion of the transaction, UBS expects to propose a supplementary capital return of at least CHF 0.25 per share to shareholders of the new group holding company.

As reported in 2013, UBS also intends to establish a banking subsidiary in Switzerland in mid-2015. The scope of this future subsidiary's business is expected to include the Retail & Corporate business and the Swiss-booked Wealth Management business.

In the UK, and in consultation with the UK and Swiss regulators, UBS expects to commence the implementation of a revised business and operating model for UBS Limited in the second quarter of 2014. This will result in UBS Limited bearing and retaining a greater degree of the risk and reward of its business activities. UBS AG expects to increase the capitalization of UBS Limited accordingly.

In the US, UBS will comply with new rules for foreign banks under the Dodd-Frank Wall Street Reform and Consumer Protection Act that will require an intermediate holding company to own all of its operations other than US branches of UBS AG by 1 July 2016. As a result, UBS will designate an intermediate holding company to hold all US subsidiaries of UBS.

The announced plans do not require UBS to raise additional equity capital, and are not expected to materially affect the firm's capital-generating capability.

These structural changes have been discussed with FINMA and other regulatory authorities. The dialogue with regulators will continue and the changes remain subject to some uncertainties that may affect their feasibility, scope or timing.

UBS's Investor Update

This section discusses targets developed for UBS Group, and each of its business divisions and its Corporate Center, by UBS's management. These targets represent goals and do not represent forecasts or estimates. While these targets represent UBS's judgments concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's targets. For a discussion of these risks, see the "Risk Factors" section above.

On 6 May 2014, UBS provided an update on the execution of its strategy and steps to further unlock the bank's potential.

UBS aims to sustain its position as the world's pre-eminent (in UBS's own opinion) wealth manager by providing clients with a broad scope of products and services, cutting-edge capabilities and superior investment and wealth management advice. Its wealth management businesses will strive to achieve growth of 10-15% in their combined adjusted annual pre-tax profit by investing for growth and delivering the entire bank to clients.

UBS seeks to maintain its position as the leading (in UBS’s own opinion) universal bank in Switzerland and sustain its strong momentum in its home market. Retail & Corporate is a leading innovator in online and mobile banking services and differentiates itself through the high degree of integration it has with the other UBS businesses.

Global Asset Management seeks to strengthen its role as a trusted partner for its clients and, drawing on the full breadth of the firm's capabilities, deliver high-quality solutions. Through a combination of favorable industry fundamentals and strategic initiatives, it targets an adjusted annual pre-tax profit of CHF 1 billion in the medium term.

The Investment Bank aims to strengthen its position in the target segments advisory, research, equities, foreign exchange and precious metals, and to continue to deliver focused, high-quality rates and credit capabilities. Operating within its limits including CHF 70 billion in Basel III fully applied risk-weighted assets (“**RWA**”) and CHF 200 billion in funded assets, the Investment Bank will continue to target an adjusted annual pre-tax return on attributed equity of greater than 15%.

Having achieved its 2014 fully applied CET1 ratio target of 13%, UBS is committed to also achieving its post-stress fully applied CET1 ratio target of 10% this year. On achievement of these goals, UBS intends to pay out at least 50% of net profits in capital returns to shareholders while still investing for growth.

UBS aims to further increase cost efficiency and has strengthened cost management and transparency. Compared with 2013, the bank is targeting a CHF 1.4 billion reduction in Corporate Center operating expenses by year-end 2015. After that, UBS expects further cost reductions of CHF 0.7 billion in Non-Core and Legacy Portfolio as it fully exits the portfolio. The cost/income ratio target ranges for Wealth Management, Wealth Management Americas and the Investment Bank have been adjusted to reflect the intent to reduce Corporate Center allocated costs and enhance front-office efficiency. This will allow for continued investments in profitable growth while maximizing cost efficiency. The Group's adjusted cost/income ratio target from 2015 remains unchanged at 60–70%.

UBS is targeting a Swiss SRB leverage ratio denominator of CHF 900 billion by 2016 (based on the rules applicable today). UBS achieved its 13% fully applied CET1 ratio target in the first quarter of 2014 and will maintain this ratio as the core measure of its capital strength – the foundation of its overall strategy. Capital and balance sheet will continue to be managed in a three-pronged approach which balances CET1, CET1 post-stress and the Swiss SRB leverage ratio.

UBS continues to make strong progress in the reduction of its Non-core and Legacy Portfolio. RWA excluding operational risk have been reduced by nearly 60% over the last 5 quarters, well ahead of plan. While this process will incur some costs during the run-down, and does consume capital, its risks are well understood. The 2015 Basel III RWA target for Non-core and Legacy Portfolio has been reduced to ~CHF 40 billion from ~CHF 55 billion, reflecting progress to date and expected future reductions.

Annual performance targets

Complete list of UBS Group and business division annual external performance targets, which supersedes previous targets. Performance targets assume constant FX rates.

The following are targets developed for UBS Group, and each of its business divisions and its Corporate Center, by UBS's management. These targets represent goals and do not represent forecasts or estimates. While these targets represent UBS's judgments concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's targets. For a discussion of these risks, see the section “Risk Factors” above.

Group:

- Basel III fully applied CET1 ratio: 13%
- Basel III RWA: <CHF 215 billion by 31.12.15 (previously <CHF 225 billion)
- Basel III RWA: <CHF 200 billion by 31.12.17
- Swiss SRB leverage ratio denominator of CHF 900 billion by 2016 (based on the rules applicable today) (new target)
- Adjusted cost/income ratio: 60–70% from 2015

• Adjusted return on equity: >15% from 2015 (while UBS continues to target a Group return on equity of greater than 15% in 2015, given elevated operational risk RWA, it may not achieve that until 2016.)

Wealth Management:

• Net new money growth rate: 3–5%
• Gross margin: 95–105 bps
• Adjusted cost/income ratio: 55–65% from 2015 (remains 60–70% for 2014)

Wealth Management Americas:

• Net new money growth rate: 2–4%
• Gross margin: 75–85 bps
• Adjusted cost/income ratio: 75–85% from 2015 (remains 80-90% for 2014)

Retail & Corporate:

• Net new business volume growth for retail business: 1-4%
• Net interest margin: 140–180 bps
• Adjusted cost/income ratio: 50–60%

Global Asset Management:

• Net new money growth rate: 3–5% excluding money market (previously including money market)
• Gross margin: 32–38 bps
• Adjusted cost/income ratio: 60–70%
• Adjusted annual profit before tax: CHF 1 billion in the medium term (new target)

Investment Bank:

• Adjusted annual pre-tax return on attributed equity: >15%
• Adjusted cost/income ratio: 70–80% from 2015 (remains 65–85% for 2014)
• Basel III RWA limit of CHF 70 billion
• Funded assets limit of CHF 200 billion

Corporate Center – Core Functions:

• CHF 1.0 billion annual net cost reduction by year-end 2015 (measured by 2015 year-end exit rate versus FY13 adjusted operating expenses, net of changes in charges for provisions for litigation, regulatory and similar matters; measured net of FX movements and changes in regulatory demand of temporary nature.)

Corporate Center – Non-core and Legacy Portfolio:

• Basel III RWA: ~CHF 40 billion by 31.12.15 (previously ~CHF 55 billion)
• Basel III RWA: ~CHF 25 billion by 31.12.17
• CHF 0.4 billion annual net cost reduction by year-end 2015 (measured by 2015 year-end exit rate versus FY13 adjusted operating expenses, net of changes in charges for provisions for litigation, regulatory and similar matters.)
• CHF 0.7 billion additional annual net cost reduction after 2015 (reduction in annual adjusted operating expenses versus FY13.)

Results of the Annual General Meeting of UBS AG

At the Annual General Meeting held on 7 May 2014 UBS AG shareholders approved the Annual Report and Consolidated Financial Statements for 2013 and confirmed Ernst & Young AG, Basel, as auditors and the Independent Proxy (ADB Altorfer Duss & Beilstein AG, Zurich). They also approved the distribution of a dividend of CHF 0.25 per share from capital contribution reserves.

Compensation Report approved
In an advisory vote, a majority of shareholders (85.93%) approved the Compensation Report for 2013.

Discharge approved
Shareholders approved the discharge of the members of the Board of Directors and the Group Executive Board for the 2013 financial year (87.30%).

Amended Articles of Association approved
Shareholders approved the amended Articles of Association of UBS AG to implement the new Ordinance Against Excessive Compensation in Listed Stock Corporations (73.38%).

EU Capital Requirements Directive of 2013 (CRD IV) approved
In an advisory vote, a majority of shareholders (98.34%) approved the EU Capital Requirements Directive of 2013 (CRD IV).

Elections to the Board of Directors
The Annual General Meeting confirmed in office the Chairman of the Board of Directors, Axel A. Weber (96.09%) and fellow Board members Michel Demaré (98.13%), David Sidwell (98.04%), Reto Francioni (98.87%), Ann F. Godbehere (97.81%), Axel P. Lehmann (98.31%), Helmut Panke (97.91%), William G. Parrett (94.24%), Isabelle Romy (98.69%), Beatrice Weder di Mauro (98.70%) and Joseph Yam (98.26%). Detailed CVs of all the members of the Board of Directors are available at www.ubs.com/bod.

Elections to the Human Resources and Compensation Committee
Shareholders elected Ann F. Godbehere (97.35%), Michel Demaré (97.45%), Helmut Panke (97.40%), and Reto Francioni (98.54%) to the Human Resources and Compensation Committee.

1,666 shareholders attended the Annual General Meeting, representing 1,994,794,917 votes.

VI. Organisational Structure of the Issuer

UBS AG is the parent company of the UBS Group. UBS Group legal entity structure is designed to support its businesses with an efficient legal, tax and funding framework considering regulatory restrictions in the countries where UBS operates. UBS operates as a group with five business divisions and a Corporate Center. Neither the business divisions nor the Corporate Center are separate legal entities. Currently, they primarily operate out of UBS AG, through its branches worldwide. Businesses also operate through local subsidiaries where necessary or desirable.

UBS has announced that it intends to establish a group holding company through a share for share exchange offer, which will commence later this year, subject to regulatory approvals. UBS has also announced that it intends to establish a banking subsidiary in Switzerland in mid-2015. The scope of this future subsidiary's business is expected to include the Retail & Corporate business and the Swiss-booked Wealth Management business.
In the UK, and in consultation with the UK and Swiss regulators, UBS expects to commence the implementation of a revised business and operating model for UBS Limited in the second quarter of 2014. This will result in UBS Limited bearing and retaining a greater degree of the risk and reward of its business activities. UBS AG expects to increase the capitalization of UBS Limited accordingly.

In the US, UBS will comply with new rules for banks under the Dodd-Frank Wall Street Reform and Consumer Protection Act that will require an intermediate holding company to own all of its operations other than US branches of UBS AG by 1 July 2016. As a result, UBS will designate an intermediate holding company to hold all US subsidiaries of UBS.

These structural changes have been discussed with the Swiss Financial Market Supervisory Authority FINMA and other regulatory authorities. The dialogue with regulators will continue and the changes remain subject to some uncertainties that may affect their feasibility, scope or timing.

UBS AG's significant subsidiaries as of 31 December 2013 are listed in the Annual Report 2013, on pages 481-482 (inclusive) of the English version.

VII. Trend Information

Outlook

As stated in the outlook statement presented in UBS AG's first quarter 2014 report, including unaudited consolidated financial statements of UBS Group and issued on 6 May 2014, at the start of the second quarter of 2014, many of the underlying challenges and geopolitical issues that UBS has previously highlighted remain. The continued absence of sustained and credible improvements to unresolved issues in Europe, continuing US fiscal and monetary policy issues, geopolitical instability and the mixed outlook for global growth would make improvements in prevailing market conditions unlikely. Despite these challenges, UBS will continue to execute on its strategy in order to ensure the firm's long-term success and to deliver sustainable returns for shareholders.

VIII. Administrative, Management and Supervisory Bodies of UBS AG

UBS AG is subject to, and acts in compliance with, all relevant Swiss legal and regulatory requirements regarding corporate governance. In addition, as a foreign company with shares listed on the New York Stock Exchange ("**NYSE**"), UBS AG is in compliance with all relevant corporate governance standards applicable to foreign listed companies.

UBS AG operates under a strict dual board structure, as mandated by Swiss banking law. The Board of Directors ("**BoD**") decides on the strategy of the Group upon the recommendation of the Group Chief Executive Officer ("**Group CEO**"), and supervises and monitors the business, whereas the Group Executive Board ("**GEB**"), headed by the Group CEO, has executive management responsibility. The functions of Chairman of the BoD and Group CEO are assigned to two different people, ensuring a separation of power. This structure establishes checks and balances and preserves the institutional independence of the BoD from the day-to-day management of the Group, for which responsibility is delegated to the GEB under the leadership of the Group CEO.

No member of one board may be a member of the other. The supervision and control of the GEB remains with the BoD. The Articles of Association and the Organization Regulations of UBS AG with their annexes govern the authorities and responsibilities of the two bodies.

Board of Directors

The BoD is the most senior body of UBS AG. The BoD consists of at least six and a maximum of twelve members. All the members of the BoD are elected individually by the Annual General Meeting of Shareholders ("**AGM**") for a term of office of one year. The BoD's proposal for election must be such that three-quarters of the BoD members will be independent. Independence is determined in accordance with the Swiss Financial Market Supervisory Authority ("**FINMA**") circular 08/24, the NYSE rules and the rules and regulations of other securities exchanges on which UBS shares are listed, if any, applying the strictest standard. The Chairman is not required to be independent.

The BoD has ultimate responsibility for the success of the UBS Group and for delivering sustainable shareholder value within a framework of prudent and effective controls. It decides on UBS Group's strategic aims and the necessary financial and human resources upon recommendation of the Group CEO and sets the UBS Group's values and standards to ensure that its obligations to its shareholders and others are met.

The BoD meets as often as business requires, and at least six times a year.

Members of the Board of Directors

Members and business addresses	Title	Term of office	Current principal positions outside UBS AG
Axel A. Weber UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chairman	2015	Member of the board of the Institute of International Finance and the International Monetary Conference; member of the European Banking Group, the European Financial Services Roundtable and the Group of Thirty, Washington, D.C.; research fellow at the Center for Economic Policy Research, London, and the Center for Financial Research, Cologne; senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the

			Monetary Economics and International Economics Councils of the leading association of German-speaking economists, the *Verein für Socialpolitik*; member of the Advisory Board of the German Market Economy Foundation and of the Advisory Board of the Department of Economics at the University of Zurich; member of the IMD Foundation, Lausanne and of the International Advisory Panel of the Monetary Authority of Singapore
Michel Demaré Syngenta International AG, Schwarzwaldallee 215, CH-4058 Basel	Independent Vice Chairman	2015	Chairman of the board of Syngenta, a member of the IMD Supervisory Board, Lausanne, and Chairman of SwissHoldings, Berne. Chairman of the Syngenta Foundation for Sustainable Agriculture. Member of the advisory board of the Department of Banking and Finance, University of Zurich. Member of the board of Louis-Dreyfus Commodities Holdings BV
David Sidwell UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Senior Independent Director	2015	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Reto Francioni Deutsche Börse AG, D-60485 Frankfurt am Mai	Member	2015	CEO of Deutsche Börse AG and holding various mandates on the boards of Deutsche Börse Group subsidiaries; professor at the University of Basel. Member of the Shanghai International Financial Advisory Committee, the Advisory Board of Moscow International Financial Center, the International Advisory Board of Instituto de Empresa, the Board of Trustees of the Goethe Business School; the Steering Committee of the Project "Role of Financial Services in Society", World Economic Forum, the Franco-German Roundtable, the Strategic Advisory Group of VHV Insurance
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2015	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited, London. Member of the board of Arden Holdings Ltd., Bermuda, and British American Tobacco plc.
Axel P. Lehmann Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich	Member	2015	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Insurance Group, Zurich; Chairman of the board of Farmers Group, Inc.; Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; former Chairman and member of the Chief Risk Officer Forum; member of the board of Economiesuisse; member of the board of Zurich Insurance plc., Dublin; member of the supervisory board of Zurich Beteiligungs AG, Frankfurt a.M.
Helmut Panke UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2015	Member of the board and Chairperson of the Regulatory and Public Policy Committee of Microsoft Corporation; member of the board and Chairperson of the Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG
William G. Parrett UBS AG, Bahnhofstrasse 45, CH-8098, Zurich	Member	2015	Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; member of the board of iGATE. Past Chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Carnegie Hall Board of Trustees; member of the Committee on Capital Markets Regulation.
Isabelle Romy Froriep Renggli, Bellerivestrasse 201, CH-8034 Zurich	Member	2015	Partner at Froriep Renggli, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; member and Vice Chairman of the Sanction Commission of the SIX Swiss Exchange.
Beatrice Weder di Mauro Johannes Gutenberg-University Mainz, Jakob Welder-Weg 4, D-55099 Mainz	Member	2015	Professor at the Johannes Gutenberg University, Mainz; research fellow at the Center for Economic Policy Research, London; member of the board of Roche Holding Ltd., Basel, and Robert Bosch GmbH, Stuttgart. Member of the Corporate Governance Commission of the German Government; member of the Committee on International Economic Policy Reform, Washington; member of the senate of Max Planck Gesellschaft; Vice-Chair Global

			Agenda Council "Fiscal Issues" of the World Economic Forum
Joseph Yam UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2015	Executive Vice President of the China Society for Finance and Banking. Distinguished research fellow of the Institute of Global Economics and Finance; member of the board of Community Chest of Hong Kong; member of the International Advisory Council of China Investment Corporation. Member of the board of Johnson Electric Holdings Limited and of UnionPay International Co., Ltd.

Organizational principles and structure
Following each AGM, the BoD meets to appoint its Chairman, Vice Chairman, Senior Independent Director, the BoD committees members and their respective Chairpersons. At the same meeting, the BoD appoints a Company Secretary, who acts as secretary to the BoD and its committees.

The BoD committees comprise the Audit Committee, the Corporate Responsibility Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee and the Risk Committee. The BoD has also established an ad-hoc committee on strategy and an ad-hoc special committee.

Audit Committee
The Audit Committee ("**AC**") is comprised of five BoD members, with all members having been determined by the BoD to be fully independent and financially literate.

The AC does not itself perform audits, but monitors the work of the external auditors who in turn are responsible for auditing UBS AG's and the Group's annual financial statements and for reviewing the quarterly financial statements.

The function of the AC is to serve as an independent and objective body with oversight of the following: (i) UBS AG's and UBS Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) UBS AG's and UBS Group's compliance with financial reporting requirements, (iv) the senior management's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance, and (v) the performance of UBS's Group Internal Audit in conjunction with the Chairman of the BoD and the Risk Committee.

The AC reviews the annual and quarterly financial statements of UBS AG and the Group as proposed by management, with the external auditors and Group Internal Audit in order to recommend their approval, (including any adjustments the AC considers appropriate), to the BoD.

Periodically, and at least annually, the AC assesses the qualifications, expertise, effectiveness, independence and performance of the external auditors and their lead audit partner, in order to support the BoD in reaching a decision in relation to the appointment or dismissal of the external auditors and the rotation of the lead audit partner. The BoD then submits these proposals for approval to the AGM.

The members of the AC are William G. Parrett (Chairperson), Michel Demaré, Ann F. Godbehere, Isabelle Romy and Beatrice Weder di Mauro.

Group Executive Board
Under the leadership of the Group CEO, the GEB has executive management responsibility for the UBS Group and its business. It assumes overall responsibility for the development of the UBS Group and business division strategies and the implementation of approved strategies. All GEB members (with the exception of the Group CEO) are proposed by the Group CEO. The appointments are made by the BoD.

Members of the Group Executive Board

Member and business address	Function
Sergio P. Ermotti UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Executive Officer
Markus U. Diethelm UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group General Counsel
Lukas Gähwiler UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer UBS Switzerland, Chief Executive Officer Retail & Corporate
Ulrich Körner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Global Asset Management, Chief Executive Officer UBS Group EMEA
Philip J. Lofts UBS AG, 677 Washington Boulevard, Stamford, CT 06901 USA	Group Chief Risk Officer
Robert J. McCann UBS AG, 1200 Harbor Boulevard, Weehawken, NJ 07086 USA	Chief Executive Officer Wealth Management Americas, Chief Executive Officer UBS Group Americas
Tom Naratil UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Financial Officer, Group Chief Operating Officer
Andrea Orcel UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Investment Bank
Chi-Won Yoon UBS AG, 2 International Finance Centre 52/F, 8 Finance Street, Central, Hong Kong	Chief Executive Officer UBS Group Asia Pacific
Jürg Zeltner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer UBS Wealth Management

No member of the GEB has any significant business interests outside UBS AG.

Potential conflicts of interest

Members of the BoD and GEB may act as directors or executive officers of other companies (for current principal positions outside UBS AG, if any, of BoD members, please see above under "Members of the Board of Directors") and may have economic or other private interests that differ from those of UBS AG. Potential conflicts of interest may arise from these positions or interests. UBS is confident that its internal corporate governance practices and its compliance with relevant legal and regulatory provisions reasonably ensure that any conflicts of interest of the type described above are appropriately managed, including through disclosure when appropriate.

IX. Major Shareholders

Under the Swiss Federal Act on Stock Exchanges and Securities Trading of 24 March 1995, as amended (the "**Swiss Stock Exchange Act**"), anyone holding shares in a company listed in Switzerland, or holding derivative rights related to shares of such a company, must notify the company and the SIX Swiss Exchange if the holding attains, falls below or exceeds one of the following threshold percentages: 3, 5, 10, 15, 20, 25, 33 1/3, 50 or 66 2/3% of the voting rights, whether or not such rights may be exercised.

The following are the most recent notifications of holdings in UBS AG's share capital filed in accordance with the Swiss Stock Exchange Act, based on UBS AG's registered share capital at the time of the disclosure:

- 18 September 2013, Government of Singapore Investment Corp disclosed a change of its corporate name to GIC Private Limited and a holding of 6.40%;
- 30 September 2011: Norges Bank (the Central Bank of Norway), 3.04%;
- 17 December 2009: BlackRock Inc., New York, USA, 3.45%.

Voting rights may be exercised without any restrictions by shareholders entered into UBS's share register, if they expressly render a declaration of beneficial ownership according to the provisions of the Articles of Association. Special provisions exist for the registration of fiduciaries and nominees. Fiduciaries and nominees are entered in the share register with voting rights up to a total of 5% of all shares issued, if they agree to disclose upon UBS AG's request beneficial owners holding 0.3% or more of all UBS AG shares. An exception to the 5% voting limit rule exists for securities clearing organizations such as The Depository Trust Company in New York.

As of 31 March 2014, the following shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) were registered in the share register with 3% or more of the total share capital of UBS AG: Chase Nominees Ltd., London (11.98%); GIC Private Limited, Singapore (6.39%); the US securities clearing organization DTC (Cede & Co.) New York, "The Depository Trust Company" (6.28%); and Nortrust Nominees Ltd., London (3.51%).

UBS holds UBS AG shares primarily to hedge employee share and option participation plans. In addition, the Investment Bank holds a limited number of UBS AG shares in its capacity as a liquidity provider to the equity index futures market and as a market-maker in UBS AG shares and derivatives on UBS AG shares. Furthermore, to meet client demand, UBS has issued structured debt instruments linked to UBS AG shares, which are economically hedged by cash-settled derivatives and, to a limited extent, own shares held by the Investment Bank. As of 31 March 2014, UBS held 92,241,706 UBS AG shares, corresponding to 2.4% of the total share capital of UBS AG. As of 31 December 2013, UBS had disposal positions relating to 284,975,843 voting rights of UBS AG, corresponding to 7.4% of the total voting rights of UBS AG. 7.0% of this consisted of voting rights on shares deliverable in respect of employee awards.

Further details on the distribution of UBS AG's shares, also by region and shareholders' type, and on the number of shares registered, not registered and carrying voting rights as of 31 December 2013 can be found in the Annual Report 2013, on pages 258-261 (inclusive) of the English version.

X. Financial Information concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses

A description of UBS AG's and UBS Group's assets and liabilities, financial position and profits and losses for financial year 2012 is available in the financial information section of the annual report of UBS AG as of 31 December 2012 in the English language ("**Annual Report 2012**", attached to this Registration Document as Appendix 3), and for financial year 2013 in the financial information section of the Annual Report 2013 as well as in the First Quarterly Report at 31 March 2014. The Issuer's financial year is the calendar year.

Historical Financial Information

With respect to the financial year 2012, reference is made to the following parts of the Annual Report 2012 (within the Financial information section, English version):

1. the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 323, the Balance Sheet on page 325, the Statement of Cash Flows on pages 329-330 (inclusive) and the Notes to the Consolidated Financial Statements on pages 331-455 (inclusive); and

2. the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 460, the Balance Sheet on page 461, the Statement of Appropriation of Retained Earnings on page 462, the Notes to the Parent Bank Financial Statements on pages 463-482 (inclusive) and the Parent Bank Review on pages 457-459 (inclusive); and

3. the section entitled "Introduction and accounting principles" on page 316.

With respect to the financial year 2013, reference is made to the following parts of the Annual Report 2013 (within the Financial information section, English version):

1. the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 350, the Balance Sheet on page 353, the Statement of Cash Flows on pages 357-358 (inclusive) and the Notes to the Consolidated Financial Statements on pages 359-505 (inclusive); and

2. the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 510, the Balance Sheet on page 511, the Statement of Appropriation of Retained Earnings on page 512, the Notes to the Parent Bank Financial Statements on pages 513-531 (inclusive) and the Parent Bank Review on pages 507-509 (inclusive); and

3. the section entitled “Introduction and accounting principles” on page 344.

With respect to the financial year 2014, reference is made to the First Quarterly Report at 31 March 2014 (please see section "Interim Financial Information" below).

The annual financial reports form an essential part of UBS AG's reporting. They include the audited consolidated financial statements of UBS Group, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and the audited financial statements of UBS AG (Parent Bank), prepared in order to meet Swiss regulatory requirements and in compliance with Swiss GAAP. The Financial information section of the annual reports also includes certain additional disclosures required under US Securities and Exchange Commission regulations. The annual reports also include discussions and analysis of the financial and business results of UBS, its business divisions and the Corporate Center.

Auditing of Historical Annual Financial Information

The consolidated financial statements of UBS Group and the financial statements of UBS AG (Parent Bank) for financial years 2012 and 2013 were audited by Ernst & Young. The reports of the auditors on the consolidated financial statements can be found on pages 321-322 (inclusive) of the Annual Report 2012 and on pages 348-349 (inclusive) of the Annual Report 2013 (Financial information section, English version). The reports of the auditors on the financial statements of UBS AG (Parent Bank) can be found on pages 483-484 (inclusive) of the Annual Report 2012 and on pages 532-533 (inclusive) of the Annual Report 2013 (Financial information section, English version).

Interim Financial Information

Reference is also made to UBS's First Quarterly Report at 31 March 2014, which contains information on the financial condition and the results of operation of the UBS Group as of and for the quarter ended on 31 March 2014. The interim financial statements are not audited.

XI. Legal and Arbitration Proceedings

The Group operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this section may refer to UBS AG and/or one or more of its subsidiaries, as applicable) is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to

contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. If any of those conditions is not met, such matters result in contingent liabilities.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

In the case of certain matters below, UBS states that it has established a provision, and for the other matters it makes no such statement. When UBS makes this statement and it expects disclosure of the amount of a provision to prejudice seriously its position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, UBS does not disclose that amount. In some cases UBS is subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which UBS does not state whether it has established a provision, either (a) it has not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard, or (b) it has established a provision but expects disclosure of that fact to prejudice seriously its position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

With respect to certain litigation, regulatory and similar matters as to which UBS has established provisions, UBS is able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which it is able to estimate expected timing is immaterial relative to its current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 14a to the unaudited consolidated financial statements included in UBS AG's first quarter 2014 report. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although UBS therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, it can confirm that it believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining UBS’s capital requirements. Information concerning UBS’s capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" and "Risk management and control" sections of UBS AG’s first quarter 2014 report.

Provisions for litigation, regulatory and similar matters by segment [1, 2]

CHF million	WM	WMA	R&C	Gl AM	IB	CC – CF	CC – NcLP	**UBS**
Balance as of 31 December 2013	165	56	82	3	22	488	808	**1,622**
Increase in provisions recognized in the income statement	89	47	11	0	0	0	55	**203**
Release of provisions recognized in the income statement	(3)	(5)	0	0	(1)	(6)	(1)	**(15)**
Provisions used in conformity with designated purpose	(12)	(5)	(3)	0	(1)	0	(4)	**(24)**
Reclassifications	0	0	0	0	(2)	0	2	**0**
Foreign currency translation / unwind of discount	0	(1)	0	0	0	1	(7)	**(7)**
Balance as of 31 March 2014	239	92	90	3	19	483	853	**1,778**

[1] WM = Wealth Management; WMA = Wealth Management Americas; R&C = Retail & Corporate; Gl AM = Global Asset Management; IB = Investment Bank; CC–CF = Corporate Center – Core Functions; CC-NcLP = Corporate Center - Non-core and Legacy Portfolio.

[2] Provisions, if any, for the matters described in (a) item 4 of this section are recorded in Wealth Management, (b) item 7 of this section are recorded in Wealth Management Americas, (c) item 11 of this section are recorded in the Investment Bank, (d) items 3 and 10 of this section are recorded in Corporate Center – Core Functions and (e) items 2 and 6 of this section are recorded in Corporate Center – Non-core and Legacy Portfolio. Provisions for the matters described in items 1 and 9 of this section are allocated between Wealth Management and Retail & Corporate, provisions for the matter described in item 5 of this section are allocated between the Investment Bank and Corporate Center – Non-core and Legacy Portfolio, and provisions for the matter described in item 8 of this section are allocated between the Investment Bank and Corporate Center – Core Functions.

1. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. As a result of investigations in France, in May and June 2013, respectively, UBS (France) S.A. and UBS AG were put under formal examination ("mise en examen") for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance ("témoin assisté") regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. Separately, in June 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and "know your customer" obligations. It imposed a penalty of EUR 10 million, and a provision in that amount is reflected on UBS's balance sheet at 31 March 2014. In Germany, several authorities have been conducting investigations against UBS Deutschland AG, UBS AG, and against certain employees of these entities concerning certain matters relating to the cross-border business. UBS is cooperating with these authorities within the limits of financial privacy obligations under Swiss and other applicable laws. Settlement discussions are ongoing with respect to the German investigations.

2. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter of US residential mortgage-backed securities ("**RMBS**") and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. ("**UBS RESI**"), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into securitization trusts. In this manner, from 2004 through 2007, UBS RESI sponsored approximately USD 80 billion in RMBS, based on the original principal balances of the securities issued.

UBS RESI also sold pools of loans acquired from originators to third-party purchasers. These whole loan sales during the period 2004 through 2007 totaled approximately USD 19 billion in original principal balance.

UBS was not a significant originator of US residential loans. A subsidiary of UBS originated approximately USD 1.5 billion in US residential mortgage loans during the period in which it was active from 2006 to 2008, and securitized less than half of these loans.

Securities lawsuits concerning disclosures in RMBS offering documents: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits related to approximately USD 13 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages, and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the USD 13 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans ("**UBS-sponsored RMBS**"). The remaining USD 10 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter ("**third-party RMBS**").

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights. A class action settlement by a third-party issuer received final approval by the district court in 2013. The settlement reduced the original face amount of RMBS at issue in these cases from USD 37 billion to USD 13 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 34 billion to USD 10 billion, as noted above. The third-party issuer will fund the settlement at no cost to UBS. In January 2014, certain objectors to the settlement filed a notice of appeal from the district court's approval of the settlement.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. UBS has been notified by certain institutional purchasers and insurers of mortgage loans and RMBS of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table "Loan repurchase demands by year received – original principal balance of loans" summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 29 April 2014. In the table, repurchase demands characterized as Demands resolved in litigation and Demands rescinded by counterparty are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

Loan repurchase demands by year received – original principal balance of loans [1]

USD million	2006-2008	2009	2010	2011	2012	2013	2014, through 29 April	**Total**
Resolved demands								
Actual or agreed loan repurchases / make whole payments by UBS	12	1						**13**
Demands rescinded by counterparty	110	104	19	303	237			**773**
Demands resolved in litigation	1	21						**21**
Demands expected to be resolved by third parties								
Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators		77	2	45	124	99	30	**377**
Demands in dispute								
Demands in litigation			346	732	1,041			**2,118**
Demands in review by UBS				2	2	3		**8**
Demands rebutted by UBS but not yet rescinded by counterparty		1	2	1	17	515	115	**651**
Total	122	205	368	1,084	1,421	618	145	**3,962**

[1] Loans submitted by multiple counterparties are counted only once.

Payments that UBS has made or agreed to make to date to resolve repurchase demands equate to approximately 62% of the original principal balance of the related loans. Most of the payments that UBS has made or agreed to make to date have related to so-called "Option ARM" loans; severity rates may vary for other types of loans or for Option ARMs with different characteristics. Actual losses upon repurchase will reflect the estimated value of the loans in question at the time of repurchase as well as, in some cases, partial repayment by the borrowers or advances by servicers prior to repurchase. It is not possible to predict future losses upon repurchase for reasons including timing and market uncertainties.

In most instances in which UBS would be required to repurchase loans due to misrepresentations, UBS would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. UBS estimates that, of the total original principal balance of loans sold or securitized by UBS from 2004 through 2007, less than 50% was purchased from surviving third-party originators. In connection with approximately 60% of the loans (by original principal balance) for which UBS has made payment or agreed to make payment in response to demands received in 2010, UBS has asserted indemnity or repurchase demands against originators. Since 2011, UBS has advised certain surviving originators of repurchase demands made against UBS for which UBS would be entitled to indemnity, and has asserted that such demands should be resolved directly by the originator and the party making the demand.

UBS cannot reliably estimate the level of future repurchase demands, and does not know whether its rebuttals of such demands will be a good predictor of future rates of rebuttal. UBS also cannot reliably estimate the timing of any such demands.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In 2012, certain RMBS trusts filed an action in the Southern District of New York ("**Trustee Suit**") seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations ("**Transactions**") with an original principal balance of approximately USD 2 billion for which Assured Guaranty Municipal Corp. ("**Assured Guaranty**"), a financial guaranty insurance company, had previously demanded repurchase. Plaintiffs in the Trustee Suit have recently indicated that they intend to seek damages beyond the loan repurchase demands identified in the complaint, specifically for all loans purportedly in breach of any of the three Transactions. Discovery is ongoing. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. Related litigation brought by Assured Guaranty was resolved in 2013.

In 2012, the Federal Housing Finance Agency ("**FHFA**"), on behalf of Freddie Mac, filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach of contract and declaratory relief arising from alleged breaches of representations and warranties in connection with certain mortgage loans and UBS RESI's alleged failure to repurchase such mortgage loans. The lawsuit seeks, among other relief, specific performance of UBS RESI's alleged loan repurchase obligations for at least USD 94 million in original principal balance of loans for which Freddie Mac had previously demanded repurchase; no damages are specified. In 2013, the Court dismissed the complaint for lack of standing, on the basis that only the RMBS trustee could assert the claims in the complaint, and the complaint was unclear as to whether the trustee was the plaintiff and had proper authority to bring suit. The trustee subsequently filed an amended complaint, which UBS moved to dismiss. The motion remains pending.

In 2013, Residential Funding Company LLC ("**RFC**") filed a complaint in New York Supreme Court against UBS RESI asserting claims for breach of contract and indemnification in connection with loans purchased from UBS RESI with an original principal balance of at least USD 460 million that were securitized by an RFC affiliate. This is the first case filed against UBS seeking damages allegedly arising from the securitization of whole loans purchased from UBS. Damages are unspecified.

UBS also has tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

As reflected in the table "Provision for claims related to sales of residential mortgage-backed securities and mortgages", UBS's balance sheet at 31 March 2014 reflected a provision of USD 819 million with respect to matters described in this item 2. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

UBS has received requests from both the Special Inspector General for the Troubled Asset Relief Program ("**SIGTARP**") (who is working in conjunction with the US Attorney's Office for Connecticut and the US Department of Justice, Criminal Division, Fraud Section) and the SEC for information relating to its practices in connection with purchases and sales of mortgage-backed securities. UBS is cooperating with the authorities in these matters, which are in an early stage. Numerous other banks reportedly have received similar requests.

Provision for claims related to sales of residential mortgage-backed securities and mortgages

USD million	
Balance as of 31 December 2013	**807**
Increase in provision recognized in the income statement	15
Release of provision recognized in the income statement	0
Provision used in conformity with designated purpose	(3)
Balance as of 31 March 2014	**819**

3. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US crossborder business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, in 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary shares made in the US for failure to state a claim. Plaintiffs have appealed the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act ("**ERISA**") retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In 2012, the court denied plaintiffs' motion for leave to file an amended complaint. On appeal, the Second Circuit upheld the dismissal of all counts relating to one of the retirement plans. With respect to the second retirement plan, the Court upheld the dismissal of some of the counts, and vacated and remanded for further proceedings with regard to the counts alleging that defendants had violated their fiduciary duty to prudently manage the plan's investment options, as well as the claims derivative of that duty.

In 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. In 2013, the district court granted UBS's motion to dismiss the complaint in its entirety. Plaintiffs have filed a notice of appeal.

4. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC ("**BMIS**") investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority ("**FINMA**") and the Luxembourg Commission de Surveillance du Secteur Financier ("**CSSF**"). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are

responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011 the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit Court of Appeals rejected the BMIS Trustee's appeal against that ruling and upheld the District Court's decision. The BMIS Trustee has sought leave to appeal to the US Supreme Court, which has invited the Solicitor General of the United States to file a brief expressing the views of the United States as to whether review should be granted. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

5. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In Milan, in 2012, civil claims brought by the City of Milan against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007 were settled without admission of liability. In 2012, the criminal court in Milan issued a judgment convicting two current UBS employees and one former employee, together with employees from the three other banks, of fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. In the same proceedings, the Milan criminal court also found UBS Limited and three other banks liable for the administrative offense of failing to have in place a business organizational model capable of preventing the criminal offenses of which its employees were convicted. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and payment of legal fees. UBS's balance sheet at 31 March 2014 reflected a provision in the amount of EUR 17.7 million for this potential exposure. UBS Limited and the individuals appealed that judgment, and in March 2014, the Milan Court of Appeal handed down its judgment in short form. It overturned all findings of liability against UBS Limited and convictions of the UBS individuals and acquitted them, stating that the conduct did not occur. The court indicated that it would issue a full judgment including the reasons for its rulings within 90 days. The appellate prosecutor has until July 21, 2014 to decide whether to pursue a further appeal to the Court of Cassation in Rome..

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy, Lazio and Campania, and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2012, UBS AG and UBS Limited settled all civil disputes with the Regions of Tuscany, Lombardy and Lazio without any admission of liability. In 2013, a settlement of all civil and administrative disputes was reached with the City of Florence. An oral agreement in principle was reached with the Region of Calabria subject to conditions which have not yet occurred. UBS's balance sheet at 31 March 2014 reflected a provision in connection with that oral agreement.

6. Kommunale Wasserwerke Leipzig GmbH ("**KWL**")

In 2006 and 2007, KWL entered into a series of Credit Default Swap ("**CDS**") transactions with bank swap counterparties, including UBS. UBS also entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc ("**Depfa**") and Landesbank Baden-Württemberg ("**LBBW**"), in relation to their

respective swaps with KWL. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS is owed a total amount of approximately USD 319.8 million, plus interest, which remains unpaid. Specifically, under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 137.6 million, plus interest, has fallen due from KWL but not been paid.

In 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transactions between KWL and UBS are valid, binding and enforceable as against KWL and in respect of UBS's role as portfolio manager. UBS issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW are defending against the claims and have also issued counterclaims. Additionally, Depfa added a claim against KWL to the proceedings against it and KWL served a defense. The English court ruled in 2010 that it had jurisdiction and would hear the proceedings. UBS issued a further claim in the English proceeding seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL and later added a monetary claim. Also, in 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW. The Leipzig court has also ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

In the English proceedings, KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS AG's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS AG pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited. Both KWL and Depfa have mutually exclusive claims for payment of USD 32.6 million which has previously been paid by Depfa to UBS. Trial in the English proceedings began in April 2014 and is expected to run through July 2014.

In the proceedings brought by KWL against LBBW in Leipzig, in June 2013, the court ruled in LBBW's favor. KWL appealed against that ruling and the court is expected to make its first decision on the appeal by 30 May 2014.

UBS's balance sheet at 31 March 2014 reflected provisions with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

In 2011, the former managing director of KWL and two financial advisers were convicted in Leipzig, Germany, on criminal charges related to certain KWL transactions, including swap transactions with UBS and other banks. Following further criminal proceedings brought against them in Dresden, Germany, relating to the same transactions, they were each convicted of embezzlement in 2013 and given longer sentences. All three have lodged appeals

Since 2011, the SEC has been conducting an investigation focused on, among other things, the suitability of the KWL transactions, and information provided by UBS to KWL. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC.

7. Puerto Rico

Declines in Puerto Rico municipal bond and closed-end fund prices since August 2013 have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages exceeding USD 300 million filed by clients in Puerto Rico who own those securities. A shareholder derivative action also was filed in February 2014 against various UBS entities and current and certain former directors of the closed-end funds, alleging hundreds of millions in losses in the funds. An internal review also disclosed that certain clients, many of whom acted at the recommendation of one financial advisor, invested proceeds of non-purpose loans in closed-end fund securities in contravention of their loan agreements.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico ("**System**") against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico ("**UBS PR**") and other consultants and underwriters, trustees of the System, and the President and

Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim. That dismissal was subsequently overturned by the Puerto Rico Court of Appeals. In February 2014, UBS's petition for appeal was denied by the Supreme Court of Puerto Rico, and UBS filed motions for reconsideration. Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012.

UBS's balance sheet at 31 March 2014 reflected provisions with respect to matters described in this item 7 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that UBS has recognized.

8. Foreign exchange, LIBOR, and benchmark rates

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes UBS's precious metal business. Since then, various authorities reportedly have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission ("**WEKO**"), the US Department of Justice ("**DOJ**"), the US Commodity Futures Trading Commission ("**CFTC**"), the UK Financial Conduct Authority ("**FCA**") (to which certain responsibilities of the UK Financial Services Authority ("**FSA**") have passed) and the Hong Kong Monetary Authority ("**HKMA**"). WEKO stated in March 2014 that it had reason to believe that certain banks may have colluded to manipulate foreign exchange rates. A number of authorities also reportedly are investigating potential manipulation of precious metal prices. UBS and other financial institutions have received requests from various authorities relating to their foreign exchange businesses, and UBS is cooperating with the authorities. UBS has taken and will take appropriate action with respect to certain personnel as a result of its ongoing review.

Foreign exchange-related civil litigation: Several putative class actions have been filed since November 2013 in US federal courts against UBS and other banks. These actions are on behalf of putative classes of persons who engaged in foreign currency transactions. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. The defendants (including UBS) have not yet filed responsive pleadings.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the UK Serious Fraud Office ("**SFO**"), the Monetary Authority of Singapore ("**MAS**"), the HKMA, FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to British Bankers' Association LIBOR (London Interbank Offered Rate) and other benchmark rates, including HIBOR (Hong Kong Interbank Offered Rate) and ISDAFIX.. These investigations focus on whether there were improper attempts by UBS (among others), either acting on its own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, and CHF 59 million in disgorgement to FINMA. Under a non-prosecution agreement ("**NPA**") that UBS entered into with the DOJ, UBS has agreed to pay a fine of USD 500 million. Pursuant to a separate plea agreement between the DOJ and UBS Securities Japan Co. Ltd. ("**UBSSJ**"), UBSSJ entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. The NPA, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency / immunity grants described below, required UBS to pay the USD 500 million fine to DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. At the sentencing hearing held in 2013, the court approved the proposed plea agreement and imposed a USD 100 million fine against UBSSJ, as agreed to by the DOJ and

UBSSJ under the plea agreement. Since the sentencing, UBS has paid a fine of USD 400 million to the DOJ, and UBSSJ has paid the USD 100 million fine imposed by the sentencing court. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by one or more of these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). UBS has ongoing obligations to cooperate with authorities with which it has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. In addition, under the NPA, UBS has agreed, among other things, that for two years from 18 December 2012 UBS will not commit any US crime, and it will advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. Any failure to comply with these obligations could result in termination of the NPA and potential criminal prosecution in relation to the matters covered by the NPA. Investigations by the CFTC and other government authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and the Swiss Competition Commission ("**WEKO**"), in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for Swiss franc LIBOR and certain transactions related to Swiss franc LIBOR. The Canadian Competition Bureau (“**Bureau**”) had granted UBS conditional immunity in connection with potential competition law violations related to submissions for Yen LIBOR, but in January 2014, the Bureau announced the discontinuation of its investigation into Yen LIBOR for lack of sufficient evidence to justify prosecution under applicable laws. As a result of these conditional grants, UBS will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where it has conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to its continuing cooperation. However, the conditional leniency and conditional immunity grants UBS has received do not bar government agencies from asserting other claims and imposing sanctions against UBS, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, UBS is eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to UBS satisfying the DOJ and the court presiding over the civil litigation of its cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against UBS.

In 2013, the European Commission (“**EC**”) announced a decision adopted in the Commission’s Yen Interest Rate Derivatives (“**YIRD**”) investigation, under which UBS has received full immunity from fines for disclosing to the Commission the existence of infringements relating to YIRD.

In 2013, the MAS announced the results of its investigation of benchmark submissions by 20 banks, including UBS. The investigation related to various benchmark submissions, including the Singapore Interbank Offered Rates and the Swap Offered Rates, and covered the period from 2007 to 2011. The MAS found deficiencies in the governance, risk management, internal controls and surveillance systems for the banks' benchmark submission processes and directed the banks to correct the deficiencies and set aside additional statutory reserves with MAS at zero interest for one year. The MAS also announced proposed changes to its regulatory framework for financial benchmarks that are designed to enhance the integrity of the process for setting benchmarks.

In 2013, UBS entered into an enforceable undertaking in relation to an investigation by the Australian Securities and Investments Commission (“**ASIC**”) into conduct relating to Australian Bank Bill Swap Rate (“**BBSW**”) submissions. An independent expert engaged by UBS at ASIC's request concluded that, to the extent there may have been any impact of such conduct on the market as a whole, it would have been insignificant. The enforceable undertaking requires UBS to ensure that its participation in relation to the setting of Australian interest rate benchmarks upholds the integrity and reliability of those benchmarks and is in accordance with its obligations under the CFTC order. UBS also agreed to make a voluntary contribution of AUD 1 million to fund independent financial literacy projects in Australia. ASIC has the power to investigate, conduct further surveillance or pursue criminal prosecution of UBS or its representatives in relation to any contravention. ASIC

acknowledged UBS's cooperation and the fact that it was the first bank to report this conduct to it. ASIC's inquiries in relation to the BBSW rate set are ongoing.

In March 2014, the HKMA announced the conclusion of its investigations into the fixing of HIBOR. The HKMA found that some UBS traders made change requests to the UBS HIBOR submitter between September 2006 and June 2009, but said they had "negligible impact" on the actual outcome of the HIBOR fixing. The HKMA found no evidence of collusion among the banks to rig the rate. The HKMA also found that UBS failed to report to the HKMA the misconduct of its staff in relation to HIBOR submissions and further found material weaknesses in UBS's internal controls and governance in managing the HIBOR submission process and in other areas. UBS ceased to be a HIBOR panel bank in 2010. The HKMA has required that UBS make improvements in its processes.

In 2011, the Japan Financial Services Agency ("**JFSA**") commenced administrative actions and issued orders against UBS Securities Japan Ltd ("**UBS Securities Japan**") and UBS AG, Tokyo Branch in connection with their investigation of Yen LIBOR and Euroyen TIBOR. These actions were based on findings by the Japan Securities and Exchange Surveillance Commission ("**SESC**"), and, in the case of UBS AG, Tokyo Branch, the JFSA, that a former UBS Securities Japan trader engaged in inappropriate conduct relating to Euroyen TIBOR and Yen LIBOR, including approaching UBS AG, Tokyo Branch, and other banks to ask them to submit TIBOR rates taking into account requests from the trader for the purpose of benefiting trading positions.

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR and EURIBOR. Also pending are actions asserting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR or EURIBOR rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act, the federal racketeering statute, federal and state antitrust and securities laws and other state laws. In 2013, a federal court in New York dismissed the federal antitrust and racketeering claims of certain US dollar LIBOR plaintiffs and a portion of their claims brought under the Commodity Exchange Act (“**CEA**”) and state common law. The same court subsequently denied the parties' requests for reconsideration and plaintiffs' motion for interlocutory appeal and to amend the complaints to include additional antitrust and CEA allegations. It granted certain plaintiffs permission to assert claims for unjust enrichment and breach of contract. Motions to dismiss these unjust enrichment and breach of contract claims are pending, as is a renewed motion to dismiss by UBS and other defendants that seeks dismissal of further CEA claims. Certain plaintiffs have also appealed the dismissal of their antitrust claims, but the appellate court denied these appeals as premature, without prejudice to bringing the appeals again after final disposition of the LIBOR actions. UBS and other defendants in other lawsuits including the one related to Euroyen TIBOR have filed motions to dismiss. In March 2014, the court in the Euroyen TIBOR lawsuit dismissed the plaintiff's federal antitrust and state unfair enrichment claims, and dismissed a portion of the plaintiff's CEA claims.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 31 March 2014 reflected a provision of an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

9. Swiss retrocessions

The Swiss Supreme Court ruled in 2012, in a test case against UBS, that distribution fees paid to a bank for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the bank, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the

Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients.

It is expected that the Supreme Court decision will result in a significant number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are being assessed on a case-by-case basis. Considerations to be taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

UBS's balance sheet at 31 March 2014 reflected a provision with respect to matters described in this item 9 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence as in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

10. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. ("**Pactual**") by UBS to BTG Investments, LP ("**BTG**"), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being or will be challenged in administrative proceedings. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts. In 2013, approximately BRL 128 million in tax claims relating to the period for which UBS has indemnification obligations were submitted for settlement through amnesty programs announced by the Brazilian government in 2013.

UBS's balance sheet at 31 March 2014 reflected a provision with respect to matters described in this item 10 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

11. Matters relating to the CDS market

In 2013 the EC issued a Statement of Objections against thirteen credit default swap ("**CDS**") dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association ("**ISDA**"). The Statement of Objections broadly alleges that the dealers infringed EU antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. UBS has submitted its response to the Statement of Objections. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In January and April 2014, putative class action plaintiffs filed consolidated amended complaints in the Southern District of New York against twelve dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in and / or monopolize the market for CDS trading in the US in order to protect the dealers' profits from trading CDS in the over-the-counter market. Plaintiffs assert claims on behalf of all purchasers and sellers of CDS that transacted directly with any of the dealer defendants since 1 January 2008, and seek unspecified trebled compensatory damages and other relief.

12. Lehman principal protection notes

From March 2007 through September 2008, UBS Financial Services Inc. ("**UBSFS**") sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. ("**Lehman**"), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. Based on its role as an underwriter of Lehman structured notes, UBSFS was named as a defendant in a putative class action asserting violations of disclosure

provisions of the federal securities laws. In August 2013, UBSFS agreed to a proposed USD 120 million settlement of the case, which was approved by the Court in December 2013. Previously, certain of the other underwriter defendants and the former officers and directors of Lehman reached separate settlements regarding the same case. UBSFS also has been named in numerous individual civil suits and customer arbitrations, a small number of which were pending as of 31 March 2014. The individual customer claims, some of which have resulted in awards payable by UBSFS, relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers.

Besides the proceedings specified above under (1) through (12) no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which UBS AG is aware) which may have, or have had in the recent past, significant effects on UBS AG's and/or UBS Group's financial position or profitability, are or have been pending during the last twelve months until the date of this document, nor is the Issuer aware that any such governmental, legal or arbitration proceedings are threatened.

XII. Significant Changes in the Financial or Trading Position; Material Adverse Change in Prospects

There has been no significant change in the financial or trading position of UBS Group or of UBS AG since 31 March 2014.

There has been no material adverse change in the prospects of UBS AG or UBS Group since 31 December 2013.

XIII. Material Contracts

No material contracts have been concluded outside of the ordinary course of of UBS AG's or UBS Group's business, which could result in any member of the UBS Group being under an obligation or entitlement that is material to UBS AG's ability to meet its obligations to the investors in relation to the issued securities.

XIV. Documents on Display

- The Annual Report of UBS AG as of 31 December 2012, comprising the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial information (including the "Report of the Statutory Auditor and the Independent Registered Public Accounting Firm on the Consolidated Financial Statements" and the "Report of the Statutory Auditor on the Financial Statements");

- The Annual Report of UBS AG as of 31 December 2013, comprising the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial information (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements" and the "Report of the statutory auditor on the financial statements"); and

- UBS's report for the quarter ended 31 March 2014 (including unaudited consolidated financial statements); and

- The Articles of Association of UBS AG,

shall be maintained in printed format, for free distribution, at the offices of the Issuer for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports of UBS AG are published on UBS's website, at www.ubs.com/investors or a successor address. The Articles of Association of UBS AG are also available on UBS's Corporate Governance website, at www.ubs.com/governance.

Appendix F

First Quarterly Report as at 31 March 2014

Our financial results for the *first* quarter of 2014.

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Dear shareholders,

For the first quarter of 2014, we reported a net profit attributable to shareholders of CHF 1,054 million and diluted earnings per share of CHF 0.27. We recorded an adjusted[1] Group profit before tax of CHF 1,486 million, a solid performance achieved despite a volatile operating environment.

We are pleased to have surpassed our long-stated fully applied Basel III common equity tier 1 (CET1) ratio target of 13% already in the first quarter. Our premier CET1 ratio is the result of actively reducing risk-weighted assets (RWA) and building Basel III-compliant capital by growing our retained earnings. We continued to deleverage our balance sheet, reducing total assets by CHF 36 billion during the quarter. Our Basel III funding and liquidity ratios as well as our Swiss SRB leverage ratio remained comfortably above our regulatory requirements and we expect to meet the fully applied 2019 leverage ratio regulatory requirements ahead of schedule. Our fully applied leverage ratio improved meaningfully to 3.8% due to a combination of reducing the denominator to below CHF 1 trillion and increasing the numerator through higher CET1 capital and the issuance of EUR 2.0 billion of low-trigger, loss-absorbing, Basel III-compliant subordinated notes. This brings our total amount of low-trigger tier 2 capital to CHF 7.1 billion, against an expected progressive buffer requirement of around CHF 9 billion by 2019. Our fully applied total capital ratio already stands at 16.8%, versus our expected requirement of around 17.5% by 2019.

Wealth Management delivered an increase in adjusted[1] profit before tax to CHF 659 million due to higher operating income and lower operating expenses. Transaction-based income increased, largely due to higher client activity across all regions, most notably in Asia Pacific. The gross margin on invested assets increased 2 basis points to 87 basis points, as income growth outpaced an increase in average invested assets. Net new money was strong at CHF 10.9 billion, with Asia Pacific and emerging markets as the main contributors. We achieved a net new money growth rate that was comfortably within the upper end of our target range. The adjusted[1] cost/income ratio improved and was within our target range and we expect further reductions in future.

Wealth Management Americas made a strong start to the year with a record adjusted[1] profit before tax of USD 284 million. An increase in operating income, mainly due to higher managed account fees, was largely offset by higher adjusted[1] operating expenses. The business continued to attract client assets, with net new money amounting to USD 2.1 billion. While the net new money growth rate was 0.9%, improved performance from experienced financial advisors was offset by outflows from financial advisor attrition. The business maintained both its adjusted[1] cost/income ratio and its gross margin on invested assets within target ranges.

Our **Retail & Corporate** business recorded a higher adjusted[1] profit before tax of CHF 401 million, mainly due to lower operating expenses as a result of lower litigation expenses. Net new business volume growth for our retail business was 4.3%, ahead of target. The adjusted[1] cost/income ratio and net interest margin were both within our target range. Our new e-banking platform received the highest accolade possible in the cross-industry Best of Swiss Web 2014 awards and was cited as an outstanding project in terms of technology and expertise. As the leading universal bank in Switzerland and an important provider of pension advisory services, we are giving our private and wealth management client advisors additional training in this area and are launching a nationwide campaign to raise public awareness of the importance of retirement planning.

Global Asset Management recorded a lower adjusted[1] profit before tax of CHF 126 million. The business's adjusted[1] cost/income ratio remained outside its target range. Excluding money market flows, net new money was very strong at CHF 13.0 billion, the highest amount since the third quarter of 2005, and included significant net inflows from both third parties and UBS's wealth management clients. Including money market flows, total net new money reached CHF 9.6 billion, the highest amount since the third quarter of 2006. The net new money growth rate was ahead of target at 6.6%. The gross margin on invested assets was 31 basis points, slightly below target.

The **Investment Bank** increased adjusted[1] profit before tax to CHF 549 million. Operating income was positively affected by strong revenues, particularly in debt capital markets and equities. In cash equities we recorded our best first-quarter performance since 2011. As a result of improved performance, operating expenses increased on higher variable compensation expenses, partly offset by lower general and administrative expenses. At CHF 62 billion, fully applied RWA remained unchanged and were consistent with our target of less than CHF 70 billion. The adjusted[1] cost/income ratio improved and was well within the target range. The business achieved an improved adjusted[1] return on attributed equity of 28% compared with 20% in the prior quarter. Resources and risk were managed in line with client activity and our return on attributed equity result was comfortably ahead of our greater than 15% target.

1 Please refer to the "Group performance" section of our First Quarter 2014 Report for more information on adjusted results.

Corporate Center – Core Functions recorded a loss before tax of CHF 176 million. After allocations to the business divisions and Non-core and Legacy Portfolio, total operating expenses increased to CHF 227 million. A gain on own credit was partly offset by negative treasury income remaining after allocations. The loss before tax in **Corporate Center – Non-core and Legacy Portfolio** reduced to CHF 225 million, mainly due to an improvement in debit valuation adjustments, revaluation gains in our credit business and lower losses from unwind and novation activities. We continued to make progress in reducing balance sheet assets, which declined by CHF 25 billion. Fully applied RWA decreased by CHF 3 billion to CHF 60 billion at the end of the quarter. We expect to make further progress in exiting the remaining Non-core and Legacy positions during 2014.

Underlining our commitment to vocational training and our apprenticeship and graduate training programs, we joined the Global Apprenticeships Network. Every year, UBS offers training programs to more than 2,000 young people. As a member of this network, we will benefit from sharing best practices in the design and implementation of apprenticeships and on-the-job training programs. This constitutes a strong talent pipeline and contributes to UBS's competitiveness and success and underlines our desire to contribute to the communities in which we operate.

As we continue to build on our enviable franchise in Asia Pacific, events such as our UBS Greater China Conference underline our commitment to the region. Held in Shanghai for the fourteenth consecutive year, the event attracted over 1,700 delegates, including close to 1,000 domestic and international investors. Participants listened to numerous panel discussions and keynote addresses from experts in the fields of politics, business and economics over five days. These focused on the theme "New reforms, new era, new opportunities" and covered global as well as Chinese issues.

We were honored by the external recognition received in relation to our efforts to be a responsible corporate citizen. In RobecoSAM's Corporate Sustainability Assessment, we were named as one of the top three leaders in our sector for 2014. Together with S&P Dow Jones Indices, RobecoSAM publishes the globally recognized Dow Jones Sustainability Indices, which track leading sustainability-driven companies worldwide. It defines leading companies as those that integrate environmental and social factors into their long-term strategies and performance reviews.

Together with the presentation of our financial results for the first quarter, we are providing an update to investors on our strategic progress and the compelling prospects for our future. We continue to execute our strategy as we move to the next phase of delivering attractive and sustainable returns to shareholders.

To provide even greater transparency with regards to our financial performance, we are now disclosing our quarterly results by region as well as by business division. The fact that every one of our business divisions and regions is profitable reflects our successful strategy and the strong positions we have created both in the areas in which we choose to do business and on a geographical basis.

On the day we are issuing this report, we are also providing to our investors an update on our strategy and performance objectives. Our strategy remains unchanged. Our performance has proven that the model works and is right for UBS. We continue to target a 15% return on equity and remain committed to a capital return payout ratio of at least 50% of net profit. We have retained most of our Group and business division targets. Based in part on the progress we have made since our Investor Day in 2012, we are also announcing a number of new or revised objectives. For example, we are supplementing our Group RWA reduction goals with a new target Group leverage ratio denominator of CHF 900 billion to be achieved by 2016. New business division objectives include the aspiration of our wealth management businesses to deliver annual growth in adjusted annual profit before tax of 10–15% over the cycle, and a new Global Asset Management target of CHF 1 billion in adjusted annual pre-tax profit. Three of our business divisions have also reduced or narrowed their cost/income ratio targets, supported by our commitment to deliver CHF 2.1 billion of net cost reductions in the Corporate Center. More information about the investor update, including a complete list of our external performance targets, can be found at *www.ubs.com/investors.*

We also announced today that we intend to establish a group holding company through a share for share exchange offer, which will commence later this year, subject to regulatory approvals. The establishment of a group holding company is intended, along with other measures we have already announced, to substantially improve the resolvability of UBS. We anticipate that these measures will allow UBS to qualify for a capital rebate under the Swiss "too-big-to-fail" requirements. This rebate would result in lower overall capital requirements for UBS. Following completion of the transaction, we expect to propose a supplementary capital return of at least CHF 0.25 per share to shareholders of the new group holding company.

We look forward to welcoming our shareholders to the Annual General Meeting (AGM) to be held in Basel on 7 May 2014. As part of the AGM, shareholders will be able to vote on the proposal of the Board of Directors for a 67% increase in dividend to CHF 0.25 per share for 2013 from CHF 0.15 a year earlier. This is a reflection of our success in delivering on our stated objective of progressive capital returns. The Board will also propose the approval of various amendments to the Articles of Association made in order to implement the new Ordinance Against Excessive Compensation in Listed Stock Corporations. The Ordinance, enacted by the Swiss Federal Council to implement the Minder initiative, entered into force on 1 January 2014. The first binding vote on

Axel A. Weber Chairman of the Board of Directors **Sergio P. Ermotti** Group Chief Executive Officer

the Board of Directors' and Group Executive Board's compensation will be held at the 2015 AGM.

Rainer-Marc Frey has decided not to seek re-election to the Board of Directors of UBS at this year's AGM due to other professional commitments. Since his election to the Board in October 2008, he has served on the Risk, the Audit and the Human Resources and Compensation Committees. We thank him for his valuable contribution to our success over the past six years.

Outlook – At the start of the second quarter of 2014, many of the underlying challenges and geopolitical issues that we have previously highlighted remain. The continued absence of sustained and credible improvements to unresolved issues in Europe, continuing US fiscal and monetary policy issues, geopolitical instability and the mixed outlook for global growth would make improvements in prevailing market conditions unlikely. Despite these challenges, we will continue to execute on our strategy in order to ensure the firm's long-term success and to deliver sustainable returns for our shareholders.

Yours sincerely,

Axel A. Weber
Chairman of the
Board of Directors

Sergio P. Ermotti
Group Chief Executive Officer

UBS key figures

	As of or for the quarter ended		
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13
Group results			
Operating income	**7,258**	6,307	7,775
Operating expenses	**5,865**	5,858	6,327
Operating profit / (loss) before tax	**1,393**	449	1,447
Net profit / (loss) attributable to UBS shareholders	**1,054**	917	988
Diluted earnings per share (CHF)[1]	**0.27**	0.24	0.26
Key performance indicators[2]			
Profitability			
Return on equity (RoE) (%)	**8.7**	7.7	8.5
Return on assets, gross (%)	**2.9**	2.4	2.5
Cost / income ratio (%)	**81.1**	92.7	81.2
Growth			
Net profit growth (%)	**14.9**	58.9	
Net new money growth for combined wealth management businesses (%)	**2.9**	2.4	5.9
Resources			
Common equity tier 1 capital ratio (fully applied, %)[3]	**13.2**	12.8	10.1
Swiss SRB leverage ratio (phase-in, %)	**5.0**	4.7	3.8
Additional information			
Profitability			
Return on tangible equity (%)[4]	**10.2**	9.1	10.1
Return on risk-weighted assets, gross (%)[5]	**12.6**	11.2	11.9
Resources			
Total assets	**982,530**	1,018,374	1,213,844
Equity attributable to UBS shareholders	**49,023**	48,002	47,239
Common equity tier 1 capital (fully applied)[3]	**29,937**	28,908	26,176
Common equity tier 1 capital (phase-in)[3]	**41,187**	42,179	40,235
Risk-weighted assets (fully applied)[3]	**226,805**	225,153	258,701
Risk-weighted assets (phase-in)[3]	**229,879**	228,557	262,454
Common equity tier 1 capital ratio (phase-in, %)[3]	**17.9**	18.5	15.3
Total capital ratio (fully applied, %)[3]	**16.8**	15.4	11.8
Total capital ratio (phase-in, %)[3]	**22.7**	22.2	18.9
Other			
Invested assets (CHF billion)[6]	**2,424**	2,390	2,373
Personnel (full-time equivalents)	**60,326**	60,205	61,782
Market capitalization [7]	**70,180**	65,007	55,827
Total book value per share (CHF)[7]	**13.07**	12.74	12.57
Tangible book value per share (CHF)[7]	**11.41**	11.07	10.79

1 Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of this report for more information. 2 Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators. In the first quarter of 2014, the definitions of certain key performance indicators were amended. Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information. 3 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 4 Net profit / loss attributable to UBS shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS shareholders less average goodwill and intangible assets. 5 Based on phase-in Basel III risk-weighted assets. 6 Group invested assets includes invested assets for Retail & Corporate. 7 Refer to the "UBS shares" section of this report for more information.

Corporate calendar

Annual General Meeting of Shareholders
Wednesday, 7 May 2014

Publication of the second quarter 2014 report
Tuesday, 29 July 2014

Publication of the third quarter 2014 report
Tuesday, 28 October 2014

Publication of the fourth quarter 2014 report
Tuesday, 10 February 2015

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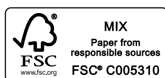

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UBS and its businesses

We draw on our over 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. Our business strategy is centered on our pre-eminent global wealth management businesses and our leading universal bank in Switzerland, complemented by our Global Asset Management business and our Investment Bank, with a focus on capital efficiency and businesses that offer a superior structural growth and profitability outlook. Headquartered in Zurich and Basel, Switzerland, we have offices in more than 50 countries, including all major financial centers, and approximately 60,000 employees. UBS AG is the parent company of the UBS Group (Group). Under Swiss company law, UBS AG is organized as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors. The operational structure of the Group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Retail & Corporate, Global Asset Management and the Investment Bank.

Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services.

Wealth Management Americas

Wealth Management Americas provides advice-based solutions and banking services through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US business, the domestic Canadian business and international business booked in the US.

Retail & Corporate

Retail & Corporate maintains a leading position across retail, corporate and institutional client segments in Switzerland and constitutes a central building block of UBS Switzerland's pre-eminent universal bank model. It provides comprehensive financial products and services embedded in a true multi-channel experience, offering clients convenient access. It continues to enhance the range of life-cycle products and services offered to clients, while pursuing additional growth in advisory and execution services.

Global Asset Management

Global Asset Management is a large-scale asset manager with diversified businesses across investment capabilities, regions and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services including fund set-up, accounting and reporting for both traditional investment funds and alternative funds.

Investment Bank

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative financial solutions, outstanding execution and comprehensive access to the world's capital markets. It offers financial advisory and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through its two business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

Corporate Center

The Corporate Center comprises Corporate Center – Core Functions and Corporate Center – Non-core and Legacy Portfolio. Corporate Center – Core Functions provides Group-wide control functions including finance, risk control (including compliance) and legal. In addition, it provides all logistics and support functions, including operations, information technology, human resources, corporate development, regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical security, information security, offshoring and treasury services such as funding, balance sheet and capital management. Corporate Center – Core Functions allocates most of its treasury income, operating expenses and personnel associated with the abovementioned activities to the businesses. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions previously part of the Investment Bank.

UBS Group

Management report

Regulatory and legal developments and financial reporting changes

Regulatory and legal developments

Creation of Group Holding Company

We have announced that we intend to establish a group holding company through a share for share exchange offer, which will commence later this year, subject to regulatory approvals. The establishment of a group holding company is intended, along with other measures we have already announced, to substantially improve the resolvability of UBS. We anticipate that these measures will allow UBS to qualify for a capital rebate under the Swiss "too-big-to-fail" requirements. This rebate would result in lower overall capital requirements for UBS.

Swiss Federal Council approves revisions to Banking Ordinance and announces changes to Capital Adequacy Ordinance

In April 2014, the Swiss Federal Council approved a revised Banking Ordinance, implementing the new accounting legislation and regulations regarding unclaimed assets adopted by the Swiss parliament in March 2013. The revised Banking Ordinance will come into force on 1 January 2015. In addition, the Swiss Federal Council announced changes to the Capital Adequacy Ordinance. A notable change relates to the definition of the Swiss systemically relevant banks (SRB) leverage ratio denominator (LRD), which must follow Bank for International Settlements (BIS) requirements. This change will become effective 1 January 2015, with a one-year transition period under which the current SRB definition may still be used. Our current expectation is that post optimization, the resulting increase in the LRD will not be significant. The definition of the leverage ratio numerator remains unchanged and will not be aligned with BIS requirements. UBS is currently evaluating implementation including the optional transition period.

Initiative against "mass immigration" accepted in Switzerland

In February 2014, Swiss cantons and voters accepted an initiative against "mass immigration." The new constitutional provisions require that residence permits for foreign nationals be restricted using quantitative limits and quotas. These limits and quotas will apply to all permits covered by legislation on foreign nationals, including cross-border commuters, and businesses must give Swiss nationals priority when hiring staff. The Swiss Federal Council announced that a legislative text will be proposed by the end of 2014, while final ratification of the legislative transformation must take place within the next three years. The extent to which UBS could be impacted, such as in its recruitment of foreign nationals in Switzerland or due to effects on Swiss corporate clients and the Swiss economy, will depend on the final implementation of the initiative in Swiss law and any possible European Union (EU) reaction.

European Commission issues proposal on structural reform of banks

In January 2014, the European Commission (EC) issued a proposed regulation on "Structural measures improving the resilience of EU credit institutions." The proposal includes two main measures: (i) a ban on proprietary trading and investments in hedge funds and (ii) an additional potential separation of certain trading activities, including market-making, "risky securitization" and complex derivatives, which will not be mandatory, but rather based on supervisory discretion. Overall, there is a material degree of supervisory discretion in the application of the proposed requirements, particularly in relation to the separation of trading and investment banking activities. Potential derogations from the separation requirements are available for jurisdictions with equivalent legislation. Furthermore, the European Parliament and Council of the EU have yet to indicate their view on this topic, and changes to the proposals during the political negotiations are likely. In light of this, it is unclear at this stage whether, and to what extent, certain UBS branches and entities, in particular UBS AG London branch and UBS Limited, will be impacted.

Agreement reached on Single Resolution Mechanism

In March 2014, the European Parliament and Council of the EU reached preliminary political agreement on the Single Resolution Mechanism (SRM). In April 2014, the plenary vote of the European Parliament confirmed this agreement. Key elements of the SRM include the establishment of a Single Resolution Board and a Single Resolution Fund (SRF). Significant banks that are subject to direct European Central Bank (ECB) supervision under the Single Supervisory Mechanism (SSM) and cross-border banks will be resolved by the Single Resolution Board. The SRM is expected to enter into force on 1 January 2015, at which time the Single Resolution Board will be fully operational, while the resolution function of the SRM and the bail-in tool would apply as of 1 January 2016, in line with the EU Bank Recovery and Resolution Directive (BRRD). UBS Luxembourg SA will be subject to direct ECB supervision under the SSM, as set out in the ECB's announcement of the comprehensive assessment, meaning it is subject to the ECB's supervisory risk assessment, asset quality review and stress test. It would be subject to resolution by the Single Resolution Board should resolution prove necessary. It is expected that UBS's other EU entities would be resolved by national resolution authorities.

OECD presents a Common Reporting Standard for automatic information exchange in tax matters

The new Common Reporting Standard (CRS), presented in February 2014, draws on previous work by the Organization for Eco-

nomic Cooperation and Development (OECD) and the intergovernmental approach to implementing the US Foreign Account Tax Compliance Act (FATCA).

As the CRS is largely modeled on the US FATCA Model 1 Intergovernmental Agreement, leveraging existing compliance systems should be possible. However, the scope and type of the data to be exchanged are much wider and the volume of reporting is expected to be substantially higher under the CRS. According to the OECD, the automatic exchange of information on tax matters should start by the end of 2015 or early 2016. The extent to which UBS will be affected will depend on the commentary on the standard and technical solutions to implement the information exchanges, to be released by the OECD by mid-2014.

Agreement reached on MiFID II/MiFIR

In January 2014, a preliminary political agreement was reached on the review of the Markets in Financial Instruments Directive and Regulation package (MiFID II/MiFIR). In April 2014, the plenary vote of the European Parliament confirmed this agreement. This package introduces a wide set of reforms, including in respect of third-country access to European Economic Area (EEA) markets, new rules regarding market infrastructure and a sharpened set of investor protection rules, such as those related to inducements and tape recordings. The MiFID II/MiFIR package is expected to apply from the end of 2016 or early 2017. It is currently too early to assess its impact on UBS.

UK regulator outlines new rules on supervising international banks

In February 2014, the UK Prudential Regulation Authority (PRA) publicly consulted on its approach to supervising international banks, with particular focus on UK branches of non-EEA banks ("non-EEA branches"). The PRA's proposed approach, which applies to both new and existing branches, is centered on an assessment of: (i) the equivalence of the home state's supervision of the whole firm, (ii) the branch's UK activities and (iii) the level of assurance the PRA gains from the home state supervisor (HSS) over resolution. The PRA states that it will permit non-EEA branches to undertake retail banking activities beyond de minimis levels only if there is a very high degree of assurance from the HSS over resolution. The PRA also expects new non-EEA branches to focus on wholesale banking and to do so at a level that is not critical to the UK economy. The proposals potentially impact the scope of business that could be undertaken by UBS AG London branch. However, it is currently not possible to assess the impact as the proposals leave significant scope for supervisory discretion and the final outcome is dependent on the PRA's assessment of the Swiss supervisory and resolution authorities.

Business and operating model of UBS Limited under review

In response to regulatory developments and in consultation with the UK and Swiss regulators, the business and operating model of UBS Limited, our UK bank subsidiary, and its relationship with UBS AG, are currently being reviewed. During the second quarter of 2014, we expect to commence the implementation of a revised business and operating model, including changes to the company's risk profile, to the effect that UBS Limited will bear and retain a greater degree of the risk and reward of its business activities. UBS AG will increase the capitalization of UBS Limited to enable UBS Limited to comply with regulatory requirements given the changed risk profile.

US regulators approve enhanced leverage ratio requirement

US regulators approved a final enhanced supplementary leverage ratio requirement for US top-tier bank holding companies (BHC) with more than USD 700 billion in consolidated assets or USD 10 trillion in assets under custody, currently the eight largest US banks. Under the new rule, BHC are required to maintain a tier 1 capital leverage buffer of at least 2% above the Basel III minimum supplementary leverage ratio requirement of 3%, for a total of 5% (6% for insured depository institutions). UBS is not subject to this requirement.

Financial reporting changes

Operating income

In the first quarter of 2014, we amended our management discussion and analysis of operating income for Wealth Management, Wealth Management Americas and Retail & Corporate. We now disclose "recurring net fee income," which is part of total net fee and commission income in the UBS Group financial statements, as a separate line in the business division reporting tables. This includes fees for services provided on an ongoing basis such as portfolio management fees, asset-based investment fund fees, custody fees and account keeping fees, which are generated on the respective business division's client assets. The non-recurring portion of the net fee and commission income for these business divisions, which mainly consists of brokerage and transaction-based investment fund fees as well as credit card fees and fees for payment transactions, is now presented together with net trading income as "transaction-based income." With these changes, we aim to enhance the transparency of operating income disclosure for our client asset-gathering businesses.

In addition, we have added a tabular disclosure in the "Group performance" section with the operating income breakdown for Wealth Management, Wealth Management Americas and Retail & Corporate, as well as specific commentary on the new operating income lines of recurring net fee income and transaction-based income for these business divisions.

Refinement to the allocation of operating costs for internal services

To further enhance cost discipline and strengthen our efforts to reduce our underlying cost base, beginning this quarter, we have refined the way that operating costs for internal services are allocated from Corporate Center – Core Functions to the business divisions and Corporate Center – Non-core and Legacy Portfolio. Under this refinement, each year, as part of the annual business planning cycle, Corporate Center – Core Functions agrees with the

business divisions and Non-core and Legacy Portfolio cost allocations for services at fixed amounts or at variable amounts based on formulas, depending on capital and service consumption levels as well as the nature of the services performed. These pre-agreed cost allocations are designed with the expectation that Corporate Center – Core Functions recovers its costs, without a mark-up. Because actual costs incurred may differ from those expected, however, Corporate Center – Core Functions may recognize significant under- or over-allocations depending on various factors, including Corporate Center – Core Functions' ability to manage the delivery of its services and achieve cost savings. Each year these cost allocations will be reset, taking account of the prior year's experience and plans for the forthcoming period. We expect the refined approach to strengthen the effectiveness and efficiency of the services performed by Corporate Center – Core Functions, and in particular to facilitate the achievement of cost savings, by better aligning cost accountability with the management of these services. Prior periods have not been adjusted for this refinement.

Changes to key performance indicators (KPI) in 2014

In the first quarter of 2014, we made certain changes to our KPI framework to further enhance its relevance by reclassifying certain KPI to "Additional information," or redefining them to focus on our specific wealth management or retail businesses.

"Return on risk-weighted assets, gross (%)" for the Group is now reported as "Additional information" rather than as a KPI, as we consider this metric less meaningful and relevant than other existing KPI in measuring Group performance. We also report our "Swiss SRB Basel III common equity tier 1 (CET1) capital ratio (%) (phase-in)" as "Additional information" rather than as a KPI. Our Swiss SRB Basel III CET1 capital ratio on a fully applied basis remains a KPI. At Group level, we replaced the KPI "Net new money growth (%)" with "Net new money growth for combined wealth management businesses (%)," focusing on net new money generated only by our wealth management businesses, by excluding net new money from Global Asset Management and Retail & Corporate from this measure.

"Recurring income as a % of income (%)" is no longer a Wealth Management Americas KPI, but is instead reported as "Additional information," consistent with the way this metric is reported in Wealth Management.

We replaced our Retail & Corporate KPI "Net new business volume growth (%)" with "Net new business volume growth for retail business (%)," excluding our corporate and institutional business from this measure as its net new business volume is volatile by nature and therefore provides limited insight. The revised measure better reflects management's view on our business. As "Additional information," we also show "Business volume for retail business (CHF billion)" and "Net new business volume for retail business (CHF billion)." "Impaired loan portfolio as a % of total loan portfolio, gross (%)" is no longer a Retail & Corporate KPI, but is instead reported as "Additional information."

➔ Refer to the "Measurement of performance" section of our Annual Report 2013 for more information on our KPI framework

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32, *Financial Instruments: Presentation)*

On 1 January 2014, UBS adopted *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32, *Financial Instruments: Presentation).* The amended IAS 32 restricts offsetting on the balance sheet to only those arrangements in which a right of set-off exists that is unconditional and legally enforceable, in the normal course of business and in the event of the default, bankruptcy or insolvency of the Group and its relevant counterparties and for which the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments also provide incremental guidance for determining when gross settlement systems result in the functional equivalent of net settlement. UBS is no longer able to offset certain derivative arrangements under the revised rules. The prior period balance sheet information as of 31 December 2013 has been restated to reflect the effects of adopting these amendments. There was no impact on total equity, net profit or earnings per share. In addition, there was no material impact on the Group's Basel III capital, capital ratios and Swiss SRB leverage ratio.

Group performance

Net profit attributable to UBS shareholders for the first quarter of 2014 was CHF 1,054 million compared with CHF 917 million in the fourth quarter of 2013. Operating profit before tax was CHF 1,393 million compared with CHF 449 million in the prior quarter. Operating income increased by CHF 951 million, mainly due to an increase in net interest and trading income as well as due to higher other income. Operating expenses were virtually unchanged. We recorded a net tax expense of CHF 339 million compared with a net tax benefit of CHF 470 million.

Income statement

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest income	**1,572**	1,546	1,481	2	6
Credit loss (expense) / recovery	**28**	(15)	(15)		
Net interest income after credit loss expense	**1,600**	1,531	1,466	5	9
Net fee and commission income	**4,112**	4,096	4,123	0	0
Net trading income	**1,357**	604	2,222	125	(39)
of which: net trading income excluding own credit	***1,269***	*698*	*2,403*	*82*	*(47)*
of which: own credit on financial liabilities designated at fair value	***88***	*(94)*	*(181)*		
Other income	**189**	75	(37)	152	
Total operating income	**7,258**	6,307	7,775	15	(7)
Personnel expenses	**3,967**	3,660	4,100	8	(3)
General and administrative expenses	**1,679**	1,956	1,999	(14)	(16)
Depreciation and impairment of property and equipment	**199**	221	208	(10)	(4)
Amortization and impairment of intangible assets	**20**	22	20	(9)	0
Total operating expenses	**5,865**	5,858	6,327	0	(7)
Operating profit / (loss) before tax	**1,393**	449	1,447	210	(4)
Tax expense / (benefit)	**339**	(470)	458		(26)
Net profit / (loss)	**1,054**	919	989	15	7
Net profit / (loss) attributable to preferred noteholders	**0**	0	0		
Net profit / (loss) attributable to non-controlling interests	**0**	2	1	(100)	(100)
Net profit / (loss) attributable to UBS shareholders	**1,054**	917	988	15	7
Comprehensive income					
Total comprehensive income	**1,448**	366	1,560	296	(7)
Total comprehensive income attributable to preferred noteholders	**(16)**	(13)	57	23	
Total comprehensive income attributable to non-controlling interests	**(1)**	2	1		
Total comprehensive income attributable to UBS shareholders	**1,465**	376	1,503	290	(3)

Adjusted results[1,2]

CHF million	Wealth Manage-ment	Wealth Manage-ment Americas	Retail & Corporate	Global Asset Manage-ment	Invest-ment Bank	CC – Core Functions[3]	CC – Non-core and Legacy Portfolio	UBS
	For the quarter ended 31.3.14							
Operating income as reported	1,943	1,661	932	451	2,190	51	29	7,258
of which: own credit on financial liabilities designated at fair value[4]						*88*		*88*
of which: gains on sales of real estate						*23*		*23*
Operating income (adjusted)	1,943	1,661	932	451	2,190	(60)	29	7,147
Operating expenses as reported	1,325	1,419	547	329	1,765	227	254	5,865
of which: personnel-related restructuring charges[5]	*25*	*7*	*10*	*3*	*82*	*2*	*5*	*133*
of which: other restructuring charges[5]	*15*	*3*	*5*	*1*	*42*	*0*	*4*	*71*
Operating expenses (adjusted)	1,285	1,409	532	325	1,641	225	245	5,661
Operating profit / (loss) before tax as reported	619	242	386	122	425	(176)	(225)	1,393
Operating profit / (loss) before tax (adjusted)	**659**	**252**	**401**	**126**	**549**	**(285)**	**(216)**	**1,486**

CHF million	Wealth Manage-ment	Wealth Manage-ment Americas	Retail & Corporate	Global Asset Manage-ment	Investment Bank	CC – Core Functions[3]	CC – Non-core and Legacy Portfolio	UBS
	For the quarter ended 31.12.13							
Operating income as reported	1,859	1,669	931	482	1,861	(365)	(130)	6,307
of which: own credit on financial liabilities designated at fair value[4]						*(94)*		*(94)*
of which: gains on sales of real estate						*61*		*61*
of which: net loss related to the buyback of debt in a public tender offer						*(75)*		*(75)*
Operating income (adjusted)	1,859	1,669	931	482	1,861	(257)	(130)	6,415
Operating expenses as reported	1,389	1,439	599	352	1,563	200	317	5,858
of which: personnel-related restructuring charges[5]	*13*	*5*	*5*	*1*	*12*	*(6)*	*9*	*40*
of which: other restructuring charges[5]	*28*	*22*	*6*	*12*	*77*	*(1)*	*15*	*158*
Operating expenses (adjusted)	1,348	1,413	587	339	1,474	207	293	5,660
Operating profit / (loss) before tax as reported	471	230	332	130	297	(565)	(446)	449
Operating profit / (loss) before tax (adjusted)	**512**	**256**	**344**	**143**	**386**	**(464)**	**(422)**	**755**

CHF million	Wealth Manage-ment	Wealth Manage-ment Americas	Retail & Corporate	Global Asset Manage-ment	Investment Bank	CC – Core Functions[3]	CC – Non-core and Legacy Portfolio	UBS
	For the quarter ended 31.3.13							
Operating income as reported	1,913	1,579	919	517	2,783	(441)	504	7,775
of which: own credit on financial liabilities designated at fair value[4]						*(181)*		*(181)*
of which: net loss related to the buyback of debt in a public tender offer						*(119)*	*27*	*(92)*
of which: gain on sale of Global AM's Canadian domestic business				*34*				*34*
of which: net gain on sale of remaining proprietary trading business					*55*	*(24)[6]*		*31*
Operating income (adjusted)	1,913	1,579	919	483	2,728	(117)	477	7,983
Operating expenses as reported	1,250	1,384	572	327	1,806	239	749	6,327
of which: personnel-related restructuring charges[5]	*3*	*1*	*2*	*(2)*	*(26)*	*(1)*	*10*	*(14)*
of which: other restructuring charges[5]	*22*	*9*	*13*	*6*	*32*	*(1)*	*179*	*260*
Operating expenses (adjusted)	1,224	1,374	557	323	1,800	242	561	6,081
Operating profit / (loss) before tax as reported	664	195	347	190	977	(680)	(245)	1,447
Operating profit / (loss) before tax (adjusted)	**690**	**205**	**362**	**160**	**928**	**(359)**	**(84)**	**1,901**

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 3 Corporate Center – Core Functions operating expenses presented in this table are after service allocations to business divisions and Corporate Center – Non-core and Legacy Portfolio. 4 Refer to "Note 10 Fair value measurement" in the "Financial information" section of this report for more information. 5 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for more information. 6 Reflects a foreign currency translation loss.

Performance: 1Q14 vs 4Q13

Operating profit before tax was CHF 1,393 million compared with CHF 449 million in the prior quarter, primarily reflecting an increase of CHF 951 million in operating income while operating expenses were virtually unchanged.

In addition to reporting our results in accordance with IFRS, we report adjusted results that exclude items that management believes are not representative of the underlying performance of our businesses. Such adjusted results are non-GAAP financial measures as defined by SEC regulations. For the first quarter of 2014, the items we excluded were an own credit gain of CHF 88 million, gains on sales of real estate of CHF 23 million and net restructuring charges of CHF 204 million. For the fourth quarter of 2013, the items we excluded were an own credit loss of CHF 94 million, gains on sales of real estate of CHF 61 million, a loss related to the buyback of debt in a public tender offer of CHF 75 million and net restructuring charges of CHF 198 million.

On this adjusted basis, profit before tax was CHF 1,486 million compared with CHF 755 million in the prior quarter.

Adjusted operating income increased by CHF 732 million to CHF 7,147 million, reflecting an increase of CHF 597 million in adjusted net interest and trading income as well as CHF 77 million higher adjusted other income.

Adjusted operating expenses were virtually unchanged at CHF 5,661 million, reflecting an increase of CHF 214 million in personnel expenses and CHF 114 million higher charges for provisions for litigation, regulatory and similar matters, offset by a reduction of CHF 328 million in other non-personnel expenses.

Operating income: 1Q14 vs 4Q13

Total operating income was CHF 7,258 million compared with CHF 6,307 million. On an adjusted basis, total operating income increased by CHF 732 million to CHF 7,147 million, mainly due to an increase of CHF 597 million in adjusted net interest and trading income, largely in the Investment Bank and in Corporate Center, both in Core Functions and in Non-core and Legacy Portfolio. Adjusted other income increased by CHF 77 million, partly reflecting increased revenues related to associates as well as from financial investments available-for-sale. Net fee and commission income increased by CHF 16 million as higher net brokerage fees and investment fund fees were largely offset by lower merger and acquisition and corporate finance fees as well as lower equity underwriting fees.

Net interest and trading income

Net interest and trading income increased by CHF 779 million to CHF 2,929 million. The first quarter of 2014 included an own credit gain on financial liabilities designated at fair value of CHF 88 million, primarily as life-to-date own credit losses partially reversed due to time decay, partly offset by the impact of a marginal tightening of our funding spreads over the quarter. The prior quarter included an own credit loss on financial liabilities of CHF 94 million. Excluding the effect of own credit, adjusted net interest and trading income increased by CHF 597 million to CHF 2,841 million, mainly as a result of increases in the Investment Bank and in Corporate Center, both in Core Functions and in Non-core and Legacy Portfolio.

Net interest and trading income

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest and trading income					
Net interest income	**1,572**	1,546	1,481	2	6
Net trading income	**1,357**	604	2,222	125	(39)
Total net interest and trading income	**2,929**	2,150	3,703	36	(21)
Wealth Management	**671**	697	727	(4)	(8)
Wealth Management Americas	**324**	340	307	(5)	6
Retail & Corporate	**602**	628	609	(4)	(1)
Global Asset Management	**(1)**	4	6		
Investment Bank	**1,257**	954	1,833	32	(31)
of which: Corporate Client Solutions	***254***	*173*	*498*	*47*	*(49)*
of which: Investor Client Services	***1,003***	*781*	*1,335*	*28*	*(25)*
Corporate Center	**76**	(472)	223		(66)
of which: Core Functions	***65***	*(313)*	*(276)*		
of which: own credit on financial liabilities designated at fair value	***88***	*(94)*	*(181)*		
of which: Non-core and Legacy Portfolio	***12***	*(159)*	*499*		*(98)*
Total net interest and trading income	**2,929**	2,150	3,703	36	(21)

In Wealth Management, net interest and trading income decreased by CHF 26 million. Net interest income decreased by CHF 17 million to CHF 496 million, mainly reflecting lower allocated revenues from Group Treasury. In addition, costs related to the multi-currency portfolio of unencumbered, high-quality, liquid assets managed centrally by Group Treasury increased. Furthermore, net interest income from client deposits declined, partly reflecting the adverse effect of the ongoing low interest rate environment on income from our replicating portfolios, although the rate of decline slowed from prior quarters. These factors were partly offset by higher net interest income from Lombard loans, mainly in Asia Pacific. Net trading income decreased by CHF 9 million to CHF 175 million.

In Wealth Management Americas, net interest and trading income decreased by CHF 16 million, reflecting a CHF 26 million decrease in net interest income due to lower income from the available-for-sale portfolio transferred to Group Treasury in 2013, mainly due to decreases related to future cash flow estimates that resulted in a lower amortized cost base for this portfolio. Net trading income increased by CHF 10 million to CHF 101 million.

In Retail & Corporate, net interest and trading income decreased by CHF 26 million. Net interest income decreased by CHF 17 million, mainly due to lower allocated revenues from Group Treasury. The deposit margin declined despite selective pricing adjustments as the ongoing low interest rate environment continued to have an adverse effect, although the rate of decline slowed from prior quarters. The increase in average client deposit volumes had a positive impact on interest income, while average loan volumes decreased slightly. The loan margin remained stable. Net trading income decreased by CHF 8 million.

In the Investment Bank, net interest and trading income increased by CHF 303 million. Corporate Client Solutions net interest and trading income increased by CHF 81 million, as risk management revenues improved mainly due to the positive effect of widening credit spreads during the quarter. Debt capital markets revenues also increased, due to higher revenues from both investment grade and leveraged finance as market activity levels improved. Investor Client Services net interest and trading income increased by CHF 222 million. In equities, net interest and trading income was CHF 589 million compared with CHF 472 million in the prior quarter, primarily due to higher derivatives revenues which benefited from higher market activity levels and a stronger trading performance, particularly in Europe, Middle East and Africa as well as Asia Pacific. Financing services revenues also increased across equity finance, prime brokerage and clearing and execution, mainly as a result of higher trading revenues and financing balances. In foreign exchange, rates and credit, net interest and trading revenues increased by CHF 105 million. Foreign exchange revenues increased, mainly due to higher revenues from our foreign exchange options and emerging market short-term interest rate businesses, stemming from improved market liquidity and higher client activity levels. Rates and credit revenues increased, mainly due to improved trading revenues in both the solutions and flow businesses.

Corporate Center – Core Functions net interest and trading income, excluding the effect of own credit, increased by CHF 196 million, mainly due to CHF 104 million lower losses from cross-currency basis swaps which are held as economic hedges. In addition, the first quarter of 2014 included a gain of CHF 49 million related to our macro cash flow hedges compared with a loss of CHF 10 million in the prior quarter.

In Corporate Center – Non-core and Legacy Portfolio, net interest and trading income increased by CHF 171 million. Non-core net interest and trading income increased by CHF 143 million, mainly as debit valuation adjustments improved to negative CHF 19 million from negative CHF 68 million. Furthermore, the first quarter of 2014 included lower losses from unwind and novation activities. Legacy Portfolio net interest and trading income increased by CHF 28 million, mainly as the prior quarter included a charge of CHF 34 million relating to tax obligations of the SNB StabFund.

➔ Refer to "Note 3 Net interest and trading income" in the "Financial information" section of this report for more information

➔ Refer to "Note 10 Fair value measurement" in the "Financial information" section of this report for more information on own credit

Credit loss expense / recovery

We recorded net credit loss recoveries of CHF 28 million compared with net credit loss expenses of CHF 15 million in the prior quarter.

Credit loss (expense) / recovery

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Wealth Management	**0**	0	(12)		(100)
Wealth Management Americas	**17**	(8)	0		
Retail & Corporate	**12**	(17)	0		
Investment Bank	**0**	(1)	(1)	(100)	(100)
Corporate Center	**0**	11	(2)	(100)	(100)
of which: Non-core and Legacy Portfolio	***0***	*11*	*(2)*	*(100)*	*(100)*
Total	**28**	(15)	(15)		

Wealth Management Americas recorded net credit loss recoveries of CHF 17 million compared with net expenses of CHF 8 million. The first quarter included the full release of a loan loss allowance for a single client as well as releases of loan loss allowances on securities-backed lending facilities collateralized by Puerto Rico municipal securities and related funds.

Retail & Corporate recorded net credit loss recoveries of CHF 12 million compared with net credit loss expenses of CHF 17 million. The first quarter included a recovery of CHF 2 million related to net specific credit loss allowances compared with expenses of CHF 33 million in the prior quarter, which primarily related to corporate clients. The first quarter also included a release of CHF 10 million in collective loan loss allowances due to the ongoing review of the portfolio and, to a lesser extent, a model adjustment, compared with a release of CHF 16 million in the prior quarter.

In Non-core and Legacy Portfolio, credit losses were zero compared with net credit loss recoveries of CHF 11 million in the prior quarter, which mainly related to sales and redemptions of student loan auction rate securities impaired in prior periods.

➔ Refer to the "Wealth Management Americas," "Retail & Corporate" and "Corporate Center" sections of this report for more information

Net fee and commission income

Net fee and commission income increased by CHF 16 million to CHF 4,112 million.

Net brokerage fees increased by CHF 59 million to CHF 811 million, mainly in Wealth Management, largely due to higher client activity levels, and in the Investment Bank due to improved market activity levels.

Investment fund fees increased by CHF 43 million to CHF 933 million, primarily due to higher sales-based fees in Wealth Management in line with higher client activity levels, mainly in Asia Pacific, and higher asset-based mutual fund fees in Wealth Management Americas.

Underwriting fees decreased by CHF 31 million to CHF 320 million, mainly reflecting a decrease of CHF 54 million in equity underwriting fees as the market fee pool decreased. This was partly offset by an increase of CHF 22 million in debt underwriting fees.

Portfolio management and advisory fees decreased by CHF 17 million to CHF 1,719 million, mainly in Global Asset Management, largely due to a decrease in performance fees, partly offset by an increase in Wealth Management Americas, mainly due to higher managed account fees reflecting higher average invested assets.

➔ Refer to "Note 4 Net fee and commission income" in the "Financial information" section of this report for more information

Other income

Other income was CHF 189 million compared with CHF 75 million in the prior quarter.

Income from financial investments available-for-sale was CHF 39 million compared with CHF 16 million in the prior quarter, which included losses of CHF 37 million on the portfolio which was transferred from Wealth Management Americas to Group Treasury in 2013 as well as a gain of CHF 29 million resulting from the divestment of our participation in Euroclear Plc.

Income related to associates and subsidiaries was CHF 42 million compared with CHF 20 million in the prior quarter and included revenues related to the remeasurement of financial receivables due from an associate.

Other income excluding the items described above increased by CHF 69 million to CHF 108 million. Gains on sales of properties held for sale decreased to CHF 23 million from CHF 62 million. The prior quarter included a loss related to the buyback of debt in a public tender offer of CHF 75 million.

➔ Refer to "Note 5 Other income" in the "Financial information" section of this report for more information

Recurring net fee and transaction-based income in Wealth Management, Wealth Management Americas and Retail & Corporate

Recurring net fee income for Wealth Management, Wealth Management Americas and Retail & Corporate includes fees for services provided on an ongoing basis such as portfolio management fees, asset-based investment fund fees, custody fees and account keeping fees, which are generated on the respective business division's client assets. This is part of total net fee and commission income in the UBS Group financial statements. Transaction-based

Operating income Wealth Management, Wealth Management Americas and Retail & Corporate

	Wealth Management			Wealth Management Americas			Retail & Corporate		
	For the quarter ended								
CHF million	**31.3.14**	31.12.13	31.3.13	**31.3.14**	31.12.13	31.3.13	**31.3.14**	31.12.13	31.3.13
Net interest income	**496**	513	508	**223**	249	202	**523**	540	531
Recurring net fee income	**897**	911	856	**996**	982	883	**144**	127	130
Transaction-based income	**542**	423	554	**421**	429	493	**234**	256	243
Other income	**9**	11	8	**5**	17	2	**19**	24	14
Income	**1,943**	1,859	1,926	**1,644**	1,676	1,580	**921**	947	919
Credit loss (expense) / recovery	**0**	0	(12)	**17**	(8)	0	**12**	(17)	0
Total operating income	**1,943**	1,859	1,913	**1,661**	1,669	1,579	**932**	931	919

income includes the non-recurring portion of the net fee and commission income for these business divisions, mainly consisting of brokerage and transaction-based investment fund fees as well as credit card fees and fees for payment transactions, together with the respective divisional net trading income.

In Wealth Management, recurring net fee income decreased by CHF 14 million to CHF 897 million, mainly as lower income due to the effect on the gross margin of ongoing outflows of assets from cross-border clients was partly offset by the positive effect of mandate sales efforts during the first quarter. Transaction-based income increased by CHF 119 million to CHF 542 million, largely due to seasonally higher client activity levels across all regions, most notably in Asia Pacific, and across all products including investment funds and structured products, as well as due to higher foreign exchange-related revenues.

In Wealth Management Americas, recurring net fee income increased by CHF 14 million to CHF 996 million, mainly due to an increase in managed account fees which were calculated on increased invested asset levels at the end of the prior quarter. Transaction-based income decreased by CHF 8 million to CHF 421 million.

In Retail & Corporate, recurring net fee income increased by CHF 17 million to CHF 144 million, mainly due to a reclassification from transaction-based income of CHF 14 million reflecting certain fees related to retail bank accounts. Transaction-based income decreased by CHF 22 million to CHF 234 million, mainly due to the abovementioned income reclassification as well as lower client activity levels and allocated revenues from Group Treasury.

➔ **Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on the presentation of operating income**

➔ **Refer to the "Wealth Management," "Wealth Management Americas" and "Retail & Corporate" sections of this report for more information**

Operating expenses: 1Q14 vs 4Q13

Total operating expenses increased by CHF 7 million to CHF 5,865 million. Restructuring charges were CHF 204 million compared with CHF 198 million in the prior quarter. Personnel-related restructuring charges increased by CHF 93 million to CHF 133 million, while non-personnel-related restructuring charges decreased by CHF 87 million to CHF 71 million.

On an adjusted basis excluding restructuring charges, total operating expenses were virtually unchanged at CHF 5,661 million,

Operating expenses

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Personnel expenses (adjusted)[1]					
Salaries	**1,537**	1,491	1,649	3	(7)
Total variable compensation	**852**	750	1,057	14	(19)
of which: relating to current year[2]	***666***	*568*	*759*	*17*	*(12)*
of which: relating to prior years[3]	***186***	*182*	*298*	*2*	*(38)*
Wealth Management Americas: Financial advisor compensation[4]	**790**	778	776	2	2
Other personnel expenses[5]	**657**	602	632	9	4
Total personnel expenses (adjusted)[1]	**3,834**	3,620	4,114	6	(7)
Non-personnel expenses (adjusted)[1]					
Provisions for litigation, regulatory and similar matters	**193**	79	378	144	(49)
Other non-personnel expenses[6]	**1,634**	1,962	1,589	(17)	3
Total non-personnel expenses (adjusted)[1]	**1,827**	2,040	1,967	(10)	(7)
Adjusting items	**204**	198	246	3	(17)
of which: personnel-related restructuring charges	***133***	*40*	*(14)*	*233*	
of which: other restructuring charges	***71***	*158*	*260*	*(55)*	*(73)*
Total operating expenses as reported	**5,865**	5,858	6,327	0	(7)

1 Excluding adjusting items. 2 Includes expenses relating to performance awards and other variable compensation for the respective performance year. 3 Consists of amortization of prior years' awards relating to performance awards and other variable compensation. 4 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. 5 Consists of expenses related to contractors, social security, pension and other post-employment benefit plans and other personnel expenses. Refer to "Note 6 Personnel expenses" in the "Financial information" section of this report for more information. 6 Includes general and administrative expenses (excluding charges for provisions for litigation, regulatory and similar matters) as well as depreciation and impairment of property and equipment and amortization and impairment of intangible assets.

as an increase of CHF 214 million in personnel expenses and CHF 114 million higher charges for provisions for litigation, regulatory and similar matters were offset by a decrease of CHF 328 million in other non-personnel expenses.

➔ **Refer to “Note 16 Changes in organization” in the “Financial information” section of this report for more information on restructuring charges**

Personnel expenses

Personnel expenses increased by CHF 307 million to CHF 3,967 million. The first quarter of 2014 included CHF 133 million in personnel-related restructuring charges compared with CHF 40 million in the prior quarter. On an adjusted basis excluding restructuring charges, personnel expenses increased by CHF 214 million to CHF 3,834 million.

Expenses for salaries, excluding the effects of restructuring, increased by CHF 46 million, largely due to expenses for untaken vacation accruals compared with a release of accruals in the prior quarter.

Excluding the effects of restructuring, total variable compensation expenses increased by CHF 102 million, mainly due to higher expenses for performance awards, partly offset by lower severance expenses. Charges for the amortization of deferred compensation awards from prior years increased slightly to CHF 186 million from CHF 182 million, reflecting increased amortization expenses, largely offset by the effect of a release of prior year compensation accruals.

Financial advisor compensation in Wealth Management Americas increased by CHF 12 million.

Other personnel expenses increased by CHF 55 million on an adjusted basis, mainly due to higher charges for social security, partly offset by lower expenses for pension and other post-employment benefits plans and for training and recruitment.

➔ **Refer to “Note 6 Personnel expenses” in the “Financial information” section of this report for more information**

General and administrative expenses

General and administrative expenses decreased by CHF 277 million to CHF 1,679 million. On an adjusted basis, excluding net restructuring charges of CHF 63 million in the first quarter of 2014 compared with CHF 136 million in the prior quarter, general and administrative expenses decreased by CHF 204 million.

Net charges for provisions for litigation, regulatory and similar matters increased by CHF 114 million to CHF 193 million. In view of the current regulatory and political climate affecting financial institutions, and because we continue to be exposed to a number of significant claims and regulatory matters, we expect charges associated with litigation, regulatory and similar matters to remain at elevated levels through 2014.

Administration expenses, excluding the effects of restructuring, decreased by CHF 155 million, mainly as the prior quarter included a net charge of CHF 128 million for the annual UK bank levy.

Marketing and public relations expenses decreased by CHF 61 million, mainly due to seasonally lower advertising costs and costs related to sponsoring.

Professional fees, excluding the effects of restructuring, decreased by CHF 61 million, mainly due to lower consulting and audit fees.

Travel and entertainment and outsourcing of information technology and other services, excluding the effects of restructuring, decreased by CHF 29 million and CHF 15 million, respectively, partly related to seasonality.

➔ **Refer to “Note 7 General and administrative expenses” in the “Financial information” section of this report for more information**

➔ **Refer to “Note 14 Provisions and contingent liabilities” in the “Financial information” section of this report for more information**

Depreciation, impairment and amortization

Depreciation and impairment of property and equipment was CHF 199 million compared with CHF 221 million in the prior quarter, mainly as restructuring-related charges decreased to CHF 7 million from CHF 22 million.

Amortization and impairment of intangible assets was CHF 20 million compared with CHF 22 million in the prior quarter.

Tax: 1Q14 vs 4Q13

We recognized a net income tax expense of CHF 339 million for the first quarter of 2014 compared with a net tax benefit of CHF 470 million in the prior quarter. The first quarter net expense included a deferred tax expense of CHF 234 million in respect of the amortization of deferred tax assets previously recognized in relation to tax losses carried forward to reflect their offset against Swiss taxable profits for the quarter. In addition, it included net tax expenses of CHF 146 million in respect of taxable profits primarily relating to branches and subsidiaries outside of Switzerland. This was partly offset by a decrease in tax provisions of CHF 41 million in respect of tax matters which are now resolved.

The fourth quarter net benefit primarily reflected an increase in recognized deferred tax assets following a reassessment in connection with our annual business planning process.

In 2014, we expect the tax rate to be in the range of 20% to 25%, excluding any impact from deferred tax asset reassessments. Consistent with past practice, we expect to revalue our deferred tax assets in the second half of 2014 based on a reassessment of future profitability taking into account updated busi-

ness plan forecasts. The full year tax rate could change significantly as a result of this reassessment.

➔ **Refer to "Note 8 Income taxes" in the "Financial information" section of this report for more information**

Total comprehensive income attributable to UBS shareholders: 1Q14 vs 4Q13

Total comprehensive income attributable to UBS shareholders was CHF 1,465 million compared with CHF 376 million in the prior quarter. Net profit attributable to UBS shareholders was CHF 1,054 million compared with CHF 917 million. Other comprehensive income (OCI) attributable to UBS shareholders was positive CHF 411 million compared with negative CHF 541 million.

OCI in the first quarter included positive cash flow hedge OCI of CHF 210 million (net of tax) compared with negative CHF 294 million in the prior quarter, mainly reflecting decreases in long-term interest rates across all major currencies.

OCI on defined benefit plans (net of tax) was positive CHF 344 million compared with negative CHF 39 million in the prior quarter. A pre-tax OCI gain of CHF 544 million was recorded for the Swiss pension plan, which was primarily due to the reversal of the asset ceiling effect, resulting in a gain of CHF 808 million, partly offset by an increase in the defined benefit obligation resulting from a decrease in the applicable discount rate. Net pre-tax OCI on non-Swiss pension plans amounted to a loss of CHF 90 million.

OCI associated with financial investments available-for-sale was positive CHF 31 million (net of tax) compared with negative CHF 20 million in the prior quarter, mainly due to net unrealized gains as a result of decreases in long-term interest rates.

These increases in OCI were partly offset by foreign currency translation losses of CHF 174 million (net of tax), primarily related to a weakening of the US dollar against the Swiss franc, compared with losses of CHF 182 million in the prior quarter.

➔ **Refer to the "Statement of comprehensive income" in the "Financial information" section of this report for more information**

➔ **Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of our Annual Report 2013 for more information**

Net profit attributable to preferred noteholders: 1Q14 vs 4Q13

Net profit attributable to preferred noteholders was zero in both quarters.

We expect net profit attributable to preferred noteholders to be approximately CHF 110 million in 2014, all of which is expected to be recorded in the second quarter. For 2015, we also expect net profit attributable to preferred noteholders to be approximately CHF 110 million and for 2016 we expect it to be approximately CHF 85 million.

Performance by reporting segment: 1Q14 vs 4Q13

Management's discussion and analysis by reporting segment is provided in the "UBS business divisions and Corporate Center" section of this report.

Key figures and personnel: 1Q14 vs 4Q13

Cost/income ratio

The cost/income ratio improved to 81.1% in the first quarter of 2014 compared with 92.7% in the prior quarter. On an adjusted basis, the cost/income ratio improved to 79.5% from 88.0%.

Risk-weighted assets

Our phase-in Basel III risk-weighted assets (RWA) increased by CHF 1.3 billion to CHF 229.9 billion, mainly due to a CHF 3.5 billion increase in operational risk RWA and a CHF 1.8 billion increase in market risk RWA, partly offset by a CHF 4.3 billion reduction in credit risk RWA. Incremental operational risk RWA calculated by FINMA based on the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA increased by CHF 2.0 billion to CHF 24.5 billion as of 31 March 2014. Additionally, the increase in operational risk RWA resulted from a higher capital requirement based on the advanced measurement approach (AMA) model output using the latest FINMA-approved model parameters. The CHF 1.8 billion increase in market risk RWA was driven by a CHF 0.9 billion increase in incremental risk charge-related RWA and CHF 1.2 billion higher RWA related to securitizations/re-securitizations in the trading book. The CHF 4.3 billion reduction in credit risk RWA

was mainly due to lower RWA related to Corporates and Other exposure segments, partly offset by higher RWA related to Retail exposures.

➔ **Refer to the discussions of "Corporate Center – Non-core and Legacy Portfolio" and "Capital management" in the "Risk and treasury management" section of this report for more information on risk-weighted assets**

Net new money

In Wealth Management, net new money was CHF 10.9 billion and included one large outflow in Europe which was almost entirely offset by two asset reclassifications from service level upgrades, one in Switzerland of CHF 2.9 billion and one in Europe of CHF 1.7 billion. Excluding these effects, all regions reported net new money inflows, with Asia Pacific and emerging markets as the main contributors. Net inflows in Europe, excluding the aforementioned large items, primarily reflected positive net new money in domestic locations, partly offset by ongoing cross-border asset outflows. On a global basis, net new money from ultra high net worth clients was CHF 7.4 billion compared with CHF 8.5 billion of net inflows in the prior quarter.

In Wealth Management Americas, net new money totaled CHF 1.9 billion or USD 2.1 billion compared with CHF 4.4 billion or USD 4.9 billion in the prior quarter and decreased primarily due to lower inflows from recruited financial advisors and higher outflows from financial advisor attrition, partly offset by higher net inflows from financial advisors employed with UBS for more than one year.

In Global Asset Management, total net new money inflows were CHF 9.6 billion compared with net outflows of CHF 7.3 billion in the prior quarter. Excluding money market flows, net inflows were CHF 13.0 billion compared with net outflows of CHF 4.6 billion in the prior quarter. From third parties, net inflows were CHF 9.0 billion compared with net outflows of CHF 1.5 billion and were mainly into equities, fixed income, real estate and multi-asset. From clients of UBS's wealth management businesses, net inflows were CHF 4.0 billion compared with net outflows of CHF 3.2 billion in the prior quarter. Money market net outflows were CHF 3.4 billion compared with CHF 2.7 billion.

➔ **Refer to the "Wealth Management," "Wealth Management Americas" and "Global Asset Management" sections of this report for more information**

Invested assets

In Wealth Management, invested assets increased by CHF 13 billion to CHF 899 billion as of 31 March 2014, including net new money inflows of CHF 11 billion and positive market performance of CHF 9 billion, partly offset by negative currency translation effects of CHF 4 billion and CHF 2 billion of net reclassifications due to changes in service levels that did not affect net new money.

In Wealth Management Americas, invested assets increased by CHF 7 billion to CHF 872 billion. In US dollar terms, invested assets increased by USD 17 billion to USD 987 billion, reflecting positive market performance of USD 15 billion as well as net new money inflows of USD 2 billion.

In Global Asset Management, invested assets were CHF 596 billion as of 31 March 2014 compared with CHF 583 billion as of 31 December 2013. Net new money inflows of CHF 10 billion and positive market performance of CHF 6 billion were partly offset by negative currency translation effects of CHF 3 billion.

➔ **Refer to the "Wealth Management," "Wealth Management Americas" and "Global Asset Management" sections of this report for more information**

Net new money

	For the quarter ended		
CHF billion	**31.3.14**	31.12.13	31.3.13
Wealth Management	**10.9**	5.8	15.0
Wealth Management Americas	**1.9**	4.4	8.6
Global Asset Management	**9.6**	(7.3)	(3.1)
of which: non-money market flows	***13.0***	*(4.6)*	*5.1*
of which: money market flows	***(3.4)***	*(2.7)*	*(8.2)*

Invested assets

	As of			% change from	
CHF billion	**31.3.14**	31.12.13	31.3.13	31.12.13	31.3.13
Wealth Management	**899**	886	870	1	3
Wealth Management Americas	**872**	865	845	1	3
Global Asset Management	**596**	583	599	2	(1)

Personnel by business division and Corporate Center

	As of			% change from	
Full-time equivalents	**31.3.14**	31.12.13	31.3.13	31.12.13	31.3.13
Wealth Management	**16,642**	16,414	16,512	1	1
Wealth Management Americas	**16,356**	16,344	16,273	0	1
Retail & Corporate	**9,240**	9,463	9,652	(2)	(4)
Global Asset Management	**3,730**	3,729	3,801	0	(2)
Investment Bank	**11,860**	11,615	12,544	2	(5)
Corporate Center	**2,497**	2,640	3,000	(5)	(17)
of which: Core Functions	***951***	*1,055*	*1,092*	*(10)*	*(13)*
of which: Non-core and Legacy Portfolio	***1,546***	*1,585*	*1,908*	*(2)*	*(19)*
Total	**60,326**	60,205	61,782	0	(2)
of which: Corporate Center personnel (before allocations)[1]	***23,984***	*24,082*	*25,361*	*0*	*(5)*

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports (for example, due to adjustments following organizational changes).

Personnel by region

	As of			% change from	
Full-time equivalents	**31.3.14**	31.12.13	31.3.13	31.12.13	31.3.13
Americas	**21,265**	21,317	21,802	0	(2)
of which: USA	***19,972***	*20,037*	*20,504*	*0*	*(3)*
Asia Pacific	**7,313**	7,116	7,277	3	0
Europe, Middle East and Africa	**10,190**	10,052	10,473	1	(3)
of which: UK	***5,600***	*5,595*	*6,081*	*0*	*(8)*
of which: Rest of Europe	***4,433***	*4,303*	*4,234*	*3*	*5*
of which: Middle East and Africa	***158***	*153*	*158*	*3*	*0*
Switzerland	**21,558**	21,720	22,229	(1)	(3)
Total	**60,326**	60,205	61,782	0	(2)

Personnel

We employed 60,326 personnel as of 31 March 2014, an increase of 121 compared with 60,205 personnel as of 31 December 2013. Personnel in the Investment Bank increased by 245, mainly due to increased front office personnel as well as an increase in personnel allocated from Corporate Center shared services units. Wealth Management personnel increased by 228 and Retail & Corporate personnel declined by 223, both mainly due to changes to allocations of Corporate Center shared services units' personnel.

➔ **Refer to the discussions of personnel in the "UBS business divisions and Corporate Center" section of this report for more information**

Performance: 1Q14 vs 1Q13

Net profit attributable to UBS shareholders was CHF 1,054 million in the first quarter of 2014 compared with CHF 988 million in the same quarter a year earlier. Operating profit before tax was CHF 1,393 million compared with CHF 1,447 million.

For the first quarter of 2014, adjusting items were an own credit gain of CHF 88 million, gains on sales of real estate of CHF 23 million and net restructuring charges of CHF 204 million. For the first quarter of 2013, adjusting items were an own credit loss of CHF 181 million, a net loss related to the buyback of debt in a public tender offer of CHF 92 million, a gain on the sale of Global Asset Management's Canadian domestic business of CHF 34 million, a net gain on the sale of our remaining proprietary trading business of CHF 31 million and net restructuring charges of CHF 246 million.

On an adjusted basis, profit before tax decreased by CHF 415 million to CHF 1,486 million, largely due to a decline of CHF 836 million in operating income, partly offset by a decline of CHF 420 million in operating expenses.

Adjusted operating income was CHF 7,147 million compared with CHF 7,983 million, mainly reflecting a decrease of CHF 1,016 million in adjusted net interest and trading income, largely in the Investment Bank and Non-core and Legacy Portfolio. Adjusted other income increased by CHF 149 million and net fee and commission income decreased by CHF 11 million.

Adjusted operating expenses decreased by CHF 420 million to CHF 5,661 million, mainly due to a decline of CHF 280 million in personnel expenses, largely due to lower total variable compensation and lower salary expenses, partly offset by higher charges for social security. Furthermore, charges for provisions for litigation, regulatory and similar matters declined by CHF 185 million, which was partly offset by CHF 45 million higher other non-personnel expenses, largely due to higher professional fees and higher outsourcing of information technology and other services.

UBS business divisions and Corporate Center

Management report

Wealth Management

Profit before tax was CHF 619 million in the first quarter of 2014, an increase of CHF 148 million compared with the fourth quarter of 2013. Adjusted for restructuring charges, profit before tax increased by CHF 147 million to CHF 659 million. This reflects CHF 84 million higher operating income, largely as a result of higher transaction-based income, and a CHF 63 million decline in adjusted operating expenses, mainly as CHF 86 million higher charges for provisions for litigation, regulatory and similar matters were more than offset by lower other general and administrative expenses and lower variable compensation expenses. The gross margin on invested assets increased 2 basis points to 87 basis points. Net new money was CHF 10.9 billion compared with CHF 5.8 billion in the prior quarter.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest income	**496**	513	508	(3)	(2)
Recurring net fee income	**897**	911	856	(2)	5
Transaction-based income	**542**	423	554	28	(2)
Other income	**9**	11	8	(18)	13
Income	**1,943**	1,859	1,926	5	1
Credit loss (expense) / recovery	**0**	0	(12)		(100)
Total operating income	**1,943**	1,859	1,913	5	2
Personnel expenses	**847**	875	839	(3)	1
General and administrative expenses	**412**	424	345	(3)	19
Services (to) / from other business divisions	**17**	34	19	(50)	(11)
Depreciation and impairment of property and equipment	**48**	53	46	(9)	4
Amortization and impairment of intangible assets	**2**	2	1	0	100
Total operating expenses[2]	**1,325**	1,389	1,250	(5)	6
Business division operating profit / (loss) before tax	**619**	471	664	31	(7)
Key performance indicators[3]					
Pre-tax profit growth (%)	**31.4**	(15.1)	66.8		
Cost / income ratio (%)	**68.2**	74.7	64.9		
Net new money growth (%)	**4.9**	2.7	7.3		
Gross margin on invested assets (bps)[4]	**87**	85	91	2	(4)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 3 Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators. 4 Excludes any effect on profit or loss from a property fund (1Q14: CHF 0 million, 4Q13: loss of CHF 3 million, 1Q13: CHF 0 million).

Business division reporting[1] (continued)

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Additional information					
Recurring income	**1,392**	1,425	1,364	(2)	2
Recurring income as a % of income (%)	**71.6**	76.7	70.8		
Average attributed equity (CHF billion)[2]	**3.4**	3.4	3.7	0	(8)
Return on attributed equity (%)	**72.8**	55.4	71.8		
Risk-weighted assets (fully applied, CHF billion)[3]	**21.4**	20.9	18.7	2	14
Risk-weighted assets (phase-in, CHF billion)[3]	**21.8**	21.4	19.1	2	14
Return on risk-weighted assets, gross (%)[4]	**36.0**	36.5	40.9		
Leverage ratio denominator (phase-in, CHF billion)[5]	**125.4**	122.1		3	
Goodwill and intangible assets (CHF billion)	**1.3**	1.3	1.4	0	(7)
Net new money (CHF billion)	**10.9**	5.8	15.0		
Invested assets (CHF billion)	**899**	886	870	1	3
Client assets (CHF billion)	**1,044**	1,023	1,012	2	3
Loans, gross (CHF billion)	**102.2**	96.8	93.2	6	10
Due to customers (CHF billion)	**186.8**	189.4	186.9	(1)	0
Personnel (full-time equivalents)	**16,642**	16,414	16,512	1	1
Client advisors (full-time equivalents)	**4,220**	4,164	4,162	1	1

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 3 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 4 Based on phase-in Basel III risk-weighted assets. 5 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information.

Regional breakdown of key figures[1, 2]

As of or for the quarter ended 31.3.14	Europe	Asia Pacific	Switzerland	Emerging markets	*of which: ultra high net worth*	*of which: Global Family Office[3]*
Net new money (CHF billion)	**(2.2)**	**5.0**	**4.4**	**3.3**	*7.4*	*(2.2)*
Net new money growth (%)	**(2.5)[4]**	**9.2**	**11.0**	**8.7[4]**	*7.1*	*(14.4)*
Invested assets (CHF billion)	**346**	**223**	**166**	**154**	*424*	*60*
Gross margin on invested assets (bps)	**85[4]**	**85**	**90**	**93[4]**	*55*	*37[5]*
Client advisors (full-time equivalents)	**1,504**	**1,100**	**763**	**789**	*649[6]*	

1 Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators. 2 Based on the Wealth Management business area structure, and excluding minor functions with 64 client advisors, and CHF 10 billion of invested assets, and CHF 0.4 billion of net new money inflows in the first quarter of 2014. 3 Joint venture between Wealth Management and the Investment Bank. Global Family Office is reported as a sub-segment of ultra high net worth and is included in the ultra high net worth figures. 4 Net new money growth rate and gross margin in the first quarter of 2014 for Europe and emerging markets are calculated based on invested assets as of 31 December 2013 adjusted for organizational shifts. 5 Gross margin includes income booked in the Investment Bank. Gross margin only based on income booked in Wealth Management is 20 basis points. 6 Represents client advisors who exclusively serve ultra high net worth clients. In addition to these, other client advisors may also serve certain ultra high net worth clients, but not exclusively.

Results: 1Q14 vs 4Q13

Operating income

Total operating income increased by CHF 84 million to CHF 1,943 million, mainly due to higher transaction-based income.

Net interest income decreased by CHF 17 million to CHF 496 million, mainly reflecting lower allocated revenues from Group Treasury. In addition, costs related to the multi-currency portfolio of unencumbered, high-quality, liquid assets managed centrally by Group Treasury increased. Furthermore, net interest income from client deposits declined, partly reflecting the adverse effect of the ongoing low interest rate environment on income from our replicating portfolios, although the rate of decline slowed from prior quarters. These factors were partly offset by higher net interest income from Lombard loans, mainly in Asia Pacific.

Recurring net fee income decreased by CHF 14 million to CHF 897 million, mainly as lower income due to the effect on the gross margin of ongoing outflows of assets from cross-border clients was partly offset by the positive effect of mandate sales efforts during the first quarter.

Transaction-based income increased by CHF 119 million to CHF 542 million, largely due to seasonally higher client activity levels across all regions, most notably in Asia Pacific, and across all products including investment funds and structured products, as well as due to higher foreign exchange-related revenues.

Other income decreased to CHF 9 million from CHF 11 million.

➔ **Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on the presentation of operating income**

Operating expenses

Total operating expenses decreased by CHF 64 million to CHF 1,325 million. Adjusted for restructuring charges of CHF 40 million compared with CHF 41 million, operating expenses decreased by CHF 63 million to CHF 1,285 million. Lower general and administrative expenses, excluding charges for provisions for litigation, regulatory and similar matters, as well as lower variable compensation expenses, were partly offset by CHF 86 million higher charges for provisions for litigation, regulatory and similar matters. Changes to allocations of Corporate Center shared service costs had the effect of increasing personnel and general and administrative expenses and, to a lesser extent, depreciation and impairment of property and equipment by a total of CHF 11 million, which was offset by decreased net charges from other business divisions.

Personnel expenses decreased by CHF 28 million to CHF 847 million. Adjusted for restructuring charges of CHF 25 million compared with CHF 13 million, personnel expenses decreased by CHF 40 million to CHF 822 million, mainly due to lower variable compensation expenses and pension plan costs. These decreases were partly offset by expenses for untaken vacation accruals compared with a release of accruals in the prior quarter as well as by the aforementioned changes to allocations of Corporate Center shared service costs.

General and administrative expenses decreased by CHF 12 million to CHF 412 million. Adjusted for restructuring charges of CHF 14 million compared with CHF 26 million, general and administrative expenses were stable at CHF 398 million, mainly as lower expenses, largely related to marketing, professional fees and information technology, were offset by CHF 86 million higher charges for provisions for litigation, regulatory and similar matters as well as by the aforementioned changes to allocations of Corporate Center shared service costs.

Net charges for services from other business divisions decreased by CHF 17 million to CHF 17 million, mainly due to lower charges from Retail & Corporate for services related to our multi-channel offering and due to the impact of the aforementioned changes to allocations of Corporate Center shared service costs.

Depreciation and impairment of property and equipment decreased by CHF 5 million to CHF 48 million, primarily as the prior quarter was affected by an impairment of previously capitalized software.

Cost/income ratio

The cost/income ratio improved to 68.2% compared with 74.7% in the prior quarter. Adjusted for restructuring charges, the cost/income ratio improved to 66.1% from 72.5%, mainly as a result of higher income coupled with lower operating expenses, and was within our target range of 60% to 70%.

Net new money

The annualized net new money growth rate was 4.9% compared with 2.7% for the prior quarter and was at the upper end of our target range of 3% to 5%. Net new money of CHF 10.9 billion included one large outflow in Europe which was almost entirely offset by two asset reclassifications from service level upgrades, one in Switzerland of CHF 2.9 billion and one in Europe of CHF 1.7 billion. Excluding these effects, all regions reported net new money inflows, with Asia Pacific and emerging markets as the main contributors. Net inflows in Europe, excluding the afore-

mentioned large items, primarily reflected positive net new money in domestic locations, partly offset by ongoing cross-border asset outflows. On a global basis, net new money from ultra high net worth clients was CHF 7.4 billion compared with CHF 8.5 billion of net inflows in the prior quarter.

Invested assets

Invested assets increased by CHF 13 billion to CHF 899 billion as of 31 March 2014, including net new money inflows of CHF 11 billion and positive market performance of CHF 9 billion, partly offset by negative currency translation effects of CHF 4 billion and CHF 2 billion of net reclassifications due to changes in service levels that did not affect net new money.

Gross margin on invested assets

The gross margin increased 2 basis points to 87 basis points as income growth outpaced the increase in average invested assets. The gross margin remained below our target range of 95 to 105 basis points.

Personnel: 1Q14 vs 4Q13

Wealth Management employed 16,642 personnel as of 31 March 2014 compared with 16,414 as of 31 December 2013, following an increase in both non-client-facing staff and client advisors. The number of client advisors increased by 56 to 4,220 from 4,164, mainly due to an increase in Asia Pacific, partly offset by a reduction in Europe. The increase in non-client-facing staff mainly reflected the aforementioned changes to allocations of Corporate Center shared services units' personnel of approximately 140 personnel.

Results: 1Q14 vs 1Q13

Profit before tax decreased by CHF 45 million to CHF 619 million. Adjusted for restructuring charges, profit before tax decreased by CHF 31 million to CHF 659 million, mainly as CHF 82 million higher charges for provisions for litigation, regulatory and similar matters were partly offset by increased recurring net fee income.

Total operating income increased by CHF 30 million to CHF 1,943 million, mainly reflecting higher recurring net fee income, partly offset by lower transaction-based income.

Net interest income decreased by CHF 12 million to CHF 496 million, primarily due to lower net interest income from client deposits, lower allocated revenues from Group Treasury and higher costs related to the multi-currency portfolio of unencumbered, high-quality, liquid assets managed centrally by Group Treasury. These effects were partly offset by higher net interest income from Lombard loans, mainly in Asia Pacific, emerging markets and Europe.

Recurring net fee income increased by CHF 41 million to CHF 897 million, primarily due to the effects of pricing measures, an increase in invested assets and mandate sales efforts. These increases were partly offset by lower income due to the effect on the gross margin of ongoing outflows of assets from cross-border clients and due to the migration into retrocession-free products for investment mandates during 2013.

Transaction-based income decreased by CHF 12 million to CHF 542 million. Compared with a strong first quarter of 2013, an increase in transaction-based income in Asia Pacific was more than offset by a decline in other regions.

Total operating expenses increased by CHF 75 million to CHF 1,325 million. Adjusted for restructuring charges of CHF 40 million compared with CHF 26 million, operating expenses increased by CHF 61 million to CHF 1,285 million, mainly due to CHF 82 million higher charges for provisions for litigation, regulatory and similar matters.

Personnel expenses increased by CHF 8 million to CHF 847 million. Adjusted for restructuring charges of CHF 25 million compared with CHF 3 million, personnel expenses declined by CHF 14 million to CHF 822 million, including lower personnel-related charges from Group Technology, decreased pension plan costs as well as various other decreases. These decreases were partly offset by increased variable compensation expenses and higher personnel expenses due to the aforementioned changes to allocations of Corporate Center shared service costs.

General and administrative expenses increased by CHF 67 million to CHF 412 million. Adjusted for restructuring charges, general and administrative expenses increased by CHF 72 million to CHF 398 million, primarily due to CHF 82 million higher charges for provisions for litigation, regulatory and similar matters.

Net charges for services from other business divisions decreased by CHF 2 million to CHF 17 million, including the impact of the aforementioned changes to allocations of Corporate Center shared service costs, partly offset by higher net charges from Retail & Corporate.

Wealth Management Americas

Wealth Management Americas reported a record quarterly profit before tax of USD 272 million in the first quarter of 2014 compared with the prior record of USD 254 million in the fourth quarter of 2013. Adjusted for restructuring charges, profit before tax increased slightly to USD 284 million. Net new money inflows decreased to USD 2.1 billion from USD 4.9 billion in the prior quarter.

Business division reporting – in US dollars[1]

	As of or for the quarter ended			% change from	
USD million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest income	**250**	276	217	(9)	15
Recurring net fee income	**1,119**	1,088	948	3	18
Transaction-based income	**472**	476	530	(1)	(11)
Other income	**6**	19	2	(68)	200
Income	**1,847**	1,859	1,696	(1)	9
Credit loss (expense) / recovery	**19**	(9)	0		
Total operating income	**1,865**	1,851	1,696	1	10
Personnel expenses	**1,265**	1,261	1,203	0	5
Financial advisor compensation[2]	**708**	688	662	3	7
Compensation commitments with recruited financial advisors[3]	**180**	175	171	3	5
Salaries and other personnel costs	**377**	398	370	(5)	2
General and administrative expenses	**280**	287	234	(2)	20
Services (to) / from other business divisions	**2**	(1)	4		(50)
Depreciation and impairment of property and equipment	**33**	35	30	(6)	10
Amortization and impairment of intangible assets	**13**	13	14	0	(7)
Total operating expenses[4]	**1,594**	1,596	1,486	0	7
Business division operating profit / (loss) before tax	**272**	254	210	7	30
Key performance indicators[5]					
Pre-tax profit growth (%)	**7.1**	16.5	33.8		
Cost / income ratio (%)	**86.3**	85.9	87.6		
Net new money growth (%)	**0.9**	2.1	4.4		
Gross margin on invested assets (bps)	**76**	79	78	(4)	(3)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. 3 Compensation commitments with recruited financial advisors represents costs related to compensation commitments granted to financial advisors at the time of recruitment which are subject to vesting requirements. 4 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 5 Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators.

Business division reporting – in US dollars[1] (continued)

	As of or for the quarter ended			% change from	
USD million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Additional information					
Recurring income	**1,369**	1,364	1,164	0	18
Recurring income as a % of income (%)	**74.1**	73.4	68.6		
Average attributed equity (USD billion)[2]	**3.0**	3.0	3.1	0	(3)
Return on attributed equity (%)	**36.3**	33.9	27.1		
Risk-weighted assets (fully applied, USD billion)[3]	**27.7**	27.3	22.8	1	21
Risk-weighted assets (phase-in, USD billion)[3]	**27.8**	27.5	23.1	1	20
Return on risk-weighted assets, gross (%)[4]	**26.7**	29.5	27.9		
Leverage ratio denominator (phase-in, USD billion)[5]	**63.4**	64.1		(1)	
Goodwill and intangible assets (USD billion)	**3.8**	3.8	3.8	0	0
Net new money (USD billion)	**2.1**	4.9	9.2		
Net new money including interest and dividend income (USD billion)[6]	**7.6**	14.3	14.0		
Invested assets (USD billion)	**987**	970	891	2	11
Client assets (USD billion)	**1,042**	1,025	936	2	11
Loans, gross (USD billion)	**39.6**	39.1	34.5	1	15
Due to customers (USD billion)	**68.8**	67.3	55.1	2	25
Recruitment loans to financial advisors	**3,017**	3,063	3,186	(2)	(5)
Other loans to financial advisors	**431**	401	489	7	(12)
Personnel (full-time equivalents)	**16,356**	16,344	16,273	0	1
Financial advisors (full-time equivalents)	**7,113**	7,137	7,065	0	1

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 3 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 4 Based on phase-in Basel III risk-weighted assets. 5 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information. 6 Presented in line with historical reporting practice in the US market.

Results: 1Q14 vs 4Q13

Operating income

Total operating income increased to USD 1,865 million from USD 1,851 million, as continued growth in managed account fees was partly offset by lower net interest income and lower other income as the prior quarter included a USD 15 million insurance reimbursement. The first quarter included credit loss recoveries of USD 19 million compared with credit loss expenses of USD 9 million in the prior quarter.

Net interest income decreased by USD 26 million to USD 250 million due to lower income from the available-for-sale portfolio transferred to Group Treasury in 2013, mainly due to decreases related to future cash flow estimates that resulted in a lower amortized cost base for this portfolio. The average mortgage portfolio balance increased 6% and the average securities-backed lending portfolio increased 2% from the prior quarter.

Recurring net fee income increased by USD 31 million to USD 1,119 million, mainly due to a 4% increase in managed account fees which were calculated on increased invested asset levels at the end of the prior quarter.

Transaction-based income decreased by USD 4 million to USD 472 million, mainly due to lower non-recurring net fee and commission income resulting from lower client activity levels, partly offset by higher net trading income as the prior quarter was negatively impacted by trading losses related to the Puerto Rico municipal market.

➔ **Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on the presentation of operating income**

Other income decreased by USD 13 million to USD 6 million, mainly due to the aforementioned insurance reimbursement of USD 15 million in the prior quarter.

Credit loss recoveries were USD 19 million compared with net expenses of USD 9 million in the prior quarter. The first quarter included the full release of a loan loss allowance for a single client as well as releases of loan loss allowances on securities-backed lending facilities collateralized by Puerto Rico municipal securities and related funds.

➔ **Refer to the discussion of banking products in Wealth Management Americas in the "Risk management and control" section of this report for more information on our exposure to Puerto Rico municipal securities and related funds**

Operating expenses

Total operating expenses decreased by USD 2 million to USD 1,594 million. The first quarter included USD 12 million of restructuring charges compared with USD 29 million in the prior quarter.

Business division reporting – in Swiss francs[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest income	**223**	249	202	(10)	10
Recurring net fee income	**996**	982	883	1	13
Transaction-based income	**421**	429	493	(2)	(15)
Other income	**5**	17	2	(71)	150
Income	**1,644**	1,676	1,580	(2)	4
Credit loss (expense) / recovery	**17**	(8)	0		
Total operating income	**1,661**	1,669	1,579	0	5
Personnel expenses	**1,126**	1,137	1,120	(1)	1
Financial advisor compensation[2]	**630**	621	616	1	2
Compensation commitments with recruited financial advisors[3]	**160**	158	160	1	0
Salaries and other personnel costs	**336**	359	345	(6)	(3)
General and administrative expenses	**250**	259	219	(3)	14
Services (to) / from other business divisions	**2**	(1)	4		(50)
Depreciation and impairment of property and equipment	**30**	32	28	(6)	7
Amortization and impairment of intangible assets	**12**	12	13	0	(8)
Total operating expenses[4]	**1,419**	1,439	1,384	(1)	3
Business division operating profit / (loss) before tax	**242**	230	195	5	24
Key performance indicators[5]					
Pre-tax profit growth (%)	**5.2**	13.9	34.5		
Cost / income ratio (%)	**86.3**	85.9	87.6		
Net new money growth (%)	**0.9**	2.1	4.5		
Gross margin on invested assets (bps)	**76**	79	78	(4)	(3)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. 3 Compensation commitments with recruited financial advisors represents costs related to compensation commitments granted to financial advisors at the time of recruitment which are subject to vesting requirements. 4 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 5 Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators.

Adjusted for restructuring charges, personnel expenses were virtually unchanged at USD 1,257 million, as higher financial advisor compensation corresponding with higher compensable revenues was largely offset by lower salaries and other personnel costs, mainly due to lower other variable compensation expenses. Expenses for compensation commitments related to recruited financial advisors increased by USD 5 million to USD 180 million. Recruitment loans to financial advisors decreased by USD 46 million to USD 3,017 million.

Adjusted for restructuring charges, non-personnel expenses increased by USD 14 million to USD 325 million, mainly due to USD 34 million higher charges for provisions for litigation, regulatory and similar matters, which were partly offset by lower Corporate Center shared service costs.

Cost/income ratio

The cost/income ratio was 86.3% compared with 85.9% in the prior quarter. Adjusted for restructuring charges, the cost/income ratio was 85.7% compared with 84.3%, mainly due to lower income, and remained within the target range of 80% to 90%.

Net new money

The annualized net new money growth rate for the first quarter was 0.9% compared with 2.1% in the prior quarter and was below the target range of 2% to 4%. Net new money totaled USD 2.1 billion compared with USD 4.9 billion in the prior quarter and decreased primarily due to lower inflows from recruited financial advisors and higher outflows from financial advisor attrition, partly offset by higher net inflows from financial advisors employed with UBS for more than one year.

Including interest and dividend income, net new money was USD 7.6 billion compared with USD 14.3 billion in the prior quarter, which included seasonally higher dividend payments.

Invested assets

Invested assets increased by USD 17 billion to USD 987 billion, reflecting positive market performance of USD 15 billion as well as net new money inflows of USD 2 billion. Managed account assets increased by USD 12 billion to USD 320 billion and comprised 32% of total invested assets as of 31 March 2014.

Business division reporting – in Swiss francs[1] (continued)

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Additional information					
Recurring income	**1,218**	1,230	1,085	(1)	12
Recurring income as a % of income (%)	**74.1**	73.4	68.7		
Average attributed equity (CHF billion)[2]	**2.7**	2.7	2.9	0	(7)
Return on attributed equity (%)	**35.9**	34.1	26.9		
Risk-weighted assets (fully applied, CHF billion)[3]	**24.4**	24.3	21.6	0	13
Risk-weighted assets (phase-in, CHF billion)[3]	**24.6**	24.5	21.9	0	12
Return on risk-weighted assets, gross (%)[4]	**26.8**	29.7	27.8		
Leverage ratio denominator (phase-in, CHF billion)[5]	**56.0**	57.2		(2)	
Goodwill and intangible assets (CHF billion)	**3.4**	3.4	3.7	0	(8)
Net new money (CHF billion)	**1.9**	4.4	8.6		
Net new money including interest and dividend income (CHF billion)[6]	**6.8**	12.9	13.1		
Invested assets (CHF billion)	**872**	865	845	1	3
Client assets (CHF billion)	**921**	914	888	1	4
Loans, gross (CHF billion)	**35.0**	34.8	32.7	1	7
Due to customers (CHF billion)	**60.8**	60.0	52.3	1	16
Recruitment loans to financial advisors	**2,667**	2,733	3,023	(2)	(12)
Other loans to financial advisors	**381**	358	464	6	(18)
Personnel (full-time equivalents)	**16,356**	16,344	16,273	0	1
Financial advisors (full-time equivalents)	**7,113**	7,137	7,065	0	1

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 3 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 4 Based on phase-in Basel III risk-weighted assets. 5 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information. 6 Presented in line with historical reporting practice in the US market.

Gross margin on invested assets

The gross margin on invested assets decreased 3 basis points to 76 basis points and was at the lower end of our target range of 75 to 85 basis points. The decrease in the gross margin was due to a 4% increase in average invested assets coupled with a 1% decrease in income (which excludes credit loss expense / recovery). The gross margin from recurring income declined 2 basis points and the gross margin from non-recurring income declined 1 basis point.

Personnel: 1Q14 vs 4Q13

As of 31 March 2014, Wealth Management Americas employed 16,356 personnel, an increase of 12 compared with 31 December 2013. Financial advisor headcount decreased by 24 to 7,113, mainly due to slightly higher attrition of lower-producing financial advisors. The number of non-financial advisor employees increased by 36 to 9,243, mainly due to an increase in personnel allocated from Corporate Center shared services units.

Results: 1Q14 vs 1Q13

Profit before tax increased by USD 62 million to USD 272 million in the first quarter of 2014 from USD 210 million in the first quarter of 2013 due to an overall improvement in revenues, partly offset by an increase in expenses. Adjusted for restructuring charges, profit before tax increased by USD 64 million to USD 284 million.

Total operating income increased by USD 169 million to USD 1,865 million, primarily due to a USD 171 million increase in recurring net fee income mainly due to an increase in managed account fees related to higher invested asset levels, as well as higher net interest income. Transaction-based income decreased by USD 58 million to USD 472 million, mainly due to lower commission from equities products.

Operating expenses increased by USD 108 million to USD 1,594 million. Adjusted for restructuring charges, operating expenses increased by USD 106 million to USD 1,582 million. Personnel expenses increased by USD 55 million to USD 1,257 million, mainly due to an increase of USD 46 million in financial advisor compensation corresponding with higher compensable revenues. Salaries and other personnel costs remained unchanged at USD 369 million.

Non-personnel expenses, adjusted for restructuring charges, increased by USD 51 million to USD 325 million, mainly due to USD 44 million higher charges for provisions for litigation, regulatory and similar matters.

Retail & Corporate

Profit before tax was CHF 386 million in the first quarter of 2014 compared with CHF 332 million in the fourth quarter of 2013. Adjusted for restructuring charges, profit before tax increased by CHF 57 million to CHF 401 million, mainly as adjusted operating expenses decreased by CHF 55 million, primarily as a result of lower charges for provisions for litigation, regulatory and similar matters. Operating income was virtually unchanged. The annualized net new business volume growth rate for our retail business was 4.3% compared with negative 0.3% in the prior quarter.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest income	**523**	540	531	(3)	(2)
Recurring net fee income	**144**	127	130	13	11
Transaction-based income	**234**	256	243	(9)	(4)
Other income	**19**	24	14	(21)	36
Income	**921**	947	919	(3)	0
Credit loss (expense) / recovery	**12**	(17)	0		
Total operating income	**932**	931	919	0	1
Personnel expenses	**353**	341	378	4	(7)
General and administrative expenses	**192**	275	197	(30)	(3)
Services (to) / from other business divisions	**(31)**	(52)	(37)	(40)	(16)
Depreciation and impairment of property and equipment	**33**	36	34	(8)	(3)
Amortization and impairment of intangible assets	**0**	0	0		
Total operating expenses[2]	**547**	599	572	(9)	(4)
Business division operating profit / (loss) before tax	**386**	332	347	16	11
Key performance indicators[3]					
Pre-tax profit growth (%)	**16.3**	(17.4)	(3.9)		
Cost / income ratio (%)	**59.4**	63.3	62.2		
Net interest margin (bps)	**153**	157	154	(3)	(1)
Net new business volume growth for retail business (%)	**4.3**	(0.3)	4.9		
Additional information					
Average attributed equity (CHF billion)[4]	**4.2**	3.8	4.4	11	(5)
Return on attributed equity (%)	**36.8**	34.9	31.5		
Risk-weighted assets (fully applied, CHF billion)[5]	**32.2**	29.7	32.0	8	1
Risk-weighted assets (phase-in, CHF billion)[5]	**33.6**	31.4	33.7	7	0
Return on risk-weighted assets, gross (%)[6]	**11.3**	12.0	11.2		
Leverage ratio denominator (phase-in, CHF billion)[7]	**164.2**	164.7		0	
Goodwill and intangible assets (CHF billion)	**0.0**	0.0	0.0		
Business volume for retail business (CHF billion)	**142**	141	142	1	0
Net new business volume for retail business (CHF billion)	**1.5**	(0.1)	1.7		(12)
Client assets (CHF billion)	**408**	404	396	1	3
Due to customers (CHF billion)	**133.0**	133.2	132.1	0	1
Loans, gross (CHF billion)	**137.3**	136.5	138.1	1	(1)
Secured loan portfolio as a % of total loan portfolio, gross (%)	**92.9**	93.1	92.1		
Impaired loan portfolio as a % of total loan portfolio, gross (%)	**0.7**	0.7	0.7		
Personnel (full-time equivalents)	**9,240**	9,463	9,652	(2)	(4)

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Results: 1Q14 vs 4Q13

Operating income

Total operating income increased by CHF 1 million to CHF 932 million, mainly as a positive variance on credit loss expenses and higher recurring net fee income were almost entirely offset by lower net interest, transaction-based and other income.

Net interest income decreased by CHF 17 million to CHF 523 million, mainly due to lower allocated revenues from Group Treasury. The deposit margin declined despite selective pricing adjustments as the ongoing low interest rate environment continued to have an adverse effect, although the rate of decline slowed from prior quarters. The increase in average client deposit volumes had a positive impact on interest income, while average loan volumes decreased slightly. The loan margin remained stable.

Recurring net fee income increased by CHF 17 million to CHF 144 million, mainly due to a reclassification from transaction-based income of CHF 14 million reflecting certain fees related to retail bank accounts.

Transaction-based income decreased by CHF 22 million to CHF 234 million, mainly due to the abovementioned income reclassification as well as lower client activity levels and allocated revenues from Group Treasury.

➔ Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on the presentation of operating income

Other income decreased by CHF 5 million to CHF 19 million, mainly as the prior quarter included a gain of CHF 10 million from the divestment of our remaining participation in Euroclear plc. This was partly offset by higher income related to our participation in the SIX Group in the first quarter of 2014.

Net credit loss recoveries were CHF 12 million compared with net credit loss expenses of CHF 17 million in the prior quarter. The first quarter included a recovery of CHF 2 million related to net specific credit loss allowances compared with expenses of CHF 33 million in the prior quarter, which primarily related to corporate clients. The first quarter also included a release of CHF 10 million in collective loan loss allowances due to the ongoing review of the portfolio and, to a lesser extent, a model adjustment, compared with a release of CHF 16 million in the prior quarter. The remaining balance of collective loan loss allowances was CHF 5 million as of 31 March 2014.

Operating expenses

Total operating expenses decreased by CHF 52 million to CHF 547 million. Adjusted for restructuring charges of CHF 15 million compared with CHF 12 million, operating expenses decreased by CHF 55 million to CHF 532 million. This decrease was mainly due to CHF 41 million lower charges for provisions for litigation, regulatory and similar matters and lower technology expenses. Changes to allocations of Corporate Center shared service costs had the effect of decreasing personnel and general and administrative expenses and, to a lesser extent, depreciation and impairment of property and equipment by a total of CHF 10 million, which was offset by decreased net charges to other business divisions.

Personnel expenses increased by CHF 12 million to CHF 353 million, mainly due to higher variable compensation expenses, as well as expenses for untaken vacation accruals compared with a release of accruals in the prior quarter. These increases were partly offset by the aforementioned changes to allocations of Corporate Center shared service costs.

General and administrative expenses decreased by CHF 83 million to CHF 192 million, mainly due to the aforementioned lower charges for provisions for litigation, regulatory and similar matters as well as lower technology expenses and the impact of the abovementioned changes to allocations of Corporate Center shared service costs.

Net charges for services to other business divisions decreased by CHF 21 million to CHF 31 million, reflecting lower charges to Wealth Management related to our multi-channel offering as well as the aforementioned changes to allocations of Corporate Center shared service costs.

Cost/income ratio

The cost/income ratio improved 3.9 percentage points to 59.4% from 63.3%. Adjusted for restructuring charges, the cost/income ratio improved to 57.8% from 62.0%, reflecting lower expenses partly offset by reduced income, and was within our target range of 50% to 60%.

Net interest margin

The net interest margin decreased 4 basis points to 153 basis points, reflecting lower net interest income on a slightly lower average loan volume, and remained within the target range of 140 to 180 basis points.

Net new business volume growth for retail business

The annualized net new business volume growth rate for our retail business was 4.3% compared with negative 0.3% in the prior quarter, and was above the target range of 1% to 4%.

In the retail business, both net new client assets and, to a lesser extent, net new loans increased. A moderate increase in loans reflected our strategy to grow our business in high-quality loans moderately and selectively.

➔ Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on changes to our KPI framework

Personnel: 1Q14 vs 4Q13

Retail & Corporate employed 9,240 personnel as of 31 March 2014, a decrease of 223 compared with 9,463 as of 31 December 2013, including the aforementioned impact of changes to allocations of Corporate Center shared services units' personnel, which led to a decrease of approximately 140 personnel.

Results: 1Q14 vs 1Q13

Profit before tax increased by CHF 39 million to CHF 386 million. Adjusted for restructuring charges of CHF 15 million in both quarters, profit before tax increased by CHF 39 million to CHF 401 million, reflecting higher operating income as well as lower operating expenses.

Total operating income increased by CHF 13 million to CHF 932 million. Net interest income decreased by CHF 8 million, reflecting a decline in the deposit margin despite selective pricing adjustments as the ongoing low interest rate environment continued to have an adverse effect, although the rate of decline has slowed from prior quarters. This was partly offset by higher income resulting from an increase in average client deposit volumes. The loan margin and the average loan volume were broadly stable. Recurring net fee income increased by CHF 14 million to CHF 144 million, due to a reclassification of certain fees related to retail bank accounts from transaction-based income, amounting to CHF 14 million in the first quarter of 2014. Transaction-based income decreased by CHF 9 million to CHF 234 million, mainly reflecting the aforementioned income reclassification and lower allocated revenues from Group Treasury, partly offset by higher client activity levels. Other income increased by CHF 5 million due to higher income related to our participation in the SIX Group. Net credit loss recoveries were CHF 12 million compared with net credit loss expenses of zero in the first quarter of 2013.

Operating expenses decreased by CHF 25 million to CHF 547 million. Adjusted for restructuring charges of CHF 15 million in both quarters, operating expenses decreased by CHF 25 million to CHF 532 million, reflecting the effects of our ongoing cost reduction programs.

Personnel expenses decreased by CHF 25 million to CHF 353 million. Adjusted for restructuring charges of CHF 10 million compared with CHF 2 million, personnel expenses decreased by CHF 33 million, reflecting substantially lower levels of non-client-facing staff as well as lower variable compensation expenses. Furthermore, personnel expenses decreased due to the aforementioned changes to allocations of Corporate Center shared service costs in the first quarter of 2014.

Non-personnel expenses were unchanged at CHF 194 million. Adjusted for restructuring charges of CHF 5 million compared with CHF 13 million, non-personnel expenses increased by CHF 8 million to CHF 189 million, reflecting CHF 11 million higher charges for provisions for litigation, regulatory and similar matters, partly offset by lower occupancy expenses.

Global Asset Management

Profit before tax was CHF 122 million in the first quarter of 2014 compared with CHF 130 million in the fourth quarter of 2013. Adjusted for restructuring charges, profit before tax was CHF 126 million compared with CHF 143 million due to lower operating income partly offset by lower operating expenses. Excluding money market flows, net new money inflows were CHF 13.0 billion compared with net outflows of CHF 4.6 billion in the prior quarter.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net management fees[2]	**404**	410	463	(1)	(13)
Performance fees	**47**	72	53	(35)	(11)
Total operating income	**451**	482	517	(6)	(13)
Personnel expenses	**208**	216	211	(4)	(1)
General and administrative expenses	**114**	126	107	(10)	7
Services (to)/from other business divisions	**(5)**	(5)	(4)	0	25
Depreciation and impairment of property and equipment	**10**	12	11	(17)	(9)
Amortization and impairment of intangible assets	**2**	2	2	0	0
Total operating expenses[3]	**329**	352	327	(7)	1
Business division operating profit/(loss) before tax	**122**	130	190	(6)	(36)
Key performance indicators[4]					
Pre-tax profit growth (%)	**(6.2)**	10.2	28.4		
Cost/income ratio (%)	**72.9**	73.0	63.2		
Net new money growth (%)	**6.6**	(5.0)	(2.1)		
Gross margin on invested assets (bps)	**31**	33	35	(6)	(11)
Information by business line					
Operating income					
Traditional investments	**261**	268	319	(3)	(18)
O'Connor and A&Q	**66**	76	73	(13)	(10)
Global real estate	**73**	86	75	(15)	(3)
Infrastructure and private equity	**9**	10	9	(10)	0
Fund services	**42**	42	41	0	2
Total operating income	**451**	482	517	(6)	(13)
Gross margin on invested assets (bps)					
Traditional investments	**20**	21	25	(5)	(20)
O'Connor and A&Q	**93**	113	102	(18)	(9)
Global real estate	**71**	83	74	(14)	(4)
Infrastructure and private equity	**45**	50	45	(10)	0
Total gross margin	**31**	33	35	(6)	(11)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Net management fees include transaction fees, fund administration revenues (including net interest and trading income from lending activities and foreign exchange hedging as part of the fund services offering), gains or losses from seed money and co-investments, funding costs and other items that are not performance fees. 3 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators.

Business division reporting[1] (continued)

CHF million, except where indicated	As of or for the quarter ended 31.3.14	31.12.13	31.3.13	% change from 4Q13	1Q13
Information by business line (continued)					
Net new money (CHF billion)					
Traditional investments	**7.4**	(7.9)	(3.2)		
O'Connor and A&Q	**1.8**	(0.5)	(0.2)		
Global real estate	**0.4**	0.7	0.2		
Infrastructure and private equity	**(0.1)**	0.3	0.0		
Total net new money	**9.6**	(7.3)	(3.1)		
Net new money excluding money market flows	**13.0**	(4.6)	5.1		
of which: from third parties	***9.0***	*(1.5)*	*4.2*		
of which: from UBS's wealth management businesses	***4.0***	*(3.2)*	*0.9*		
Money market flows	**(3.4)**	(2.7)	(8.2)		
of which: from third parties	***(0.7)***	*0.7*	*(4.4)*		
of which: from UBS's wealth management businesses	***(2.7)***	*(3.3)*	*(3.8)*		
Invested assets (CHF billion)					
Traditional investments	**517**	506	521	2	(1)
of which: money market funds	***62***	*65*	*76*	*(5)*	*(18)*
O'Connor and A&Q	**30**	27	29	11	3
Global real estate	**40**	42	41	(5)	(2)
Infrastructure and private equity	**8**	8	8	0	0
Total invested assets	**596**	583	599	2	(1)
Assets under administration by fund services					
Assets under administration (CHF billion)[2]	**452**	432	431	5	5
Net new assets under administration (CHF billion)[3]	**16.8**	(0.1)	3.6		
Gross margin on assets under administration (bps)	**4**	4	4	0	0
Additional information					
Average attributed equity (CHF billion)[4]	**1.7**	1.7	1.9	0	(11)
Return on attributed equity (%)	**28.7**	30.6	40.0		
Risk-weighted assets (fully applied, CHF billion)[5]	**3.5**	3.7	4.0	(5)	(13)
Risk-weighted assets (phase-in, CHF billion)[5]	**3.6**	3.8	4.1	(5)	(12)
Return on risk-weighted assets, gross (%)[6]	**48.8**	52.1	53.0		
Leverage ratio denominator (phase-in, CHF billion)[7]	**13.7**	14.0		(2)	
Goodwill and intangible assets (CHF billion)	**1.4**	1.4	1.5	0	(7)
Personnel (full-time equivalents)	**3,730**	3,729	3,801	0	(2)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 This includes UBS and third-party fund assets, for which the fund services unit provides professional services, including fund set-up, accounting and reporting for traditional investment funds and alternative funds. 3 Inflows of assets under administration from new and existing funds less outflows from existing funds or fund exits. 4 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 5 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 6 Based on phase-in Basel III risk-weighted assets. 7 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information.

Results: 1Q14 vs 4Q13

Operating income

Total operating income was CHF 451 million compared with CHF 482 million in the prior quarter. Performance fees were lower by CHF 25 million, mainly in O'Connor and A&Q. Net management fees were CHF 6 million lower, mainly in traditional investments and global real estate, partly offset by higher fees in O'Connor and A&Q.

Operating expenses

Total operating expenses were CHF 329 million compared with CHF 352 million in the prior quarter. Adjusted for restructuring charges of CHF 4 million in the first quarter compared with CHF

13 million in the prior quarter, operating expenses were CHF 14 million lower.

Personnel expenses were CHF 208 million compared with CHF 216 million. Adjusted for restructuring charges of CHF 3 million in the first quarter compared with CHF 1 million in the prior quarter, personnel expenses were CHF 10 million lower. This decrease was mainly due to lower variable compensation expenses, largely because the prior quarter included the full year impact of changes in effective deferral rates.

General and administrative expenses were CHF 114 million compared with CHF 126 million. Adjusted for restructuring charges of CHF 1 million in the first quarter compared with CHF 9 million in the prior quarter, general and administrative expenses were lower by CHF 4 million. Lower Corporate Center shared service costs, as well as lower professional fees and advertising expenses, were partly offset by higher other general and administrative expenses due to a CHF 14 million provision for a possible settlement related to a fund liquidation.

Cost/income ratio

The cost/income ratio was 72.9% compared with 73.0% in the prior quarter. Adjusted for restructuring charges, the cost/income ratio was 72.1% compared with 70.3%, above the target range of 60% to 70%.

Net new money

Total net new money inflows were CHF 9.6 billion compared with net outflows of CHF 7.3 billion in the prior quarter. The annualized net new money growth rate was positive 6.6% compared with negative 5.0% in the prior quarter and above the target range of 3% to 5%.

Excluding money market flows, net inflows were CHF 13.0 billion compared with net outflows of CHF 4.6 billion in the prior quarter. From third parties, net inflows were CHF 9.0 billion compared with net outflows of CHF 1.5 billion and were mainly into equities, fixed income, real estate and multi-asset. Regionally, net inflows from third parties were mainly from clients serviced from Europe, Middle East and Africa, Switzerland and Asia Pacific. From clients of UBS's wealth management businesses, net inflows were CHF 4.0 billion compared with net outflows of CHF 3.2 billion in the prior quarter and were mainly from clients serviced from Switzerland and Asia Pacific.

Money market net outflows were CHF 3.4 billion compared with CHF 2.7 billion. From third parties, net outflows were CHF 0.7 billion compared with net inflows of CHF 0.7 billion and were mainly from clients serviced from the Americas. From clients of UBS's wealth management businesses, net outflows were CHF 2.7 billion compared with CHF 3.3 billion. These net outflows included the impact of an ongoing initiative by Wealth Management Americas to increase deposit account balances in UBS banking entities that led to CHF 1.2 billion in outflows from money market funds managed by Global Asset Management during the quarter.

Invested assets

Invested assets were CHF 596 billion as of 31 March 2014 compared with CHF 583 billion as of 31 December 2013. Net new money inflows of CHF 10 billion and positive market performance of CHF 6 billion were partly offset by negative currency translation effects of CHF 3 billion.

As of 31 March 2014, CHF 62 billion, or 10%, of invested assets were money market assets and CHF 172 billion, or 29%, were in indexed strategies. On a regional basis, 34% of invested assets related to clients serviced from Switzerland, 23% from the Americas, 22% from Europe, Middle East and Africa, and 21% from Asia Pacific.

Gross margin on invested assets

The total gross margin was 31 basis points compared with 33 basis points in the prior quarter due to lower performance fees. The gross margin was slightly below the target range of 32 to 38 basis points.

Results by business line: 1Q14 vs 4Q13

Traditional investments

Operating income was CHF 261 million compared with CHF 268 million, mainly due to lower management fees.

The gross margin was 20 basis points compared with 21 basis points in the prior quarter.

Excluding money market flows, net new money inflows from third parties were CHF 8.3 billion and net inflows from clients of UBS's wealth management businesses were CHF 2.5 billion, resulting in total net inflows of CHF 10.8 billion compared with net outflows of CHF 5.2 billion. Equities net inflows were CHF 8.2 billion compared with net outflows of CHF 0.9 billion and were mainly into indexed strategies. Fixed income net inflows were CHF 1.1 billion compared with net outflows of CHF 3.1 billion. Multi-asset net inflows were CHF 1.5 billion compared with net outflows of CHF 1.2 billion.

Invested assets were CHF 517 billion as of 31 March 2014 compared with CHF 506 billion as of 31 December 2013. By mandate type, CHF 206 billion of invested assets related to equities, CHF 138 billion related to fixed income, CHF 62 billion related to money markets and CHF 111 billion related to multi-asset mandates, including CHF 5 billion of alternative investments not managed by the O'Connor and A&Q, global real estate or infrastructure and private equity investment areas.

O'Connor and A&Q

Operating income was CHF 66 million compared with CHF 76 million in the prior quarter as lower performance fees in both A&Q multi-manager and O'Connor single-manager funds were only partly offset by higher net management fees. As of 31 March 2014, over 85% of O'Connor and A&Q performance fee-eligible assets were above their high water marks compared with over 90% as of 31 December 2013.

The gross margin was 93 basis points compared with 113 basis points in the prior quarter due to lower performance fees.

Net new money inflows were CHF 1.8 billion compared with net outflows of CHF 0.5 billion.

Invested assets were CHF 30 billion as of 31 March 2014 compared with CHF 27 billion as of 31 December 2013.

Global real estate

Operating income was CHF 73 million compared with CHF 86 million in the prior quarter, largely due to lower performance fees in the first quarter and strong transaction fees in the prior quarter. The gross margin was 71 basis points compared with 83 basis points. Net new money inflows were CHF 0.4 billion compared with CHF 0.7 billion. Invested assets were CHF 40 billion as of 31 March 2014 compared with CHF 42 billion as of 31 December 2013.

Infrastructure and private equity

Operating income was CHF 9 million compared with CHF 10 million in the prior quarter as lower net management fees more than offset higher performance fees. The gross margin was 45 basis points compared with 50 basis points. Net new money outflows were CHF 0.1 billion compared with net inflows of CHF 0.3 billion. Invested assets were CHF 8 billion as of 31 March 2014, in line with 31 December 2013.

Fund services

Operating income was CHF 42 million, in line with the prior quarter. The gross margin on assets under administration was 4 basis points, also in line with the prior quarter. Net new assets under administration inflows were CHF 16.8 billion compared with net outflows of CHF 0.1 billion in the prior quarter. Total assets under administration were CHF 452 billion as of 31 March 2014 compared with CHF 432 billion as of 31 December 2013.

Personnel: 1Q14 vs 4Q13

Global Asset Management employed 3,730 personnel as of 31 March 2014 compared with 3,729 as of 31 December 2013.

Results: 1Q14 vs 1Q13

Profit before tax was CHF 122 million in the first quarter of 2014 compared with CHF 190 million in the first quarter of 2013. Adjusted for a CHF 34 million gain on the sale of our Canadian domestic business in the first quarter of 2013 and restructuring charges of CHF 4 million in both quarters, profit before tax was CHF 126 million compared with CHF 160 million.

Total operating income was CHF 451 million compared with CHF 517 million, or CHF 483 million after adjusting for the aforementioned sale of our Canadian domestic business. Net management fees were lower, primarily in traditional investments due to changes in the asset mix. Performance fees were also lower.

Total operating expenses were CHF 329 million compared with CHF 327 million in the first quarter of 2013. Adjusted for the aforementioned restructuring charges, operating expenses were CHF 2 million higher.

Investment performance

Key equity strategies had a mixed first quarter. US large cap strategies had a very good quarter, extending 2013's strong performance. Asian strategies also had a good quarter, partly reversing 2013's underperformance. After strong performance in 2013, global, US large cap growth, European concentrated alpha and Australian strategies were all close to benchmark for the quarter, while Swiss strategies underperformed. Pan-European strategies' underperformance for the quarter as a whole was moderated somewhat by outperformance towards the end of the quarter. Following sharp underperformance in 2013, emerging markets strategies showed improvement and ended the quarter just above benchmark.

After a strong end to 2013, fixed income strategies made a more muted start to 2014. Nevertheless, several key strategies outperformed, including global, European and Australian, as did other specialist strategies such as high yield. Those developed market key strategies that underperformed did so relatively modestly and, despite ongoing negative news flow, emerging markets strategies showed signs of stabilization.

In global investment solutions, key multi-asset strategies managed versus benchmarks were close to those benchmarks for the quarter. Asset allocation contributed positively, while security selection and currency detracted. Global convertibles showed improved performance, largely reversing weaker performance in 2013.

In O'Connor and A&Q, core single-manager funds delivered positive returns for the quarter, as did most multi-manager funds.

In global real estate, direct investment strategies delivered predominantly positive results in the first quarter with German, UK and US strategies delivering the strongest absolute returns. Multi-manager and real estate securities strategies generated positive absolute returns.

The direct infrastructure fund performed in line with its current yield objectives but longer-term total returns remained slightly below target. Infrastructure funds of funds continued to perform in line with their objectives in the quarter, while private equity funds of funds exceeded their objectives.

Investment performance versus peers, as represented by a broad range of UBS wholesale funds, remained solid. Fixed income funds showed improvement, while equity funds weakened over one year compared with the prior quarter-end. Across all asset classes, and on an asset-weighted basis, 66% of fund assets ranked in the top two quartiles over one year, 72% over three years and 77% over five years.

Investment performance – key composites versus benchmarks

The table below shows investment performance for approximately 41% of Global Asset Management's CHF 279 billion actively managed invested assets in traditional investments as of 31 March 2014. This figure excludes CHF 172 billion in indexed investments, CHF 62 billion in actively managed money market funds and CHF 83 billion in actively managed alternatives (including O'Connor and A&Q, global real estate and infrastructure and private equity).

			Annualized	
	3 months	1 year	3 years	5 years
Equities				
Global Equity Composite vs. MSCI World Equity (Free) Index	–	+	+	+
US Large Cap Equity Composite vs. Russell 1000 Index	+	+	+	+
Pan European Equity Composite vs. MSCI Europe Index (net)	–	–	–	+
Pan European Concentrated Alpha Equity Composite vs. MSCI Europe Index (net)	–	–	+	+
Swiss Equity Composite vs. SPI (Total Return) Index	–	+	–	–
Asian Equity Composite vs. MSCI All Country Asia ex Japan Index	+	–	–	–
Australian Equity Composite vs. S&P/ASX 300 Accumulation Index	+	+	+	+
Emerging Equity Composite vs. Emerging Markets Equity Index	+	–	–	–
US Large Cap Select Growth Equity Composite vs. Russell 1000 Growth Index	–	+	+	+
Fixed income				
Global Bond Composite vs. J.P. Morgan GBI Global Traded Index	+	+	+	+
US Bond Composite vs. Barclays U.S. Aggregate Index	–	+	+	+
EUR Aggregate Bonds Composite vs. Barclays Euro Aggregate 500mio+ Index	+	+	–	+
CHF Bonds Ausland Composite vs. Swiss Bond Foreign AAA-BBB (Total Return) Index	–	–	–	+
Australian Bond Composite vs. Bloomberg AusBond Index	+	+	+	+
Emerging Bond Composite vs. Emerging Markets Debt Index[1]	–	–	–	+
Global investment solutions				
Global Securities Composite vs. Global Securities Markets Index[1]	–	–	–	+
Swiss BVG Balanced Composite vs. BVG Pictet Index 93	+	+	–	+
UK Multi-Asset Composite vs. UK Multi-Asset Benchmark[1]	+	+	+	+
Dynamic Alpha Composite vs. US T-Bills 30 Day[2]	+	+	+	+
Global Convertible Bonds Composite (hedged in EUR) vs. UBS Global Convertible Index – Global Vanilla Hedged EUR	+	+	–	+

1 Customized benchmark. 2 Benchmark was changed on 1 May 2013 to US T-Bills 30 Day. Periods prior to May 2013 calculated vs. Consumer Price Index. (+) above benchmark; (–) under benchmark; (=) equal to benchmark. All are before the deduction of investment management fees. Global composites are stated in US dollar terms, except for Global Bond Composite which is stated in Swiss franc terms; all others are in appropriate local currencies (unless otherwise stated). A composite is an aggregation of one or more portfolios in a single group that is representative of a particular strategy, style, or objective. The composite is the asset-weighted average of the performance results of all the portfolios it holds.

Investment performance – collective funds compared with peers

The table below shows investment performance versus peers of UBS Swiss, Luxembourg, German and Irish-domiciled wholesale funds available to clients of UBS's wealth management businesses and also distributed through other wholesale intermediaries. The UBS fund universe includes all actively managed funds totaling CHF 98 billion as of 31 March 2014. The peer universe includes all funds registered in countries included in the MSCI Europe Developed Markets Universe. Money market funds and indexed funds are excluded.

Percentage of fund assets ranking in first or second quartile	1 year	3 years	5 years
Equities	43	70	61
Fixed income	51	73	76
Multi-asset	88	90	81
Real estate and alternative	100	28	92
Total	**66**	**72**	**77**

Source: ThomsonReuters LIM 2.7 (Lipper Investment Management) data extracted on 7 April 2014 and analyzed by UBS Global Asset Management. Data shown is the asset-weighted percentage of funds achieving first or second quartile (i.e., above median) ranking in their peer group on a net of fees basis over each time period. Funds are included in the analysis for every time period for which they have a performance record.

Investment Bank

Profit before tax was CHF 425 million in the first quarter of 2014 compared with CHF 297 million in the fourth quarter of 2013. Adjusted for restructuring charges, profit before tax was CHF 549 million compared with CHF 386 million. This increase was mainly due to higher revenues in both Investor Client Services and Corporate Client Solutions, partly offset by an increase in operating expenses. Fully applied risk-weighted assets were unchanged at CHF 62 billion.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Corporate Client Solutions	**770**	706	997	9	(23)
Advisory	**153**	198	114	(23)	34
Equity Capital Markets	**196**	243	503	(19)	(61)
Debt Capital Markets	**303**	208	249	46	22
Financing Solutions	**128**	120	203	7	(37)
Risk Management	**(10)**	(63)	(73)	(84)	(86)
Investor Client Services	**1,420**	1,156	1,787	23	(21)
Equities	**1,037**	858	1,168	21	(11)
Foreign Exchange, Rates and Credit	**382**	297	619	29	(38)
Income	**2,190**	1,862	2,785	18	(21)
Credit loss (expense) / recovery	**0**	(1)	(1)	(100)	(100)
Total operating income	**2,190**	1,861	2,783	18	(21)
Personnel expenses	**1,191**	860	1,265	38	(6)
General and administrative expenses	**499**	629	457	(21)	9
Services (to) / from other business divisions	**2**	(5)	21		(90)
Depreciation and impairment of property and equipment	**70**	75	59	(7)	19
Amortization and impairment of intangible assets	**3**	5	3	(40)	0
Total operating expenses[2]	**1,765**	1,563	1,806	13	(2)
Business division operating profit / (loss) before tax	**425**	297	977	43	(56)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges.

Business division reporting[1] (continued)

CHF million, except where indicated	As of or for the quarter ended 31.3.14	31.12.13	31.3.13	% change from 4Q13	1Q13
Key performance indicators[2]					
Pre-tax profit growth (%)	**43.1**	18.3			
Cost / income ratio (%)	**80.6**	83.9	64.8		
Return on attributed equity (%)	**21.5**	15.2	49.5		
Return on assets, gross (%)	**3.6**	3.0	4.2		
Average VaR (1-day, 95% confidence, 5 years of historical data)	**13**	11	15	18	(13)
Additional information					
Total assets (CHF billion)[3]	**242.1**	245.0	263.0	(1)	(8)
Average attributed equity (CHF billion)[4]	**7.9**	7.8	7.9	1	0
Risk-weighted assets (fully applied, CHF billion)[5]	**62.2**	62.3	68.6	0	(9)
Risk-weighted assets (phase-in, CHF billion)[5]	**62.5**	62.6	69.2	0	(10)
Return on risk-weighted assets, gross (%)[6]	**14.0**	12.2	16.6		
Leverage ratio denominator (phase-in, CHF billion)[7]	**271.7**	275.3		(1)	
Goodwill and intangible assets (CHF billion)	**0.1**	0.1	0.2	0	(50)
Compensation ratio (%)	**54.4**	46.2	45.4		
Impaired loan portfolio as a % of total loan portfolio, gross (%)[8]	**0.2**	0.2	0.2		
Personnel (full-time equivalents)	**11,860**	11,615	12,544	2	(5)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators. 3 Based on third-party view, i.e., without intercompany balances. 4 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 5 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 6 Based on phase-in Basel III risk-weighted assets. 7 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information. 8 Refer to the "Risk management and control" section of this report for more information on impairment ratios.

Results: 1Q14 vs 4Q13

Operating income

Total operating income increased 18% to CHF 2,190 million from CHF 1,861 million in the prior quarter as a result of improved revenues across both Investor Client Services and Corporate Client Solutions. Within Investor Client Services, both equities and foreign exchange, rates and credit recorded higher revenues, mainly reflecting seasonally higher client activity levels. Corporate Client Solutions revenues increased mainly due to higher revenues in debt capital markets. In US dollar terms, operating income increased 19%.

Operating expenses

Total operating expenses increased 13% to CHF 1,765 million compared with CHF 1,563 million. Adjusted for restructuring charges of CHF 124 million in the first quarter of 2014 compared with CHF 89 million in the prior quarter, operating expenses increased 11% to CHF 1,641 million from CHF 1,474 million, mainly due to higher variable compensation expenses as performance improved, partly offset by lower general and administrative expenses. In US dollar terms, adjusted operating expenses increased 13%.

Personnel expenses increased to CHF 1,191 million from CHF 860 million. The first quarter included restructuring charges of CHF 82 million compared with CHF 12 million in the prior quarter. On an adjusted basis, personnel expenses increased to CHF 1,109 million from CHF 848 million, largely due to higher variable compensation expenses.

General and administrative expenses decreased to CHF 499 million from CHF 629 million. The first quarter included restructuring charges of CHF 36 million compared with restructuring charges of CHF 63 million in the prior quarter. On an adjusted basis, general and administrative expenses decreased to CHF 463 million from CHF 566 million, mainly due to a charge of CHF 55 million for the annual UK bank levy in the prior quarter as well as lower professional fees and seasonally lower travel and entertainment costs in the first quarter.

Cost / income ratio

The cost / income ratio improved to 80.6% from 83.9%. On an adjusted basis, the cost / income ratio improved to 74.9% from 79.2% and was within our target range of 65% to 85%.

Risk-weighted assets

Fully applied risk-weighted assets were unchanged at CHF 62 billion as of 31 March 2014.

➔ **Refer to the "Capital management" section of this report for more information**

Funded assets

Funded assets increased to CHF 176 billion as of 31 March 2014 from CHF 162 billion as of 31 December 2013, consistent with our target of less than CHF 200 billion. This increase was mainly due to higher trading portfolio assets and collateral assets in our equities and foreign exchange, rates and credit businesses.

➔ Refer to the "Balance sheet" section of this report for more information

Return on attributed equity

Return on attributed equity (RoAE) for the first quarter was 21.5%, and 27.8% on an adjusted basis, consistent with our target of more than 15%. RoAE for the prior quarter was 15.2%, and 19.8% on an adjusted basis.

➔ Refer to the discussion of "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information

Operating income by business unit: 1Q14 vs 4Q13

Corporate Client Solutions

Corporate Client Solutions revenues increased 9% to CHF 770 million from CHF 706 million, with improved performance in debt capital markets and lower risk management charges, partly offset by lower revenues in advisory and equity capital markets. In US dollar terms, revenues increased 10%.

Advisory revenues decreased 23% to CHF 153 million from CHF 198 million, mainly reflecting lower revenues from private transactions. In addition, fees decreased as the market fee pool, which excludes revenues from private transactions, declined 18%.

Equity capital markets revenues decreased 19% to CHF 196 million from CHF 243 million, as the market fee pool decreased 22%.

Debt capital markets revenues increased 46% to CHF 303 million from CHF 208 million, due to higher revenues from both investment grade and leveraged finance as market activity levels improved.

Financing solutions revenues increased 7% to CHF 128 million compared with CHF 120 million. Revenues from the structured financing business increased, partly offset by a decline in real estate finance revenues.

Risk management revenues improved to negative CHF 10 million from negative CHF 63 million, mainly due to the positive effect of widening credit spreads during the quarter.

Investor Client Services

Investor Client Services revenues increased 23% to CHF 1,420 million from CHF 1,156 million, due to higher revenues in both the equities and foreign exchange, rates and credit businesses. In US dollar terms, revenues increased 24%.

Equities

Equities revenues increased to CHF 1,037 million from CHF 858 million, with stronger performance across all sectors mainly reflecting seasonally higher client activity levels.

Cash revenues increased to CHF 387 million compared with CHF 317 million, as a result of higher commission income and strong trading revenues across all regions.

Derivatives revenues increased to CHF 319 million from CHF 238 million. Revenues benefited from higher market activity levels and a stronger trading performance, particularly in Europe, Middle East and Africa as well as Asia Pacific.

Financing services revenues increased to CHF 335 million from CHF 299 million. Revenues improved across equity finance, prime brokerage and clearing and execution, mainly as a result of higher trading revenues and financing balances.

Other equities revenues were negative CHF 3 million in the first quarter compared with positive CHF 4 million in the fourth quarter.

Foreign exchange, rates and credit

Foreign exchange, rates and credit revenues increased to CHF 382 million from CHF 297 million, with improved performance in both the foreign exchange and rates and credit businesses.

Foreign exchange revenues increased, mainly due to higher revenues from our foreign exchange options and emerging market short-term interest rate businesses, stemming from improved market liquidity and higher client activity levels.

Rates and credit revenues increased, mainly due to improved trading revenues in both the solutions and flow businesses. The first quarter included negative debit valuation adjustments of CHF 5 million compared with negative debit valuation adjustments of CHF 11 million in the prior quarter.

Personnel: 1Q14 vs 4Q13

The Investment Bank employed 11,860 personnel as of 31 March 2014, an increase of 245 compared with 11,615 as of 31 December 2013, mainly due to increased front office personnel as well as an increase in personnel allocated from Corporate Center shared services units.

Results: 1Q14 vs 1Q13

Profit before tax was CHF 425 million compared with CHF 977 million in the first quarter of 2013, mainly as a result of lower revenues. The first quarter of 2013 included revenues from a large private transaction in Corporate Client Solutions, as well as gains from the sale of our remaining proprietary trading business and revenues on equity investments, prior to their transfer to Corporate Center – Non-core and Legacy Portfolio. Excluding the net gain on the sale of our remaining proprietary business in the first quarter of 2013 and restructuring charges in both quarters, adjusted profit before tax was CHF 549 million compared with CHF 928 million.

Revenues in Corporate Client Solutions decreased 23% to CHF 770 million from CHF 997 million, mainly as a result of lower equity capital markets revenues due to a large private transaction recorded in the first quarter of 2013, partly offset by lower risk management charges and higher debt capital markets and advisory revenues. In US dollar terms, revenues decreased 19%.

Investor Client Services revenues declined 21% to CHF 1,420 million from CHF 1,787 million. In US dollar terms, revenues declined 17%. Equities revenues decreased 11% to CHF 1,037 million from CHF 1,168 million, mainly due to lower revenues in other equities and derivatives, partly offset by improved revenues in cash and financing services. Cash revenues increased mainly due to higher trading revenues. Derivatives revenues in Europe, Middle East and Africa as well as Asia Pacific declined compared with the first quarter of 2013, which benefited from higher market liquidity. Within financing services, revenues rose across equity finance, prime brokerage and clearing and execution services. Other equities revenues decreased as the first quarter of 2013 included gains from the sale of our remaining proprietary trading business and revenues on equity investments, prior to their transfer to Corporate Center – Non-core and Legacy Portfolio. Foreign exchange, rates and credit revenues decreased 38% to CHF 382 million from CHF 619 million, with lower revenues across most products as client activity levels decreased significantly, reflecting the broader market climate.

Total operating expenses decreased 2% to CHF 1,765 million compared with CHF 1,806 million. Adjusted operating expenses were CHF 1,641 million compared with CHF 1,800 million. In US dollar terms, adjusted operating expenses decreased 5%. Personnel expenses decreased to CHF 1,191 million from CHF 1,265 million, mainly due to lower variable compensation expenses. General and administrative expenses increased to CHF 499 million from CHF 457 million, mainly due to higher professional fees, partly offset by the impact of our ongoing cost reduction programs.

Corporate Center

Corporate Center reporting – Total[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Income excluding own credit	**(8)**	(411)	246	(98)	
Own credit[2]	**88**	(94)	(181)		
Credit loss (expense) / recovery[3]	**0**	11	(2)	(100)	(100)
Total operating income	**80**	(495)	63		27
Personnel expenses	**243**	231	287	5	(15)
General and administrative expenses	**213**	244	675	(13)	(68)
Services (to) / from other business divisions	**15**	28	(4)	(46)	
Depreciation and impairment of property and equipment	**9**	12	31	(25)	(71)
Amortization and impairment of intangible assets	**2**	1	1	100	100
Total operating expenses[4]	**481**	516	989	(7)	(51)
Operating profit / (loss) before tax	**(401)**	(1,011)	(926)	(60)	(57)
Additional information					
Average attributed equity (CHF billion)[5]	**21.3**	21.4	24.8	0	(14)
Total assets (CHF billion)[6]	**423.6**	462.5	635.0	(8)	(33)
Risk-weighted assets (fully applied, CHF billion)[7]	**83.1**	84.2	113.9	(1)	(27)
Risk-weighted assets (phase-in, CHF billion) [7]	**83.8**	84.9	114.6	(1)	(27)
Leverage ratio denominator (phase-in, CHF billion)[8]	**363.1**	394.5		(8)	
Personnel before allocations (full-time-equivalents)	**23,984**	24,082	25,361	0	(5)
Allocations to business divisions (full-time-equivalents)	**(21,487)**	(21,441)	(22,361)	0	(4)
Personnel after allocations (full-time equivalents)	**2,497**	2,640	3,000	(5)	(17)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Represents own credit changes on financial liabilities designated at fair value through profit or loss. The cumulative own credit loss for such debt held on 31 March 2014 amounts to CHF 0.5 billion. This loss has increased the fair value of financial liabilities designated at fair value recognized on our balance sheet. Refer to "Note 10 Fair value measurement" in the "Financial information" section of this report for more information. 3 Includes credit loss (expense) / recovery on reclassified and acquired securities. 4 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 5 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 6 Based on third-party view, i.e., without intercompany balances. 7 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 8 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information.

Corporate Center – Core Functions

Corporate Center – Core Functions recorded a loss before tax of CHF 176 million in the first quarter of 2014 compared with a loss of CHF 565 million in the prior quarter. The first quarter included operating expenses remaining in Corporate Center – Core Functions, after service allocations, of CHF 227 million and treasury income remaining in Corporate Center – Core Functions of negative CHF 46 million, partly offset by an own credit gain of CHF 88 million.

Corporate Center reporting – Core Functions[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Treasury income remaining in Corporate Center – Core Functions	**(46)**	(343)	(217)	(87)	(79)
Own credit[2]	**88**	(94)	(181)		
Other	**9**	72	(43)	(88)	
Total operating income	**51**	(365)	(441)		
Personnel expenses	**139**	119	146	17	(5)
General and administrative expenses	**85**	71	94	20	(10)
Services (to)/from other business divisions	**0**	5	0	(100)	
Depreciation and impairment of property and equipment	**2**	4	(1)	(50)	
Amortization and impairment of intangible assets	**1**	0	0		
Total operating expenses[3]	**227**	200	239	14	(5)
Operating profit/(loss) before tax	**(176)**	(565)	(680)	(69)	(74)
Additional information					
Average attributed equity (CHF billion)[4]	**15.3**	13.7	10.9	12	40
Total assets (CHF billion)[5]	**233.4**	247.4	252.8	(6)	(8)
Risk-weighted assets (fully applied, CHF billion)[6]	**23.0**	20.7	19.1	11	20
Risk-weighted assets (phase-in, CHF billion)[6]	**23.8**	21.3	19.7	12	21
Leverage ratio denominator (phase-in, CHF billion)[7]	**228.8**	234.5		(2)	
Personnel before allocations (full-time-equivalents)	**23,790**	23,860	25,038	0	(5)
Allocations to business divisions and CC – Non-core and Legacy Portfolio (full-time-equivalents)	**(22,838)**	(22,804)	(23,946)	0	(5)
Personnel after allocations (full-time equivalents)	**951**	1,055	1,092	(10)	(13)
Corporate Center – Core Functions – expenses before service allocation to business divisions and CC – Non-core and Legacy Portfolio					
Personnel expenses	**1,020**	1,044	1,110	(2)	(8)
General and administrative expenses	**979**	1,089	1,134	(10)	(14)
Depreciation and impairment of property and equipment	**180**	206	197	(13)	(9)
Amortization and impairment of intangible assets	**1**	1	1	0	0
Total operating expenses before service allocation to business divisions and CC – Non-core and Legacy Portfolio[3]	**2,180**	2,340	2,442	(7)	(11)
Net allocations to business divisions	**(1,953)**	(2,140)	(2,203)	(9)	(11)
of which: Wealth Management	***(487)***	*(540)*	*(524)*	*(10)*	*(7)*
of which: Wealth Management Americas	***(260)***	*(294)*	*(284)*	*(12)*	*(8)*
of which: Retail & Corporate	***(289)***	*(331)*	*(331)*	*(13)*	*(13)*
of which: Global Asset Management	***(117)***	*(136)*	*(134)*	*(14)*	*(13)*
of which: Investment Bank	***(661)***	*(683)*	*(593)*	*(3)*	*11*
of which: Non-core and Legacy Portfolio	***(137)***	*(157)*	*(337)*	*(13)*	*(59)*
Total operating expenses[3]	**227**	200	239	14	(5)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Represents own credit changes on financial liabilities designated at fair value through profit or loss. The cumulative own credit loss for such debt held on 31 March 2014 amounts to CHF 0.5 billion. This loss has increased the fair value of financial liabilities designated at fair value recognized on our balance sheet. Refer to "Note 10 Fair value measurement" in the "Financial information" section of this report for more information. 3 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 5 Based on third-party view, i.e., without intercompany balances. 6 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 7 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information.

Results

Operating income

Total operating income was CHF 51 million in the first quarter of 2014, which included an own credit gain on financial liabilities designated at fair value of CHF 88 million, partly offset by treasury income remaining in Corporate Center – Core Functions of negative CHF 46 million. Total operating income in the prior quarter was negative CHF 365 million.

➔ **Refer to "Note 10 Fair value measurement" in the "Financial information" section of this report for more information on own credit**

Treasury income remaining in Corporate Center – Core Functions, after allocations to the business divisions, was negative CHF 46 million. The first quarter of 2014 included central funding costs of CHF 165 million which were retained in Group Treasury. This was partly offset by a gain of CHF 49 million related to our macro cash flow hedges, trading gains of CHF 36 million on derivative instruments which are used to economically hedge our financial investments available-for-sale portfolio as well as CHF 33 million of interest income related to preferred securities.

Compared with the prior quarter, treasury income remaining in Corporate Center – Core Functions improved to negative CHF 46 million from negative CHF 343 million. This improvement was mainly due to CHF 104 million lower losses from cross-currency basis swaps which are held as economic hedges as well as the net loss of CHF 75 million related to the buyback of debt in a public tender offer recorded in the fourth quarter of 2013. In addition, the first quarter of 2014 included a gain of CHF 49 million related to our macro cash flow hedges compared with a loss of CHF 10 million in the prior quarter. Furthermore, in the fourth quarter of 2013 we realized losses of CHF 37 million on sales of financial investments held in the available-for-sale portfolio which was transferred from Wealth Management Americas to Group Treasury in 2013 and foreign currency translation losses of CHF 24 million.

➔ **Refer to the "Liquidity and funding management" section of this report for more information on funding costs**

The first quarter of 2014 included an own credit gain on financial liabilities designated at fair value of CHF 88 million, primarily as life-to-date own credit losses partially reversed due to time decay, partly offset by the impact of a marginal tightening of our funding spreads over the quarter. The prior quarter included an own credit loss on financial liabilities of CHF 94 million.

Operating income excluding own credit and treasury income was CHF 9 million in the first quarter of 2014 and included a gain on sale of real estate of CHF 23 million as well as CHF 23 million in net funding costs related to the goodwill and intangible assets that arose from the PaineWebber acquisition. Compared with the prior quarter, income related to other items decreased to CHF 9 million from CHF 72 million, mainly as gains on sales of real estate declined by CHF 38 million and as the prior quarter included a CHF 34 million credit related to the partial release of a provision for litigation, regulatory and similar matters.

Operating expenses before service allocations

On a gross basis before service allocations to the business divisions and Corporate Center – Non-core and Legacy Portfolio, total operating expenses decreased by CHF 160 million to CHF 2,180 million in the first quarter of 2014. Restructuring charges were CHF 93 million compared with CHF 177 million in the prior quarter, mainly reflecting reduced real estate-related restructuring charges partly offset by higher personnel-related restructuring charges. Excluding restructuring charges, adjusted operating expenses before service allocations decreased by CHF 76 million to CHF 2,087 million.

Personnel expenses decreased by CHF 24 million to CHF 1,020 million. On an adjusted basis, excluding net restructuring charges of CHF 60 million in the first quarter of 2014 and CHF 36 million in the fourth quarter of 2013, personnel expenses decreased by CHF 48 million, mainly due to lower variable compensation expenses, partly offset by expenses for untaken vacation accruals compared with a release of accruals in the prior quarter.

General and administrative expenses decreased by CHF 110 million to CHF 979 million. On an adjusted basis, excluding net restructuring charges of CHF 32 million in the first quarter of 2014 and CHF 119 million in the fourth quarter of 2013, general and administrative expenses decreased by CHF 23 million, mainly due to lower expenses for rent and maintenance of real estate, decreased marketing costs as well as reduced business outsourcing activities. These decreases were partly offset by higher professional fees.

Depreciation and impairment of property and equipment decreased to CHF 180 million from CHF 206 million, mainly as the fourth quarter of 2013 included real estate-related restructuring charges and an impairment of previously capitalized software.

The business divisions and Non-core and Legacy Portfolio were charged CHF 1,953 million for shared services, a decrease of CHF 187 million, primarily related to both lower restructuring charges and variable compensation expenses.

Operating expenses after service allocations

Total operating expenses remaining in Corporate Center – Core Functions after allocations to the business divisions and Non-core and Legacy Portfolio increased to CHF 227 million from CHF 200 million, mainly due to expenses for untaken vacation accruals compared with a release of accruals in the prior quarter.

Operating expenses remaining in Corporate Center – Core Functions related mainly to Group governance functions and other corporate activities.

➔ Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on the refinement to the allocation of operating costs for internal services

Risk-weighted assets

Fully applied Basel III risk-weighted assets increased to CHF 23 billion as of 31 March 2014 compared with CHF 21 billion as of 31 December 2013.

➔ Refer to the "Capital management" section of this report for more information on risk-weighted assets

Personnel

As of 31 March 2014, Corporate Center – Core Functions employed 23,790 personnel compared with 23,860 at the end of the prior quarter. The decrease of 70 personnel was mainly related to our ongoing cost reduction programs. As of 31 March 2014, 22,838 personnel were allocated to the business divisions as well as Non-core and Legacy Portfolio, based on services consumed. Personnel remaining in Corporate Center – Core Functions after allocations decreased to 951 from 1,055 and related to Group governance functions and other corporate activities.

Results: 1Q14 vs 1Q13

Corporate Center – Core Functions recorded a loss before tax of CHF 176 million in the first quarter of 2014 compared with a loss before tax of CHF 680 million in the first quarter of 2013.

Total operating income was CHF 51 million in the first quarter of 2014 compared with negative CHF 441 million in the first quarter of 2013.

Treasury income remaining in Corporate Center – Core Functions, after allocations to the business divisions, was negative CHF 46 million compared with negative CHF 217 million. This improvement was mainly due to the net loss of CHF 119 million related to the buyback of debt in a public tender offer in the first quarter of 2013. Furthermore, the first quarter of 2014 included a gain of CHF 49 million related to our macro cash flow hedges compared with a loss of CHF 66 million in the first quarter of 2013. The first quarter of 2013 also included realized gains of CHF 39 million on sales of financial investments held in the available-for-sale portfolio which was transferred from Wealth Management Americas to Group Treasury in 2013.

The first quarter of 2014 included an own credit gain on financial liabilities designated at fair value of CHF 88 million compared with a loss of CHF 181 million in the same quarter a year earlier. Operating income excluding own credit and treasury income increased to positive CHF 9 million from negative CHF 43 million, mainly due to CHF 23 million higher gains on sales of real estate.

On a gross basis before service allocations to the business divisions and Non-core and Legacy Portfolio, total operating expenses decreased by CHF 262 million to CHF 2,180 million. Restructuring charges were CHF 93 million compared with CHF 269 million, mainly reflecting reduced real estate-related restructuring charges partly offset by higher personnel-related restructuring charges. Excluding restructuring charges, adjusted operating expenses before service allocations were CHF 2,087 million compared with CHF 2,173 million. This decrease of CHF 86 million was mainly due to lower variable compensation expenses, the effect of further headcount reductions related to our ongoing cost reduction programs and CHF 25 million lower charges for provisions for litigation, regulatory and similar matters. These decreases were partly offset by increased outsourcing activities and professional fees.

Corporate Center – Non-core and Legacy Portfolio

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 225 million in the first quarter of 2014 compared with a loss of CHF 446 million in the prior quarter, mainly due to an improvement of CHF 49 million in debit valuation adjustments, revaluation gains in our credit business and lower losses from unwind and novation activities. Furthermore, the fourth quarter of 2013 included a charge of CHF 68 million for the annual UK bank levy. The first quarter included total operating expenses of CHF 254 million compared with CHF 317 million in the prior quarter. Fully applied risk-weighted assets decreased by CHF 3 billion to CHF 60 billion.

Corporate Center reporting – Non-core and Legacy Portfolio[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Non-core	**17**	(104)	231		(93)
Legacy Portfolio	**13**	(36)	274		(95)
of which: SNB StabFund option	***(1)***	*(28)*	*245*	*(96)*	
Income	**30**	(140)	506		(94)
Credit loss (expense) / recovery[2]	**0**	11	(2)	(100)	(100)
Total operating income	**29**	(130)	504		(94)
Personnel expenses	**104**	112	141	(7)	(26)
General and administrative expenses	**128**	173	580	(26)	(78)
Services (to) / from other business divisions	**15**	23	(4)	(35)	
Depreciation and impairment of property and equipment	**7**	8	31	(13)	(77)
Amortization and impairment of intangible assets	**0**	1	1	(100)	(100)
Total operating expenses[3]	**254**	317	749	(20)	(66)
Operating profit / (loss) before tax	**(225)**	(446)	(245)	(50)	(8)
Additional information					
Average attributed equity (CHF billion)[4]	**6.0**	7.7	13.9	(22)	(57)
Total assets (CHF billion)[5]	**190.2**	215.1	382.2	(12)	(50)
Risk-weighted assets (fully applied, CHF billion)[6]	**60.1**	63.5	94.9	(5)	(37)
Risk-weighted assets (phase-in, CHF billion)[6]	**60.1**	63.5	94.9	(5)	(37)
Leverage ratio denominator (phase-in, CHF billion)[7]	**134.3**	160.0		(16)	
Personnel after allocations (full-time equivalents)	**1,546**	1,585	1,908	(2)	(19)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to the retrospective adoption of new accounting standards. 2 Includes credit loss (expense) / recovery on reclassified and acquired securities. 3 Refer to "Note 16 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 Refer to the "Capital management" section of our Annual Report 2013 for more information on the equity attribution framework. 5 Based on third-party view, i.e., without intercompany balances. 6 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 7 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information.

Operating income by business unit

Non-core

Income was CHF 17 million compared with a loss of CHF 104 million in the prior quarter, mainly as debit valuation adjustments improved to negative CHF 19 million from negative CHF 68 million. Furthermore, the first quarter of 2014 included lower losses from unwind and novation activities.

Legacy Portfolio

Income was CHF 13 million compared with a loss of CHF 36 million in the prior quarter, mainly due to gains on reference-linked notes and real estate portfolios due to market movements, partly offset by the negative effect of increased credit valuation adjustment reserves. The prior quarter also included a charge of CHF 34 million relating to tax obligations of the SNB StabFund.

Credit loss expense / recovery

In the first quarter of 2014, credit losses were zero compared with net credit loss recoveries of CHF 11 million in the prior quarter, which mainly related to sales and redemptions of student loan auction rate securities impaired in prior periods.

Operating expenses

Total operating expenses decreased to CHF 254 million from CHF 317 million.

Personnel expenses decreased by CHF 8 million to CHF 104 million, mainly due to lower variable compensation expenses.

General and administrative expenses decreased by CHF 45 million to CHF 128 million, mainly due to a charge of CHF 68 million for the annual UK bank levy in the fourth quarter of 2013, partly offset by CHF 49 million higher charges for provisions for litigation, regulatory and similar matters in the first quarter of 2014. Furthermore, restructuring charges decreased to CHF 4 million from CHF 14 million in the prior quarter.

Charges for services from other business divisions decreased by CHF 8 million to CHF 15 million, mainly as a result of reduced consumption of shared services.

Risk-weighted assets

Fully applied risk-weighted assets (RWA) for Non-core and Legacy Portfolio decreased by CHF 3 billion to CHF 60 billion.

Non-core RWA decreased by CHF 4 billion to CHF 29 billion as a result of continued activity targeted at reducing over-the-counter derivative exposures by means of negotiated bilateral settlements with specific counterparties, third-party novations and trade compressions. Legacy Portfolio RWA were unchanged at CHF 31 billion.

➔ **Refer to the discussions of "Corporate Center – Non-core and Legacy Portfolio" and "Capital management" in the "Risk and treasury management" section of this report for more information on risk-weighted assets**

Balance sheet assets

Balance sheet assets decreased to CHF 190 billion as of 31 March 2014 from CHF 215 billion as of 31 December 2013. Positive replacement values fell by CHF 21 billion, largely due to a reduction in Non-core, mainly as a result of trade migrations, compressions and market movements. Funded assets decreased by CHF 3 billion, mainly due to the full exit of precious metal holdings held on behalf of clients and the maturing of the last remaining trade in the structured reverse repo portfolio, both in Non-core.

Personnel

As of 31 March 2014, a total of 1,546 personnel were employed within Non-core and Legacy Portfolio compared with 1,585 as of 31 December 2013. Front office personnel decreased to 195 from 222 and personnel allocated from Corporate Center shared services units decreased to 1,351 from 1,363.

Results: 1Q14 vs 1Q13

Non-core and Legacy Portfolio recorded a loss before tax of CHF 225 million in the first quarter of 2014 compared with a loss of CHF 245 million in the first quarter of 2013.

Total operating income was CHF 29 million compared with CHF 504 million.

Non-core income was CHF 17 million compared with CHF 231 million. This decrease related mainly to favorable market conditions in the first quarter of 2013 ahead of any material unwind activity resulting from the accelerated implementation of our strategy.

Legacy Portfolio income decreased to CHF 13 million from CHF 274 million, mainly as the first quarter of 2013 included a gain of CHF 240 million from the revaluation of our option to acquire the SNB StabFund's equity.

Total operating expenses decreased by CHF 495 million to CHF 254 million, largely due to CHF 292 million lower charges for provisions for litigation, regulatory and similar matters as well as CHF 180 million lower restructuring charges.

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Risk and treasury management

Management report

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Risk and treasury management key developments

Risk management and control

We maintained our focus on managing down risks within Corporate Center – Non-core and Legacy Portfolio. On a Group level, market risks remained low and our credit risk profile was stable over the quarter, with an overall net credit loss recovery.

Effective 1 January 2014, our Compliance function merged with the Operational Risk Control unit, enhancing Risk Control's ability to control the Group's primary and consequential risks in a fully integrated way.

Balance sheet

As of 31 March 2014, our balance sheet assets stood at CHF 983 billion, a decrease of CHF 36 billion from 31 December 2013, primarily due to a continued reduction in positive replacement values in both Corporate Center – Non-core and Legacy Portfolio and the Investment Bank. Funded assets, which represent total assets excluding positive replacement values and collateral delivered against over-the-counter (OTC) derivatives, increased by CHF 3 billion to CHF 742 billion. This increase mainly reflected client-driven increases in trading portfolio assets in the Investment Bank and lending activity in Wealth Management, partly offset by reduced collateral trading assets in Corporate Center – Core Functions. Excluding currency effects, funded assets increased by approximately CHF 6 billion.

Liquidity and funding management

Our liquidity position remained strong during the quarter and we further optimized our funding profile through the issuance of EUR 2.0 billion of 12-year low-trigger, loss-absorbing, Basel III-compliant subordinated notes with a non-deferrable coupon at an initial rate of 4.75%. These notes qualify as progressive buffer capital in compliance with Swiss regulations for systemically important banks and contributed to the further strengthening of our Swiss systemically relevant banks (SRB) leverage ratio.

Capital management

Our fully applied common equity tier 1 (CET1) capital ratio improved 0.4 percentage points to 13.2% as of 31 March 2014 and we have exceeded our 2014 CET1 capital ratio target. Fully applied CET1 capital increased by CHF 1.0 billion to CHF 29.9 billion, mainly due to the first quarter net profit. Risk-weighted assets on a fully applied basis increased by CHF 2 billion to CHF 227 billion. On a phase-in basis, our CET1 capital ratio declined 0.6 percentage points to 17.9%, mainly due to the CHF 1.0 billion decrease in phase-in CET1 capital to CHF 41.2 billion, mostly arising from the effect of capital deductions related to transitional effects applicable from 1 January 2014, partly offset by the first quarter net profit. Our Swiss SRB leverage ratio improved 0.3 percentage points to 5.0% on a phase-in basis, mainly due to the reduction of the leverage ratio denominator as well as through the aforementioned issuance of low-trigger, loss-absorbing, Basel III-compliant subordinated notes.

Risk management and control

Risk profile of the Group

Overview of risks arising from our business activities

The table below presents the key drivers of tangible attributed equity by business division and Corporate Center, being risk-weighted assets (RWA), Swiss SRB leverage ratio denominator (LRD) and risk-based capital (RBC), as well as the average tangible attributed equity, total assets and adjusted operating profit before tax. Along with the description of key risks by business division and Corporate Center presented in our Annual Report 2013, this table provides an overview of how the activities in our business divisions and Corporate Center are reflected in our risk measures, along with their respective performance.

The table is followed by sections providing an update for the first quarter of 2014 on developments in credit risk (comprising banking products and traded products), market risk (including interest rate risk in the banking book), country risk and operational risk.

The "Capital management" section of this report provides an update on the development of RWA, LRD and attributed equity during the quarter. RBC remained broadly stable at CHF 33 billion for the Group as of 31 March 2014.

➔ Refer to the "Capital management" section of this report and our Annual Report 2013 for more information on RWA, LRD and our equity attribution framework

➔ Refer to "Statistical measures" in the "Risk, treasury and capital management" section of our Annual Report 2013 for more information on RBC

Risk measures and performance

	Wealth Management		Wealth Management Americas		Retail & Corporate		Global Asset Management		Investment Bank		CC – Core Functions		CC – Non-core and Legacy Portfolio	
CHF billion, as of or for the quarter ended	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13
Risk-weighted assets (phase-in)[1]	**21.8**	21.4	**24.6**	24.5	**33.6**	31.4	**3.6**	3.8	**62.5**	62.6	**23.8**	21.3	**60.1**	63.5
of which: credit risk	***12.0***	*11.9*	***8.1***	*8.1*	***32.1***	*29.9*	***2.4***	*2.7*	***33.6***	*35.5*	***5.8***	*4.8*	***25.9***	*31.3*
of which: market risk	***0.0***	*0.0*	***1.0***	*1.6*	***0.0***	*0.0*	***0.0***	*0.0*	***7.8***	*7.6*	***(4.0)[2]***	*(4.9)[2]*	***10.7***	*9.4*
of which: operational risk	***9.5***	*9.2*	***15.4***	*14.8*	***1.4***	*1.4*	***1.1***	*1.1*	***20.9***	*19.4*	***9.4***	*9.2*	***23.5***	*22.8*
Leverage ratio denominator[3]	**125.4**	122.1	**56.0**	57.2	**164.2**	164.7	**13.7**	14.0	**271.7**	275.3	**228.8**	234.5	**134.3**	160.0
Risk-based capital[4]	**1.8**	1.7	**1.3**	1.2	**3.7**	3.7	**0.8**	0.6	**7.2**	6.5	**12.8**	13.6	**4.9**	4.6
Average tangible attributed equity	**2.7**	2.6	**2.1**	2.1	**4.2**	3.8	**0.5**	0.5	**7.7**	7.7	**11.7**	10.0	**6.0**	7.7
Total assets	**115.4**	109.8	**45.4**	45.5	**142.7**	141.4	**13.3**	14.2	**242.1**	245.0	**233.4**	247.4	**190.2**	215.1
Operating profit / (loss) before tax (adjusted)[5]	**0.7**	0.5	**0.3**	0.3	**0.4**	0.3	**0.1**	0.1	**0.5**	0.4	**(0.3)**	(0.5)	**(0.2)**	(0.4)

1 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of this report for more information. 2 Negative market risk numbers are due to the diversification effect allocated to CC – Core Functions. 3 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of this report for more information. 4 Refer to "Statistical measures" in the "Risk management and control" section of our Annual Report 2013 for more information on risk-based capital. 5 Adjusted results are non-GAAP financial measures as defined by SEC Regulations. Refer to the table "Adjusted results" in the "Group performance" section of this report for more information.

Credit risk – internal risk view

Except where stated otherwise, the exposures detailed in this section are based on our internal management view of credit risk which differs in certain respects from the measurement requirements of IFRS.

Banking products

Gross banking products exposures increased by CHF 14 billion to CHF 467 billion over the quarter, of which CHF 292 billion related to loans. The majority of these loan exposures were within our Retail & Corporate and wealth management businesses and were secured by residential and commercial properties or by securities.

➔ **Refer to the "Risk, treasury and capital management" section of our Annual Report 2013 for more information on credit risk, impairment and default**

In Wealth Management Americas, impairments related to securities-backed loan facilities collateralized by Puerto Rico municipal securities and related funds decreased to CHF 20 million from CHF 25 million. Our total lending exposure against Puerto Rico municipal securities and closed-end fund collateral as of 31 March 2014 was USD 0.8 billion, reduced from USD 1.0 billion at the end of the prior quarter, primarily due to share buybacks by some of the closed-end funds. The associated collateral had a market value of USD 2.2 billion as of 31 March 2014. For a significant number of these loans, UBS has recourse to the borrower. On 31 March 2014, UBS had less than USD 40 million of direct exposure to Puerto Rico municipal securities and related funds arising from secondary market activities.

➔ **Refer to the "Risk, treasury and capital management" section of our Annual Report 2013 for more information on our exposures to Puerto Rico municipal securities and associated closed-end funds**

Our Swiss mortgage portfolio in Retail & Corporate and Wealth Management grew marginally over the quarter. The overall composition of the portfolio and the distribution of exposures across loan-to-value (LTV) buckets remained consistent with the position as of 31 December 2013. Average LTV for newly originated loans was 59% compared with the average LTV for the portfolio as a whole of 54%. In the Swiss residential mortgage loan book, over 99.8% of the aggregate amount of loans would continue to be covered by the real estate collateral even if the value assigned to that collateral were to decrease by 20%, and 98.7% would remain covered if collateral values decreased by 30%, both of which were largely unchanged as of 31 March 2014 compared with year-end 2013.

Our Swiss corporate lending portfolio consists of loans to multinational and domestic counterparties. Although this portfolio is well-diversified across industries, these Swiss counterparties are, in general, highly reliant on the domestic economy and the economies to which they export, predominantly the European Union (EU). We continue to closely monitor developments in these economies.

Traded products

Credit exposure arising from traded products, after reflecting the effects of master netting agreements but before deduction of specific credit valuation adjustments and credit hedges, decreased by CHF 6 billion to CHF 44 billion. CHF 21 billion of this exposure arises from OTC derivatives, primarily within Corporate Center – Non-core and Legacy Portfolio and the Investment Bank, for which the exposure decreased by CHF 7 billion to CHF 16 billion over the quarter. As counterparty risk for traded products exposure is managed at a counterparty level, no split between exposures in the Investment Bank and those in Non-core and Legacy Portfolio is provided. A further CHF 15 billion of traded products credit risk relates to securities financing transactions, primarily within the Investment Bank, largely unchanged compared with year-end 2013.

Allowances and provisions for credit losses[1]

	IFRS exposure, gross[2]		Impaired exposure		Estimated liquidation proceeds of collateral		Allowances and provisions for credit losses[3]		Impairment ratio (%)	
CHF million, except where indicated	**31.3.14**	31.12.13	**31.3.14**	31.12.13[4]	**31.3.14**	31.12.13[4]	**31.3.14**	31.12.13	**31.3.14**	31.12.13[4]
Group										
Balances with central banks	**86,420**	78,912								
Due from banks	**19,771**	17,232	**13**	49			**14**	15	**0.1**	0.3
Loans	**295,462**	287,665	**1,134**	1,192	**265**	318	**623**	671	**0.4**	0.4
Guarantees	**18,217**	18,798	**70**	77	**3**	2	**58**	61	**0.4**	0.4
Loan commitments	**56,856**	54,913	**5**	24	**0**	0			**0.0**	0.0
Total	**476,726**	457,520	**1,121**	1,342	**268**	321	**695**	747	**0.3**	0.3
Wealth Management										
Balances with central banks	**293**	356								
Due from banks	**1,270**	1,243								
Loans	**102,174**	96,813	**74**	76	**5**	5	**69**	71	**0.1**	0.1
Guarantees	**2,200**	2,277								
Loan commitments	**1,939**	1,646								
Total	**107,875**	102,335	**74**	76	**5**	5	**69**	71	**0.1**	0.1
Wealth Management Americas										
Balances with central banks	**0**	0								
Due from banks	**1,579**	1,706								
Loans	**34,996**	34,846	**32**	82	**11**	42	**22**	41	**0.1**	0.2
Guarantees	**465**	416								
Loan commitments	**734**	601								
Total	**37,773**	37,569	**32**	82	**11**	42	**22**	41	**0.1**	0.2
Retail & Corporate										
Balances with central banks	**0**	0								
Due from banks	**3,026**	2,756	**13**	41			**14**	14	**0.4**	1.5
Loans	**137,290**	136,499	**914**	932	**203**	227	**503**	528	**0.7**	0.7
Guarantees	**9,225**	9,741	**25**	31	**3**	2	**13**	16	**0.3**	0.3
Loan commitments	**7,012**	7,045	**1**	18	**0**	0			**0.0**	0.3
Total	**156,555**	156,042	**952**	1,022	**206**	230	**531**	558	**0.6**	0.7
Global Asset Management										
Balances with central banks	**0**	0								
Due from banks	**449**	586								
Loans	**48**	152								
Guarantees	**0**	1								
Loan commitments	**49**	49								
Total	**545**	787	**0**	0	**0**	0	**0**	0	**0.0**	0.0

1 Excludes CHF 3 million allowances for securities financing (31 December 2013: CHF 2 million). 2 The measurement requirements of IFRS differ in certain respects from our internal management view of credit risk. 3 Includes CHF 10 million (31 December 2013: CHF 20 million) in collective loan loss allowances for credit losses. 4 In 2014, we restated the impaired exposure and the estimated liquidation proceeds of collateral for loans in Wealth Management Americas for 31 December 2013. As a result, the impaired loan exposure in Wealth Management Americas was increased by CHF 42 million with a corresponding increase in the estimated liquidation proceeds of collateral and a 0.1 percentage point increase in the impairment ratio.

Allowances and provisions for credit losses[1] (continued)

CHF million, except where indicated	IFRS exposure, gross[2]		Impaired exposure		Estimated liquidation proceeds of collateral		Allowances and provisions for credit losses[3]		Impairment ratio (%)	
	31.3.14	31.12.13	**31.3.14**	31.12.13[4]	**31.3.14**	31.12.13[4]	**31.3.14**	31.12.13	**31.3.14**	31.12.13
Investment Bank										
Balances with central banks	**334**	145								
Due from banks	**7,901**	7,550					**0**			
Loans	**11,468**	10,589	**19**	19			**9**	11	**0.2**	0.2
Guarantees	**5,821**	5,884	**45**	45			**45**	45	**0.8**	0.8
Loan commitments	**39,243**	35,353	**2**	4					**0.0**	0.0
Total	**64,767**	59,521	**66**	69	**0**	0	**54**	56	**0.1**	0.1
Corporate Center – Core Functions										
Balances with central banks	**85,793**	78,403								
Due from banks	**5,094**	2,912								
Loans	**1,549**	394					**0**	0		
Guarantees	**12**	12								
Loan commitments	**21**	22								
Total	**92,468**	81,743	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Group, excluding CC – Non-core and Legacy Portfolio										
Balances with central banks	**86,420**	78,905								
Due from banks	**19,319**	16,754	**13**	41			**14**	14	**0.1**	0.2
Loans	**287,525**	279,292	**1,039**	1,109	**219**	274	**604**	651	**0.4**	0.4
Guarantees	**17,723**	18,330	**70**	76	**3**	2	**58**	61	**0.4**	0.4
Loan commitments	**48,997**	44,716	**3**	23	**0**	0			**0.0**	0.1
Total	**459,984**	437,997	**1,124**	1,248	**222**	276	**676**	727	**0.2**	0.3
CC – Non-core										
Balances with central banks	**0**	7								
Due from banks	**111**	116		8			**0**	1		7.3
Loans	**905**	1,001	**36**	23			**11**	9	**3.9**	2.3
Guarantees	**375**	468	**0**	2					**0.0**	0.3
Loan commitments	**7,818**	10,143	**1**	1					**0.0**	0.0
Total	**9,208**	11,735	**37**	35	**0**	0	**11**	10	**0.4**	0.3
CC – Legacy Portfolio										
Balances with central banks	**0**	0								
Due from banks	**342**	362								
Loans	**7,031**	7,372	**60**	60	**46**	44	**8**	11	**0.9**	0.8
Guarantees	**120**	0								
Loan commitments	**41**	54								
Total	**7,534**	7,788	**60**	60	**46**	44	**8**	11	**0.8**	0.8

1 Excludes CHF 3 million allowances for securities financing (31 December 2013: CHF 2 million). 2 The measurement requirements of IFRS differ in certain respects from our internal management view of credit risk. 3 Includes CHF 10 million (31 December 2013: CHF 20 million) in collective loan loss allowances for credit losses. 4 In 2014, we restated the impaired exposure and the estimated liquidation proceeds of collateral for loans in Wealth Management Americas for 31 December 2013. As a result, the impaired loan exposure in Wealth Management Americas was increased by CHF 42 million with a corresponding increase in the estimated liquidation proceeds of collateral.

Composition of Wealth Management loan portfolio, gross

CHF million, except where indicated	31.3.14		31.12.13	
	CHF million	**%**	CHF million	%
Secured by residential property	**34,010**	**33.3**	33,425	34.5
Secured by commercial / industrial property	**2,178**	**2.1**	2,204	2.3
Secured by cash	**12,165**	**11.9**	12,139	12.5
Secured by securities	**44,044**	**43.1**	40,054	41.4
Secured by guarantees and other collateral	**9,239**	**9.0**	8,519	8.8
Unsecured loans	**538**	**0.5**	472	0.5
Total loans, gross	**102,174**	**100.0**	96,813	100.0
Total loans, net of allowances and credit hedges	**102,105**		96,741	

Composition of Wealth Management Americas loan portfolio, gross

CHF million, except where indicated	31.3.14		31.12.13	
	CHF million	**%**	CHF million	%
Secured by residential property	**5,862**	**16.8**	5,635	16.2
Secured by commercial / industrial property				
Secured by cash	**762**	**2.2**	820	2.4
Secured by securities	**26,769**	**76.5**	26,740	76.7
Secured by guarantees and other collateral	**1,389**	**4.0**	1,410	4.0
Unsecured loans[1]	**213**	**0.6**	241	0.7
Total loans, gross	**34,996**	**100.0**	34,846	100.0
Total loans, net of allowances and credit hedges	**34,973**		34,805	

1 Includes credit card exposure.

Composition of Retail & Corporate loan portfolio, gross

CHF million, except where indicated	31.3.14		31.12.13	
	CHF million	**%**	CHF million	%
Secured by residential property	**99,615**	**72.6**	99,155	72.6
Secured by commercial / industrial property	**20,409**	**14.9**	20,377	14.9
Secured by cash	**256**	**0.2**	247	0.2
Secured by securities	**861**	**0.6**	1,219	0.9
Secured by guarantees and other collateral	**6,383**	**4.6**	6,029	4.4
Unsecured loans	**9,766**	**7.1**	9,471	6.9
Total loans, gross	**137,290**	**100.0**	136,499	100.0
Total loans, net of allowances and credit hedges	**136,787**		135,971	

Investment Bank: banking products[1]

CHF million	**31.3.14**	31.12.13
Total exposure, before deduction of allowances, provisions and hedges	**51,904**	52,186
Less: allowances, provisions	**(35)**	(36)
Less: credit protection bought (credit default swaps, notional)[2]	**(10,135)**	(9,843)
Net exposure after allowances, provisions and hedges	**41,734**	42,308

1 Risk view, excludes balances with central banks, internal risk adjustments and the vast majority of due from banks exposures. 2 The effect of portfolio hedges, such as index credit default swaps (CDS), and of loss protection from the subordinated tranches of structured credit protection has not been reflected in this table.

Investment Bank: distribution of net banking products exposure, across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			31.3.14						31.12.13	
				LGD bucket						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	Exposure	0–25%	26–50%	51–75%	76–100%	Weighted average LGD (%)	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB–	23,932	7,335	10,396	2,105	4,097	45	24,017	47
Sub-investment grade			17,802	10,405	5,151	877	1,368	28	18,290	26
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	*11,986*	*7,149*	*3,374*	*426*	*1,038*	*28*	*10,541*	*25*
of which: 10–12	*B2 to Caa*	*B to CCC*	*5,660*	*3,126*	*1,766*	*451*	*316*	*28*	*7,625*	*29*
of which: 13 and defaulted	*Ca and lower*	*CC and lower*	*156*	*130*	*11*	*0*	*14*	*19*	*124*	*17*
Net banking products exposure, after application of credit hedges			**41,734**	**17,740**	**15,547**	**2,982**	**5,465**	**38**	42,308	38

Investment Bank and CC – Non-core and Legacy Portfolio: OTC derivatives exposure[1]

CHF million	31.3.14	31.12.13
Total exposure, before deduction of credit valuation adjustments, provisions and hedges	15,943	23,466
Less: credit valuation adjustments and provisions	(685)	(687)
Less: credit protection bought (credit default swaps, notional)	(791)	(965)
Net exposure after credit valuation adjustments, provisions and hedges	**14,467**	21,814

1 Net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

Market risk

The tables on the next page show minimum, maximum, average and period-end value-at-risk (VaR) by business division and Corporate Center and general market risk type. Market risk, measured as 1-day, 95% confidence level management VaR, increased by CHF 1 million to CHF 12 million over the quarter and remains at low levels by historical standards. There were no material changes to our VaR model in the first quarter of 2014 and there were no group backtesting exceptions in the first quarter or in the 12 months preceding the end of the quarter.

Also shown on the next pages are the statistics for regulatory VaR, stressed VaR and incremental risk charge (IRC) for the Group and by business division and Corporate Center, and the Group's comprehensive risk measure (CRM) used to calculate market risk Basel III RWA.

Following the continued run down of the Non-core portfolios, certain residual positions have been migrated to the correlation portfolio included within the CRM, taking them out of the IRC calculation. This is consistent with the risk management of these positions going forward. The migration of these positions resulted in a significant reduction in diversification benefits in the IRC calculation, which, along with increased single-name risk in the Investment Bank, drove the increase in the IRC to CHF 182 million in the first quarter from CHF 110 million. The consequential increase in the CRM charge was more than offset by negotiated bilateral settlements of OTC contracts.

The resulting RWA for each model, and for risks-not-in-VaR, are shown in the table "Basel III RWA by risk type, exposure and reporting segment" in the "Capital management" section of this report.

➔ **Refer to the "Risk, treasury and capital management" section of our Annual Report 2013 for more information on market risk measures and the derivation of market risk Basel III RWA from the results of the models**

Interest rate risk in the banking book

The interest rate sensitivity to a +1-basis-point parallel shift in yield curves decreased to CHF 1.0 million as of 31 March 2014 from CHF 2.4 million as of 31 December 2013. This was primarily due to a decrease of CHF 2.2 million in Wealth Management Americas' interest rate sensitivity, mainly resulting from a recalibration of the mortgage whole-loan prepayment model due to reductions in observed mortgage prepayment rates. This reduction was partly offset by an increase in the interest rate sensitivity in Corporate Center – Core Functions of CHF 0.7 million.

Due to the low level of interest rates, downward moves by 100/200 basis points are floored to ensure that the resulting interest rates are not negative. This effect results in nonlinear behavior of the sensitivity, in particular in US dollar when combined with prepayment risk on US mortgages and related products.

➔ **Refer to "Interest rate risk in the banking book" in the "Risk, treasury and capital management" section of our Annual Report 2013 for more information**

Management value-at-risk (1-day, 95% confidence, 5 years of historical data) by business division and Corporate Center and general market risk type[1]

	For the quarter ended 31.3.14								
CHF million					Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
	Min.				6	7	9	2	1
		Max.			17	10	12	5	3
			Average		9	8	10	3	2
				31.3.14	7	7	11	5	3
Total management VaR, Group	10	19	13	12	*Average (per business division and risk type)*				
Wealth Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	1	2	1	1	*0*	*1*	*2*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	9	24	13	9	*9*	*8*	*5*	*3*	*2*
Corporate Center – Core Functions	3	5	3	3	*0*	*3*	*0*	*1*	*0*
Diversification effect[2, 3]			(4)	(3)	*0*	*(5)*	*(1)*	*(1)*	*0*
Group, excluding CC – Non-core and Legacy Portfolio	9	23	13	9	*9*	*8*	*7*	*3*	*2*
CC – Non-core and Legacy Portfolio	9	11	10	10	*2*	*5*	*9*	*1*	*0*

	For the quarter ended 31.12.13								
CHF million					Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
	Min.				6	7	10	2	2
		Max.			16	12	16	7	3
			Average		9	9	13	3	2
				31.12.13	7	8	10	3	2
Total management VaR, Group	10	25	14	11	*Average (per business division and risk type)*				
Wealth Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	1	2	1	2	*0*	*2*	*3*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	7	22	11	10	*8*	*8*	*6*	*3*	*2*
Corporate Center – Core Functions	3	6	4	4	*0*	*3*	*1*	*1*	*0*
Diversification effect[2, 3]			(4)	(5)	*0*	*(5)*	*(1)*	*(1)*	*0*
Group, excluding CC – Non-core and Legacy Portfolio	8	25	12	10	*8*	*8*	*8*	*3*	*2*
CC – Non-core and Legacy Portfolio	9	13	11	11	*4*	*5*	*10*	*1*	*0*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Regulatory value-at-risk (10-day, 99% confidence, 5 years of historical data) by business division and Corporate Center and general market risk type[1]

	For the quarter ended 31.3.14								
CHF million	Min.	Max.	Average	31.3.14	Equity	Interest rates	Credit spreads	Foreign exchange	Commod-ities
Min.					25	18	43	4	5
Max.					45	48	53	43	15
Average					31	30	47	19	10
31.3.14					29	23	48	16	13
Total regulatory VaR, Group	35	58	44	39	*Average (per business division and risk type)*				
Wealth Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	3	11	5	4	*0*	*5*	*8*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	32	60	40	32	*31*	*29*	*33*	*14*	*10*
Corporate Center – Core Functions	6	24	11	10	*0*	*11*	*3*	*4*	*0*
Diversification effect[2, 3]			(15)	(13)	*0*	*(17)*	*(5)*	*(3)*	*0*
Group, excluding CC – Non-core and Legacy Portfolio	33	60	41	34	*31*	*28*	*39*	*15*	*10*
CC – Non-core and Legacy Portfolio	32	48	38	36	*3*	*15*	*48*	*13*	*0*

	For the quarter ended 31.12.13[4]								
CHF million	Min.	Max.	Average	31.12.13	Equity	Interest rates	Credit spreads	Foreign exchange	Commod-ities
Min.					24	22	46	3	11
Max.					51	38	98	56	23
Average					31	30	69	23	16
31.12.13					27	31	47	10	11
Total regulatory VaR, Group	37	67	48	38	*Average (per business division and risk type)*				
Wealth Management	0	1	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	9	18	12	10	*0*	*8*	*20*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	32	72	44	35	*30*	*36*	*44*	*20*	*16*
Corporate Center – Core Functions	15	28	20	20	*0*	*14*	*6*	*13*	*0*
Diversification effect[2, 3]			(33)	(31)	*0*	*(25)*	*(9)*	*(17)*	*0*
Group, excluding CC – Non-core and Legacy Portfolio	32	65	44	35	*30*	*33*	*60*	*16*	*16*
CC – Non-core and Legacy Portfolio	31	48	40	42	*7*	*15*	*53*	*17*	*0*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect. 4 In 2014, regulatory VaR related to credit spreads for the comparative period was restated. As a result, average VaR related to credit spreads for the quarter ended 31 December 2013 decreased by CHF 2 million and VaR related to credit spreads as of 31 December 2013 decreased by CHF 15 million. These restatements did not impact total regulatory VaR for UBS Group.

Stressed value-at-risk (10-day, 99% confidence, historical data from 1 January 2007 to present) by business division and Corporate Center and general market risk type[1]

CHF million	For the quarter ended 31.3.14								
					Equity	Interest rates	Credit spreads	Foreign exchange	Commod-ities
	Min.				46	34	74	9	9
		Max.			133	126	117	88	37
			Average		56	79	92	47	23
				31.3.14	53	100	89	21	36
Total stressed VaR, Group	63	112	71	72	*Average (per business division and risk type)*				
Wealth Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	11	22	15	16	*0*	*7*	*25*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	50	142	66	54	*55*	*58*	*94*	*37*	*23*
Corporate Center – Core Functions	29	52	40	36	*0*	*36*	*8*	*7*	*0*
Diversification effect[2, 3]			(58)	(51)	*0*	*(48)*	*(12)*	*(5)*	*0*
Group, excluding CC – Non-core and Legacy Portfolio	51	121	63	55	*55*	*53*	*115*	*39*	*23*
CC – Non-core and Legacy Portfolio	60	83	66	61	*9*	*63*	*73*	*26*	*0*

CHF million	For the quarter ended 31.12.13								
					Equity	Interest rates	Credit spreads	Foreign exchange	Commod-ities
	Min.				40	30	91	6	18
		Max.			155	94	156	103	40
			Average		64	51	129	36	26
				31.12.13	49	66	92	23	21
Total stressed VaR, Group	59	97	70	63	*Average (per business division and risk type)*				
Wealth Management	0	1	0	0	*0*	*1*	*0*	*0*	*0*
Wealth Management Americas	14	35	24	21	*0*	*11*	*35*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	47	132	68	53	*61*	*58*	*97*	*33*	*26*
Corporate Center – Core Functions	20	53	32	44	*0*	*53*	*11*	*23*	*0*
Diversification effect[2, 3]			(59)	(65)	*0*	*(76)*	*(24)*	*(28)*	*0*
Group, excluding CC – Non-core and Legacy Portfolio	47	115	65	53	*61*	*47*	*119*	*27*	*26*
CC – Non-core and Legacy Portfolio	56	79	65	64	*13*	*21*	*88*	*28*	*0*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Incremental risk charge by business division and Corporate Center

	For the quarter ended 31.3.14				For the quarter ended 31.12.13			
CHF million	**Min.**	**Max.**	**Average**	**31.3.14**	Min.	Max.	Average	31.12.13
Wealth Management								
Wealth Management Americas	**13**	**23**	**19**	**20**	11	27	18	22
Retail & Corporate								
Global Asset Management								
Investment Bank	**145**	**207**	**178**	**200**	149	231	184	172
Corporate Center – Core Functions	**107**	**136**	**122**	**107**	108	185	150	113
Diversification effect[1, 2]			**(88)**	**(73)**				(88)
Group, excluding CC – Non-core and Legacy Portfolio	**199**	**260**	**231**	**253**				219
CC – Non-core and Legacy Portfolio	**31**	**73**	**41**	**33**	50	91	65	65
Diversification effect[2, 3]			**(106)**	**(105)**				(174)
Total incremental risk charge, Group	**105**	**195**	**165**	**182**	60	182	103	110

1 Difference between the sum of the standalone IRC for the business divisions and the "Corporate Center – Core Functions" shown and the IRC for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 2 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect. 3 Difference between the sum of the two standalone IRC for "Group, excluding CC – Non-core and Legacy Portfolio" and the "CC – Non-core and Legacy Portfolio" and the IRC for the Group as a whole.

Group: Comprehensive risk measure

	For the quarter ended 31.3.14				For the quarter ended 31.12.13			
CHF million	**Min.**	**Max.**	**Average**	**31.3.14**	Min.	Max.	Average	31.12.13
Total comprehensive risk measure, Group	**302**	**335**	**315**	**302**	308	358	334	308

Interest rate sensitivity – banking book[1]

	31.3.14				
CHF million	**–200 bps**	**–100 bps**	**+1 bp**	**+100 bps**	**+200 bps**
CHF	**(34.1)**	**(6.6)**	**0.3**	**28.3**	**57.1**
EUR	**83.7**	**62.9**	**(0.5)**	**(45.5)**	**(86.2)**
GBP	**4.3**	**(4.5)**	**0.1**	**6.5**	**14.5**
USD	**374.9**	**170.9**	**1.1**	**110.0**	**245.8**
Other	**(4.4)**	**(8.9)**	**0.0**	**0.5**	**1.8**
Total impact on interest rate-sensitive banking book positions	**424.3**	**213.8**	**1.0**	**99.7**	**233.0**
of which: Wealth Management Americas	***402.9***	***201.7***	***0.8***	***76.1***	***173.6***
of which: Investment Bank	***11.2***	***5.7***	***0.0***	***(6.8)***	***(12.5)***
of which: Corporate Center – Core Functions	***5.3***	***0.6***	***0.4***	***44.4***	***100.4***
of which: CC – Non-core and Legacy Portfolio	***4.1***	***5.4***	***(0.1)***	***(11.4)***	***(23.2)***

	31.12.13				
CHF million	–200 bps	–100 bps	+1 bp	+100 bps	+200 bps
CHF	(9.6)	13.7	0.1	14.5	32.0
EUR	73.9	47.3	(0.6)	(55.4)	(105.9)
GBP	21.5	14.2	(0.3)	(25.8)	(51.0)
USD	100.1	(40.6)	3.0	301.0	610.0
Other	(6.2)	(5.6)	0.1	5.6	11.6
Total impact on interest rate-sensitive banking book positions	179.7	29.0	2.4	239.8	496.7
of which: Wealth Management Americas	*172.4*	*18.3*	*3.0*	*297.7*	*597.0*
of which: Investment Bank	*29.1*	*16.8*	*(0.2)*	*(20.4)*	*(40.3)*
of which: Corporate Center – Core Functions	*(27.0)*	*(11.7)*	*(0.3)*	*(23.1)*	*(30.8)*
of which: CC – Non-core and Legacy Portfolio	*4.3*	*5.1*	*(0.1)*	*(11.6)*	*(23.5)*

1 Does not include interest rate sensitivities for credit valuation adjustments on monoline credit protection, US and non-US reference-linked notes. Also not included are the interest rate sensitivities of our inventory of student loan auction rate securities, as from an economic perspective these exposures are not materially affected by parallel shifts in US dollar interest rates, holding other factors constant.

Country risk

The situation in the Ukraine dominated the geopolitical arena throughout the quarter. Our direct exposure to Ukraine is near zero. We are, however, closely monitoring developments and the possibilities for broader economic contagion, including the potential effects of economic sanctions against Russian persons and entities. We have also considered potential operational implications and reviewed the effectiveness of our operational contingency plans.

Exposures to selected eurozone countries

We continue to monitor and manage closely our exposures to peripheral European countries. Our direct exposures to Greece, Italy, Ireland, Portugal and Spain (GIIPS) remain limited, but we nevertheless remain watchful regarding the potential broader implications of adverse developments in the eurozone.

➔ **Refer to “Country risk” in the “Risk, treasury and capital management” section of our Annual Report 2013 for information on our country risk framework and related exposure measures**

Exposures to selected eurozone countries

CHF million	Total		Banking products (loans, guarantees, loan commitments)			Traded products (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral		Trading inventory (securities and potential benefits / remaining exposure from derivatives)
31.3.14		Net of hedges[1]	Exposure before hedges	Net of hedges[1]	*of which unfunded*	Exposure before hedges	Net of hedges	Net long per issuer
France	**10,725**	**9,865**	**2,772**	**2,034**	***498***	**1,695**	**1,573**	**6,257**
Sovereign, agencies and central bank	5,966	5,845	60	60		275	153	5,632
Local governments	11	11	6	6		3	3	2
Banks	2,241	2,241	1,097	1,097		1,005	1,005	140
Other[2]	2,505	1,767	1,610	872		413	413	483
Netherlands	**5,830**	**5,086**	**1,481**	**805**	***315***	**752**	**683**	**3,597**
Sovereign, agencies and central bank	1,864	1,864	1	1		37	37	1,826
Local governments	3	3				0	0	3
Banks	568	568	69	69		457	457	42
Other[2]	3,395	2,651	1,411	736		257	189	1,726
Italy	**3,767**	**2,971**	**1,685**	**961**	***757***	**611**	**539**	**1,471**
Sovereign, agencies and central bank	226	157	37	37		88	19	101
Local governments	125	125				98	98	27
Banks	1,382	1,382	309	309		14	14	1,060
Other[2]	2,034	1,306	1,339	615		412	408	283
Spain	**2,363**	**1,845**	**669**	**232**	***134***	**256**	**175**	**1,438**
Sovereign, agencies and central bank	284	284	21	21				263
Local governments	9	9				5	5	5
Banks	232	232	56	56		145	145	31
Other[2]	1,838	1,320	592	155		106	25	1,140
Austria	**1,278**	**1,204**	**73**	**73**	***37***	**666**	**592**	**538**
Sovereign, agencies and central bank	1,000	927	12	12		616	542	373
Local governments	1	1						1
Banks	245	245	39	39		45	45	161
Other[2]	31	31	22	22		5	5	3
Ireland[3]	**676**	**676**	**110**	**110**	***1***	**335**	**335**	**231**
Sovereign, agencies and central bank	28	28				4	4	24
Local governments								
Banks	120	120	88	88		14	14	18
Other[2]	528	528	22	22		317	317	188
Belgium	**517**	**517**	**107**	**107**	***39***	**57**	**57**	**353**
Sovereign, agencies and central bank	269	269	5	5		38	38	226
Local governments								
Banks	60	60	30	30		2	2	28
Other[2]	187	187	71	71		17	17	99
Portugal	**223**	**101**	**137**	**15**	***14***	**4**	**4**	**83**
Sovereign, agencies and central bank	25	25						25
Local governments								
Banks	18	18	15	15		3	3	0
Other[2]	180	58	122	0		0	0	57
Greece	**50**	**50**	**5**	**5**	***5***	**0**	**0**	**45**
Sovereign, agencies and central bank	16	16						16
Local governments								
Banks	5	5	4	4				0
Other[2]	29	29	1	1		0	0	29
Other	**248**	**248**	**154**	**154**	***26***	**87**	**87**	**8**

1 Not deducted from the "Net of hedges" exposures are total allowances and provisions for credit losses of CHF 38 million (of which: Malta CHF 13 million, France CHF 10 million and Austria CHF 9 million). 2 Includes corporates, insurance companies and funds. 3 The majority of the Ireland exposure relates to funds and foreign bank subsidiaries.

Exposure from single-name credit default swaps referencing Greece, Italy, Ireland, Portugal or Spain (GIIPS)

	Protection bought						Protection sold		Net position (after application of counterparty master netting agreements)			
CHF million			*of which: counterparty domiciled in GIIPS country*		*of which: counterparty domicile is the same as the reference entity domicile*							
31.3.14	Notional	RV	Notional	RV	Notional	RV	Notional	RV	Buy notional	Sell notional	PRV	NRV
Greece	631	(19)	6	0			(610)	19	268	(248)	14	(15)
Italy	29,919	51	232	(1)	145	(1)	(28,265)	(250)	6,081	(4,428)	146	(346)
Ireland	3,900	(56)	13	0			(3,613)	70	1,439	(1,152)	58	(44)
Portugal	3,885	(7)	132	1			(3,781)	(1)	1,097	(994)	39	(47)
Spain	13,679	(207)	276	40	92	39	(13,241)	188	4,061	(3,623)	126	(145)
Total	52,013	(239)	660	40	237	39	(49,510)	26	12,947	(10,444)	383	(596)

Operational risk

As of 1 January 2014, our Compliance function merged with the Operational Risk Control unit, enhancing Risk Control's ability to control the Group's primary and consequential risks in a fully integrated way. The new function reports to the Group Chief Risk Officer and will manage, implement and enhance the operational risk framework. In the first quarter of 2014, key design principles for the new operating model and organizational structures have been agreed and implemented.

The annual review of the parameters for our advanced measurement approach model, used for the calculation of operational risk regulatory capital, was completed in the fourth quarter of 2013 and submitted to FINMA for review in January 2014. FINMA has approved the changes which were implemented in the first quarter of 2014.

→ **Refer to "Swiss SRB Basel III capital information" in the "Capital management" section of this report for more information on the development of operational risk RWA during the quarter and on the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA**

Corporate Center – Non-core and Legacy Portfolio

During the first quarter, Non-core and Legacy Portfolio balance sheet assets declined by CHF 25 billion to CHF 190 billion, mainly reflecting lower positive replacement values (PRV) in Non-core.

Risk-weighted assets (RWA) for Non-core and Legacy Portfolio declined by CHF 3 billion to CHF 60 billion, and the Swiss SRB leverage ratio denominator decreased by CHF 26 billion to CHF 134 billion.

Non-core

Non-core balance sheet assets decreased by CHF 23 billion to CHF 167 billion during the first quarter, mainly due to CHF 20 billion lower PRV from our over-the-counter (OTC) rates and credit derivative exposures that make up a large part of our remaining Non-core portfolios. The main PRV reduction occurred in our rates portfolio due to negotiated bilateral settlements with specific counterparties (i.e., unwinds), third-party novations, including transfers to central clearing houses (i.e., trade migrations), agreements to net down trades with other dealer counterparties (i.e., trade compressions), as well as, to a lesser extent, fair value changes due to currency movements, partly offset by interest rate movements. Rates reduction activity principally focused on large, RWA-intensive trades including uncollateralized exposures with certain counterparties and on reducing the number of outstanding OTC trades through net downs with other dealer counterparties. The reduction in credit PRV mainly resulted from unwinds and net downs with dealer counterparties.

Funded assets decreased by CHF 3 billion, mainly due to the maturing of the last remaining trade in the structured reverse repo portfolio and the full exit of precious metal holdings in Non-core. Remaining funded assets are largely driven by corporate loans and bonds held to hedge OTC positions. Funded assets and PRV classified as Level 3 in the fair value hierarchy totaled CHF 3 billion, or 2%, of total Non-core balance sheet assets.

Non-core RWA totaled CHF 29 billion as of 31 March 2014, a decrease of CHF 4 billion compared with 31 December 2013, due to reductions in credit risk, market risk and operational risk RWA. The Swiss SRB leverage ratio denominator decreased by CHF 22 billion to CHF 112 billion compared with 31 December 2013.

In May 2014, we concluded an agreement to exit a majority of the Non-core structured credit portfolio market risk. As a result of this transaction, subsequent novations and other planned reduction measures, we expect RWA for this portfolio, excluding operational risk, to total approximately CHF 1 billion and LRD to be up to CHF 15 billion below current levels by the end of 2014.

➔ Refer to "Corporate Center – Non-core and Legacy Portfolio" in the "Risk management and control" section of our Annual Report 2013 for more information on Corporate Center – Non-core

Legacy Portfolio

Legacy Portfolio balance sheet assets decreased by CHF 2 billion to CHF 24 billion during the first quarter. There were no individually significant trade reductions but rather a number of smaller position reductions across the real estate assets portfolio, with additional reductions in funded assets as well as reductions in PRV due to changes in currency rates. Funded assets and PRV classified as Level 3 in the fair value hierarchy totaled CHF 4 billion, or 16%, of total Legacy Portfolio balance sheet assets.

Legacy Portfolio RWA totaled CHF 31 billion as of 31 March 2014 and remained stable compared with 31 December 2013. The Swiss SRB leverage ratio denominator decreased by CHF 4 billion to CHF 23 billion compared with 31 December 2013.

➔ Refer to "Corporate Center – Non-core and Legacy Portfolio" in the "Risk management and control" section of our Annual Report 2013 for more information on Corporate Center – Legacy Portfolio

An overview of the composition of Non-core and Legacy Portfolio is presented on the following pages, including position and RWA information for the first quarter of 2014 and the prior quarter. The groupings of positions by category and the order in which these are listed are not necessarily representative of the magnitude of the risks associated with them, nor do the metrics shown in the tables necessarily represent the risk measures used to manage and control these positions. For example, OTC derivatives trading is largely conducted on a collateralized basis and under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of PRV with negative replacement values in the event of default. The funded assets and PRV measures presented are intended to provide additional transparency regarding progress in the execution of our strategy to exit these positions. All positions are affected by market factors outside the control of UBS, for example, by interest rate movements.

Composition of Non-core

CHF billion

Exposure category		Description	Changes in 1Q14	RWA [1]		Funded assets [2]		PRV [3]	
				31.3.14	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13
Rates	**Linear OTC**	Primarily vanilla interest rate, inflation, basis, flow commodities and cross-currency swaps for all major currencies and some emerging markets. Over 95% of gross PRV is collateralized. Approximately 50% of the current gross PRV is due to mature by 2019.	Reduction in RWA due to a decrease in PRV, mainly as a result of trade unwinds, trade compressions, transfers to central clearing houses and currency movements, partly offset by interest rate movements.	**9.2**	11.8	**1.0**	1.1	**93.0**	110.1
	Non-linear OTC	Vanilla and structured options. Over 95% of gross PRV is collateralized. Non-linear exposures are typically longer dated than linear exposures.	Slight decrease in PRV mainly due to trade unwinds and transfers to central clearing houses, partly offset by interest rate movements.	**2.0**	2.0	**1.1**	1.0	**36.6**	36.9
Credit	**Structured credit**	Tranches of structured credit products, liquid index tranches, credit-linked notes, index and single-name credit default swaps, structured entities and bond-repackaged notes with granular risk characteristics and average remaining maturity of less than 4 years. This portfolio is managed under a correlation trading strategy.	Decrease in PRV from CDS and CDO trade unwinds, maturing trades and trade netting of selected positions with counterparties resulting in RWA reduction.	**5.6**	6.0	**0.4**	0.4	**12.1**	14.6
	Loans	Corporate lending, syndicated loans, asset-based lending and structured repo exposures.	Decrease in funded assets reflecting the maturing of the last remaining trade in the structured reverse repo portfolio. Decrease in RWA mainly driven by a reduction in undrawn loan commitments.	**0.9**	1.4	**1.1**	2.1	**0.0**	0.0
	Other	Primarily corporate bonds used for hedging OTC derivatives, residual distressed and equity positions.	Decrease in funded assets due to ongoing reduction of cash positions.	**0.6**	0.7	**0.5**	0.6	**0.1**	0.1
Other		Exposures to precious metal deposits, equities, CVA and related hedging activity.	Decrease in funded assets due to full exit of precious metal holdings held on behalf of clients. Decrease in PRV due to ongoing CVA hedging activity.	**1.2**	1.2	**0.4**	2.1	**2.8**	3.1
Operational risk		Operational risk RWA allocated to Non-core.	Decrease in RWA primarily due to a lower capital requirement based on the advanced measurement approach (AMA) model output.	**9.2**	9.5	–	–	–	–
Total				**28.7**	32.6	**4.6**	7.3	**144.6**	164.9

1 Fully applied and phase-in Basel III RWA. 2 Funded assets are defined as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives (CHF 17.3 billion as of 31.3.14 and CHF 17.4 billion as of 31.12.13). 3 Positive replacement values (gross exposure excluding the impact of any counterparty netting).

Composition of Legacy Portfolio

CHF billion

Exposure category	Description	Changes in 1Q14	RWA[1]		Funded assets[2]		PRV[3]	
			31.3.14	31.12.13	31.3.14	31.12.13	31.3.14	31.12.13
Collateralized debt obligations (CDO)	Includes ABS, RMBS, CDO, CMBS and CLO bonds as well as single-name credit default swap (CDS) trades referencing these asset classes.	RWA reduction due to sales of certain CDO positions and hedges.	**4.6**	5.1	**2.4**	2.5	**0.4**	0.5
Reference-linked notes (RLN)[4]	RLN consist of a series of transactions, mainly issued in note form, whereby UBS purchased credit protection on a reference portfolio of fixed income assets, along with related cash bonds held for hedging purposes.	RWA remained stable compared with the prior quarter.	**3.1**	3.1	**1.7**	1.7	**0.5**	0.6
Monolines	Primarily CDS protection purchased from monoline insurers to hedge specific positions. The majority of this exposure is hedged via single-name credit default swaps.	RWA remained stable compared with the prior quarter. Total fair value of CDS protection reduced, as markets tightened for CMBS assets, to CHF 0.3 billion (of which CHF 0.1 billion from monolines rated BBB and above) after cumulative CVA of CHF 0.1 billion.	**2.0**	2.2	**–**	–	**0.3**	0.4
Real estate assets	Primarily CDS on ABS, ABX and CMBX[4] derivatives positions and CMBS cash bonds.	Increase in RWA due to changes in regulatory requirements for capitalizing trading book securitization exposures, largely offset by unwinds and novations of ABX trades which also drove the decrease in PRV.	**2.2**	2.0	**0.4**	0.5	**0.5**	0.9
Auction rate securities (ARS) and auction preferred stock (APS)	Portfolio of student loan and municipal ARS as well as APS. 100% of student loan ARS exposures were rated BB– and higher as of 31.3.14, with over 87% of the collateral backed by Federal Family Education Loan Program guaranteed collateral. All APS were rated A and higher as of 31.3.14.	No significant change in ARS and APS funded assets with student loan ARS exposure constant at CHF 0.9 billion. RWA remained stable.	**1.5**	1.6	**3.7**	3.8	**–**	–
Muni swaps and options	Swaps and options with US state and local governments.	Increase in PRV due to interest rate movements. RWA remained stable compared with the prior quarter.	**0.9**	1.0	**–**	–	**3.3**	3.1
Loan to BlackRock fund	Loan to structured entity managed by BlackRock Financial Management Inc. The loan's LTV ratio was below 55% as of 31.3.14.	Outstanding loan balance (including amounts held in escrow) decreased reflecting repayment of principal.	**0.3**	0.3	**2.2**	2.4	**–**	–
Other	Includes a number of smaller positions.	RWA increased due to an increase in VaR. Reduction in PRV due to the impact of JPY and AUD currency rate movements on dual currency note positions.	**2.5**	2.3	**3.5**	3.5	**3.7**	4.1
Operational risk	Operational risk RWA allocated to the Legacy Portfolio.	Increase in RWA primarily due to a higher capital requirement based on the AMA model output.	**14.2**	13.3	**–**	–	**–**	–
Total			**31.3**	30.9	**14.0**	14.4	**8.7**	9.6

1 Fully applied and phase-in Basel III RWA. 2 Funded assets are defined as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives (CHF 1.0 billion as of 31.3.14 and CHF 1.5 billion as of 31.12.13). 3 Positive replacement values (gross exposure excluding the impact of any counterparty netting). 4 Index of CMBS.

Balance sheet

As of 31 March 2014, our balance sheet assets stood at CHF 983 billion, a decrease of CHF 36 billion from 31 December 2013, primarily due to a continued reduction in positive replacement values in both Corporate Center – Non-core and Legacy Portfolio and the Investment Bank. Funded assets, which represent total assets excluding positive replacement values and collateral delivered against over-the-counter derivatives, increased by CHF 3 billion to CHF 742 billion. This increase mainly reflected client-driven increases in trading portfolio assets in the Investment Bank and lending activity in Wealth Management, partly offset by reduced collateral trading assets in Corporate Center – Core Functions. Excluding currency effects, funded assets increased by approximately CHF 6 billion.

Assets

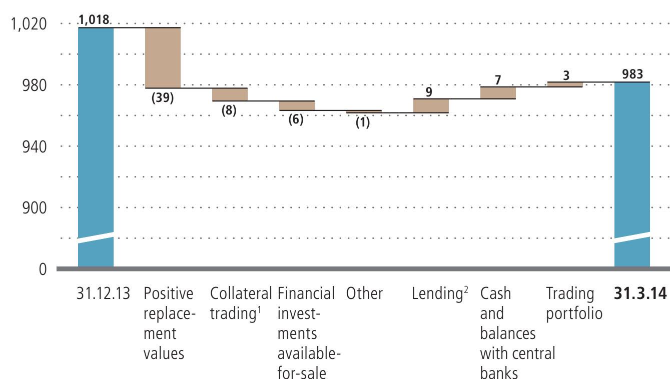
Product category view

Positive replacement values (PRV) decreased by CHF 39 billion, mainly reflecting a decline in Non-core and Legacy Portfolio which primarily resulted from a reduction in over-the-counter (OTC) rates and credit derivative exposures due to negotiated bilateral settlements with specific counterparties, third-party novations, including transfers to central clearing houses, agreements to net down trades with other dealer counterparties, as well as, to a lesser extent, fair value changes due to currency movements, partially offset by interest rate movements. In addition, PRV fell in the Investment Bank, mainly reflecting maturities of foreign exchange contracts. Collateral trading assets, which consist of reverse repurchase agreements and cash collateral on securities borrowed, were lower by CHF 8 billion, mainly within Group Treasury in Corporate Center – Core Functions. Financial investments available-for-sale decreased by CHF 6 billion, primarily resulting from a re-balancing of our multi-currency portfolio of unencumbered, high-quality, liquid assets managed centrally by Group Treasury from financial investments available-for-sale to cash and balances with central banks. Other assets decreased by CHF 1 billion as an increase in prime brokerage receivables was more than offset by a reduction in cash collateral receivables on derivative instruments. These decreases were partly offset by a CHF 9 billion increase in lending assets, which primarily resulted from increased Lombard and residential mortgage lending in Wealth Management. Cash and balances with central banks increased by CHF 7 billion, mainly due to the abovementioned re-balancing of the multi-currency portfolio of unencumbered, high-quality, liquid assets, a majority of which are short term. Trading portfolio assets increased by CHF 3 billion, primarily due to client-driven increases in both debt and equity instruments, partly offset by a reduction in precious metal positions.

➔ **Refer to the "Balance sheet" and Notes 10 through 13 in the "Financial information" section of this report for more information**

Assets: development during the first quarter of 2014

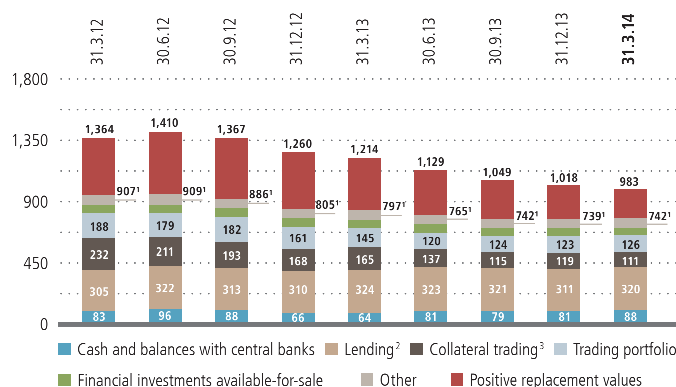
CHF billion



1 Consists of reverse repurchase agreements and cash collateral on securities borrowed.
2 Consists of due from banks, financial assets designated at fair value and loans.

Balance sheet development – assets

CHF billion



1 Total assets excluding positive replacement values and collateral delivered against OTC derivatives.
2 Consists of due from banks, financial assets designated at fair value and loans.
3 Consists of reverse repurchase agreements and cash collateral on securities borrowed.

Total assets and funded assets

CHF billion	31.3.14 Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Other business divisions	UBS	31.12.13[1] Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Other business divisions	UBS
Total IFRS assets	242	233	190	317	983	245	247	215	311	1,018
Less: positive replacement values	(59)	0	(153)	(3)	(215)	(76)	0	(174)	(3)	(254)
Less: collateral delivered against OTC derivatives[2]	(7)	0	(18)	0	(26)	(7)	0	(19)	0	(26)
Funded assets	**176**	**233**	**19**	**314**	**742**	**162**	**247**	**22**	**307**	**739**

1 Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on the adoption of the amendments to IAS 32. 2 Mainly consists of cash collateral receivables on derivative instruments and reverse repurchase agreements.

Divisional view

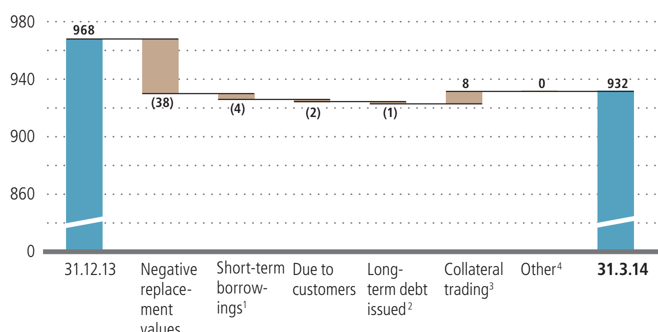
Non-core and Legacy Portfolio total assets decreased by CHF 25 billion to CHF 190 billion as a result of the aforementioned reduction in PRV, and funded assets decreased by CHF 3 billion to CHF 19 billion, mainly due to the maturity of the last remaining trade in the structured reverse repo portfolio and the full exit of precious metal holdings in Non-core. Corporate Center – Core Functions assets decreased by CHF 14 billion to CHF 233 billion, primarily within Group Treasury, mainly reflecting the abovementioned reduction in collateral trading assets. The overall size of our multi-currency portfolio of unencumbered, high-quality, liquid assets managed centrally by Group Treasury remained stable. Investment Bank total assets decreased by CHF 3 billion to CHF 242 billion, however, funded assets increased by CHF 14 billion to CHF 176 billion, mainly due to a client-driven increase in trading portfolio assets. Wealth Management total assets increased by CHF 6 billion to CHF 115 billion, primarily reflecting the abovementioned increase in lending activity. Wealth Management Americas, Global Asset Management and Retail & Corporate total assets were broadly unchanged at CHF 45 billion, CHF 13 billion and CHF 143 billion, respectively.

Liabilities

Total liabilities decreased by CHF 37 billion to CHF 932 billion, primarily as negative replacement values declined by CHF 38 billion, largely in line with the abovementioned reduction in PRV. Short-term borrowings, which include short-term debt issued and interbank borrowing, decreased by CHF 4 billion, primarily reflecting reduced funding requirements. Customer deposits decreased by CHF 2 billion, mainly in Wealth Management. Long-term debt outstanding, which consists of financial liabilities designated at fair value and long-term debt issued, decreased by CHF 1 billion as the issuance of EUR 2.0 billion of low-trigger, loss-absorbing, Basel III-compliant subordinated notes was more than offset by the redemption and maturity of several non-structured notes and OTC instruments. These decreases were partly offset by an in-

Liabilities: development during the first quarter of 2014

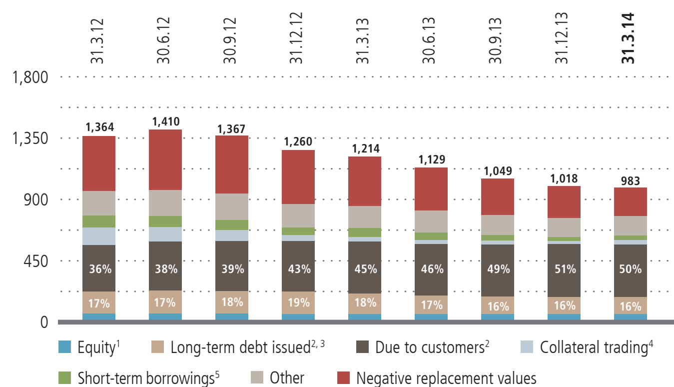
CHF billion



1 Consists of short-term debt issued and due to banks. 2 Consists of long-term debt issued and financial liabilities designated at fair value. 3 Consists of repurchase agreements and cash collateral on securities lent. 4 Includes trading portfolio liabilities and cash collateral payables on derivative instruments.

Balance sheet development – liabilities and equity

CHF billion, except where indicated



1 Consists of equity attributable to UBS shareholders, equity attributable to preferred noteholders and equity attributable to non-controlling interests. 2 Percentages based on total liabilities and equity excluding negative replacement values. 3 Consists of long-term debt issued and financial liabilities designated at fair value. 4 Consists of repurchase agreements and cash collateral on securities lent. 5 Consists of short-term debt issued and due to banks.

crease of CHF 8 billion in collateral trading liabilities, mainly reflecting a client-driven increase in repurchase activity. Other liabilities were unchanged as an increase in trading portfolio liabilities was offset by a reduction in cash collateral payables on derivative instruments.

➔ **Refer to the "Liquidity and funding management" section of this report for more information**

➔ **Refer to the "Balance sheet" and Notes 10 through 14 in the "Financial information" section of this report for more information**

Equity

Equity attributable to UBS shareholders increased by CHF 1,022 million to CHF 49,023 million.

Total comprehensive income attributable to UBS shareholders was CHF 1,465 million, reflecting the net profit attributable to UBS shareholders of CHF 1,054 million and other comprehensive income (OCI) attributable to UBS shareholders of CHF 411 million (net of tax). First quarter OCI included net gains on defined benefit plans of CHF 344 million, positive OCI related to cash flow hedges and financial investments available-for-sale of CHF 210 million and CHF 31 million, respectively, partly offset by foreign currency translation losses of CHF 174 million.

Share premium decreased by CHF 33 million, mainly reflecting a decrease of CHF 52 million related to employee share plans. Net treasury share activity reduced equity attributable to UBS shareholders by CHF 434 million, mainly reflecting the net acquisition of treasury shares in relation to employee share-based compensation awards.

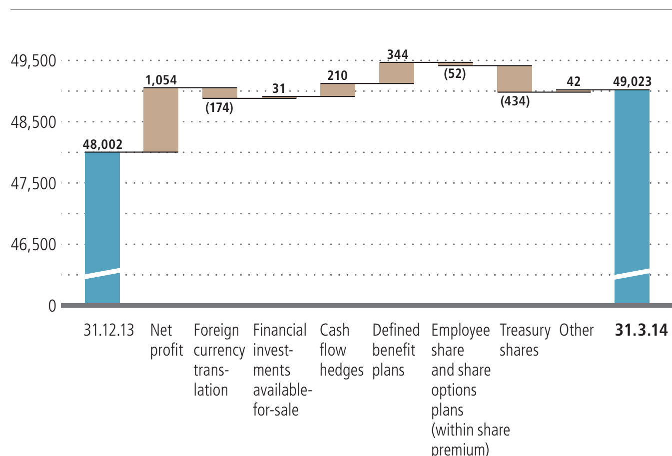
➔ **Refer to the "Statement of changes in equity" in the "Financial information" section, and to "Total comprehensive income attributable to UBS shareholders: 1Q14 vs 4Q13" in the "Group performance" section of this report for more information**

Intra-quarter balances

Balance sheet positions disclosed in this section represent quarter-end positions. Intra-quarter balance sheet positions fluctuate in the ordinary course of business and may differ from quarter-end positions.

Equity attributable to UBS shareholders: development during the first quarter of 2014

CHF million



Liquidity and funding management

Our liquidity position remained strong during the quarter and we further optimized our funding profile through our fourth issuance of low-trigger, loss-absorbing, Basel III-compliant subordinated notes. These notes qualify as progressive buffer capital in compliance with Swiss regulations for systemically important banks and contributed to the further strengthening of our Swiss systemically relevant banks (SRB) leverage ratio.

Strategy and objectives

We manage our liquidity and funding risk with the overall objective of optimizing the value of our business franchise across a broad range of temporal market conditions and in consideration of current and future regulatory constraints. In line with the implementation of our strategy, as our balance sheet assets are reduced, we generate capacity within our liquidity and funding positions. We employ a number of measures to monitor our liquidity and funding positions under normal and stressed conditions. In particular, we use stress scenarios to apply behavioral adjustments to our balance sheet and calibrate the results from these internal stress models with external measures, primarily the evolving regulatory requirements for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity

Our funding diversification and global scope help protect our liquidity position in the event of a crisis. Our contingent funding sources include a large, multi-currency portfolio of unencumbered, high-quality, liquid assets, a majority of which are short term, managed centrally by Group Treasury, as well as available and unutilized liquidity facilities at several major central banks, and contingent reductions of liquid trading portfolio assets. We regularly assess and test all material, known and expected cash flows, as well as the level and availability of high-grade collateral that could be used to raise additional funding if required.

The LCR provides banks with a measurement that helps them to ensure that they hold enough highly liquid assets to survive short-term (30-day) severe general market and firm-specific stress. The NSFR assigns a required stable funding factor to assets (representing the illiquid part of the assets) and assigns all liabilities an available stable funding factor (representing the stability of a liability) in order to ensure that banks are not overly reliant on short-term funding and have sufficient long-term funding for illiquid assets. The future minimum regulatory requirement is 100% for both the LCR (as of 2019) and NSFR (as of 2018). LCR regulation for Switzerland is expected to be finalized in the second quarter of 2014, with minimum quantitative requirements to come into effect as of January 2015. Further, some components of the FINMA framework are not yet finalized. In the interim, our LCR and NSFR ratios are calculated on a pro-forma basis, using current supervisory guidance from FINMA. Our pro-forma ratio calculations will continue to evolve to incorporate any changes in the regulatory requirements as they become more defined and implementable. Furthermore, calculations will be refined as new models and the associated systems are enhanced.

As of 31 March 2014, our estimated pro-forma regulatory LCR was 110% and the liquidity asset buffer component was CHF 146 billion. In addition to the liquidity asset buffer component of the regulatory LCR, for our management LCR we include additional high-quality and unencumbered contingent funding sources not eligible under the regulatory liquidity framework, primarily local funding reserves and unutilized funding capacity. As of 31 March 2014, our management LCR was 152%. In aggregate, these sources of available liquidity represented 27% of our funded balance sheet assets. As of 31 March 2014, our estimated pro-forma NSFR was 107%. As of 31 March 2014, UBS was in compliance with FINMA liquidity requirements.

➔ **Refer to the "Regulatory and legal developments" section of our Annual Report 2013 for more information on recent Basel III guidance**

➔ **Refer to the "Treasury management" section of our Annual Report 2013 for more information on the liquidity asset buffer**

Funding

The composition of our funding sources shifted somewhat from unsecured to secured funding during the quarter, as the percentage contribution of repurchase agreements and securities lending increased to 4.7% from 3.5% (as shown in the "Funding by product and currency" table). The increase in secured funding was mainly related to higher business activity levels in our Investment Bank. Reliance on unsecured wholesale funding continued to decline in the quarter, while our overall customer deposits remained stable at 59% of our total funding sources. Our ratio of customer deposits to outstanding loan balances was 132% compared with 136% as of 31 December 2013.

Our outstanding long-term debt, including structured debt reported as financial liabilities at fair value, decreased by CHF 1 billion to CHF 123 billion as of 31 March 2014, remaining at 19% of our funding sources. Excluding structured debt, long-term debt – which comprises both senior and subordinated debt and is presented within Debt issued on the balance sheet – remained at

CHF 54 billion as of 31 March 2014. Senior debt comprises both publicly and privately placed notes and bonds, as well as covered bonds and Swiss Pfandbriefe.

During the first quarter of 2014, we continued to raise medium- and long-term funds through medium-term notes and private placements and through Swiss Pfandbriefe issuances. Additionally, we contributed to our targeted loss-absorbing capital through the issuance of EUR 2.0 billion of low-trigger, loss-absorbing, Basel III-compliant subordinated notes. These 12-year notes with an optional call at year seven will pay a non-deferrable coupon at an initial rate of 4.75%. We also had two redemptions during the quarter: a USD 0.8 billion 3-year 2.25% fixed rate and a USD 0.6 billion 3-year floating rate public senior unsecured bond. Additionally, CHF 0.6 billion of Swiss Pfandbriefe matured during the first quarter. In April 2014, we launched a EUR 1.0 billion 7-year 1.375% fixed rate covered bond.

Our short-term interbank deposits (presented as Due to banks on the balance sheet), together with our outstanding short-term debt, represented 5.5% of total funding sources compared with 6.1% as of 31 December 2013.

Liquidity Coverage Ratio (LCR)

CHF billion, except where indicated	31.3.14	31.12.13
Cash outflows	239	236
Cash inflows	107	97
Net cash outflows	133	139
Liquidity asset buffer	146	153
Regulatory LCR (%)	110	110
Additional contingent funding sources[1]	56	54
Management LCR (%)	152	148

1 Additional contingent funding sources including dedicated local liquidity reserves and additional unutilized borrowing capacity.

Net Stable Funding Ratio (NSFR)

CHF billion, except where indicated	31.3.14	31.12.13
Available stable funding	358	346
Required stable funding	336	318
NSFR (%)	107	109

Liquidity asset buffer

	31.3.14			31.12.13		
CHF billion	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash and balances with central banks	87	0	87	80	0	80
Financial investments available-for-sale	23	14	37	33	12	45
of which: government bills/bonds	*23*	*0*	*23*	*32*	*0*	*32*
of which: corporate bonds and municipal bonds, including bonds issued by financial institutions	*0*	*14*	*14*	*1*	*12*	*13*
Reverse repurchase agreements	0	1	1	2	2	2
Central bank pledges[1]	12	10	21	16	10	27
Total	122	24	146	129	24	153

1 Mainly reflects assets received as collateral under reverse repurchase and securities borrowing arrangements, which are not recognized on the balance sheet, and which have subsequently been pledged to central banks.

Asset funding

CHF billion, except where indicated

As of 31.3.14

107 Cash, balances with central banks and due from banks
53 Financial investments available-for-sale
111 Cash collateral on securities borrowed and reverse repurchase agreements
126 Trading portfolio assets
295 Loans
81 Other (including net replacement values)

CHF 80 billion collateral surplus

132% coverage
CHF 94 billion surplus

Due to banks 14
Short-term debt issued[1] 22
Trading portfolio liabilities 29
Cash collateral on securities lent and repurchase agreements 31
Due to customers: Demand deposits 176; Time deposits 48; Fiduciary deposits 20; Retail savings/deposits 144 — 389
Long-term debt issued[2]: Financial liabilities designated at fair value[3] 69; Held at amortized cost 54 — 123
Other 113
Total equity 51

Assets

Liabilities and equity

1 Short-term debt issued is comprised of certificates of deposit, commercial paper, acceptances and promissory notes, and other money market paper. 2 Long-term debt issued also includes debt with a remaining time to maturity of less than one year. 3 Including structured over-the-counter debt instruments.

Funding by product and currency

	In CHF billion All currencies		All currencies[1]		CHF[1]		EUR[1]		USD[1]		Others[1]	
	31.3.14	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13	**31.3.14**	31.12.13
Securities lending	**13.4**	9.5	**2.0**	1.4	**0.4**	0.3	**0.4**	0.3	**1.0**	0.6	**0.2**	0.2
Repurchase agreements	**17.7**	13.8	**2.7**	2.1	**0.0**	0.0	**0.5**	0.5	**1.6**	1.3	**0.6**	0.3
Due to banks	**14.1**	12.9	**2.1**	1.9	**0.5**	0.5	**0.2**	0.2	**0.6**	0.7	**0.8**	0.6
Short-term debt issued[2]	**22.4**	27.6	**3.4**	4.2	**0.2**	0.3	**0.2**	0.2	**2.6**	3.2	**0.4**	0.5
Retail savings/deposits	**144.4**	143.1	**21.9**	21.7	**13.8**	13.6	**0.9**	1.0	**7.1**	7.1	**0.0**	0.0
Demand deposits	**176.3**	179.0	**26.7**	27.1	**9.0**	8.9	**5.4**	5.4	**8.7**	8.9	**3.6**	3.9
Fiduciary deposits	**20.3**	21.5	**3.1**	3.2	**0.0**	0.1	**0.6**	0.6	**2.1**	2.2	**0.4**	0.4
Time deposits	**47.8**	47.3	**7.2**	7.2	**0.7**	0.4	**0.3**	0.3	**3.9**	4.0	**2.3**	2.5
Long-term debt issued[3]	**123.1**	123.9	**18.7**	18.8	**2.9**	3.0	**6.1**	5.6	**7.7**	7.9	**2.0**	2.2
Cash collateral payables on derivative instruments	**46.7**	49.5	**7.1**	7.5	**0.3**	0.3	**3.4**	3.4	**2.6**	2.8	**0.7**	1.0
Prime brokerage payables	**34.0**	32.5	**5.1**	4.9	**0.1**	0.0	**0.6**	0.7	**3.5**	3.3	**0.9**	0.8
Total	**660.2**	660.5	**100.0**	100.0	**27.9**	27.2	**18.5**	18.3	**41.5**	42.0	**12.0**	12.5

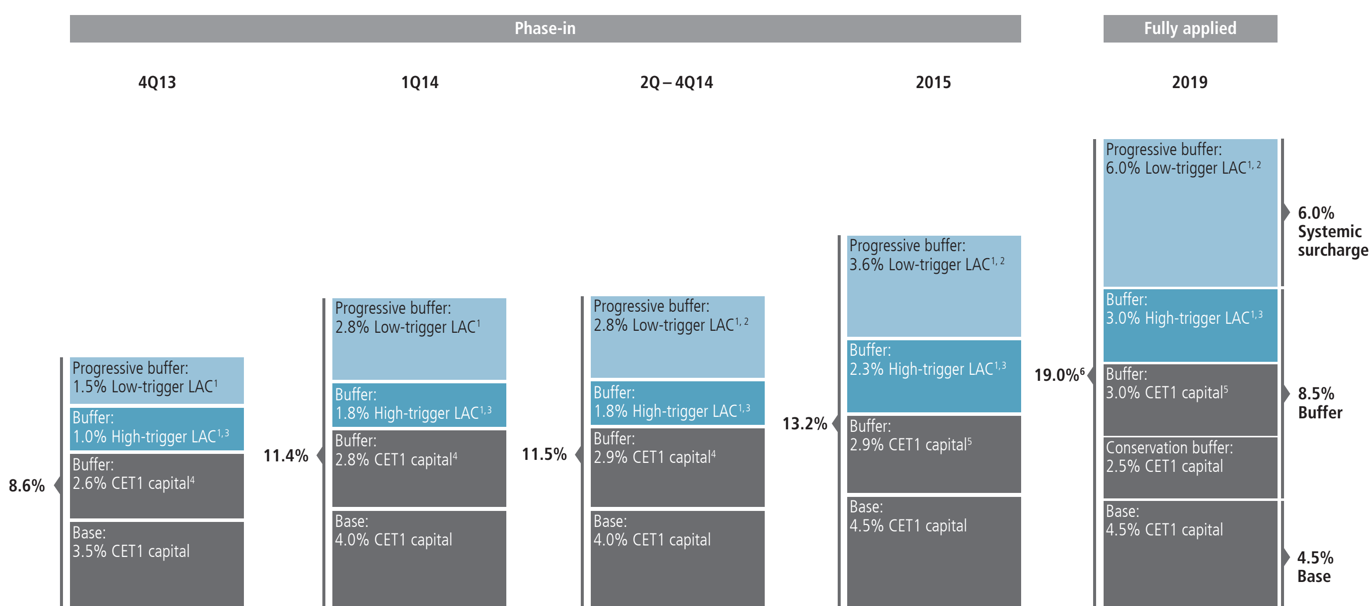
1 As a percent of total funding sources. 2 Short-term debt issued is comprised of certificates of deposit, commercial paper, acceptances and promissory notes, and other money market papers. 3 Long-term debt issued also includes debt with a remaining time to maturity of less than one year.

Capital management

Our fully applied common equity tier 1 (CET1) capital ratio[1] improved 0.4 percentage points to 13.2% as of 31 March 2014 and we have exceeded our 2014 CET1 capital ratio target. Fully applied CET1 capital increased by CHF 1.0 billion to CHF 29.9 billion, mainly due to the first quarter net profit. On a phase-in basis, our CET1 capital ratio declined 0.6 percentage points to 17.9%, mainly due to the CHF 1.0 billion decrease in phase-in CET1 capital to CHF 41.2 billion, mostly arising from the effect of capital deductions related to transitional effects applicable from 1 January 2014, partly offset by the first quarter net profit. Risk-weighted assets increased by CHF 2 billion to CHF 227 billion on a fully applied basis and by CHF 1 billion to CHF 230 billion on a phase-in basis. Our Swiss SRB leverage ratio improved 0.3 percentage points to 5.0% on a phase-in basis due to the reduction of the leverage ratio denominator as well as through the issuance of low-trigger, loss-absorbing, Basel III-compliant subordinated notes.

1 Unless otherwise indicated, all information in this section is based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB).

Our capital requirements



1 Loss-absorbing capital. High-trigger loss-absorbing capital qualifies as progressive buffer capital until the end of 2017. 2 Numbers are based on latest information available and current supervisory guidance from FINMA. 3 Can be substituted by CET1 capital. 4 Includes the effect of the countercyclical buffer requirement. 5 Capital requirements for 2015 and 2019 do not include a countercyclical buffer requirement, as potential future developments cannot be accurately predicted and may vary from period to period. 6 The total capital ratio requirement for 2019 would be reduced to 17.5% if the progressive buffer capital requirement is reduced as expected.

Swiss SRB Basel III capital framework

As UBS is considered a systemically relevant bank (SRB) under Swiss banking law, we are required to comply on both a Group and UBS AG (Parent Bank) basis with regulations based on the Basel III framework as applicable for Swiss SRB. All our capital disclosures therefore focus on Swiss SRB Basel III capital information. Differences between the Swiss SRB and BIS Basel III capital regimes are outlined in the subsection "Differences between Swiss SRB and BIS Basel III capital."

Regulatory framework

The Basel III framework came into effect in Switzerland on 1 January 2013 and includes prudential filters for the calculation of capital. These prudential filters consist mainly of capital deductions for deferred tax assets recognized for tax loss carry-forwards and effects related to defined benefit pension plans. As these filters are being phased in between 2014 and 2018, their effects are gradually factored into our calculations of capital, risk-weighted assets (RWA) and capital ratios on a phase-in basis and are entirely reflected in our capital and capital ratios on a fully applied basis.

Effective January 2014, we have deducted from our phase-in CET1 capital 20% of deferred tax assets recognized for tax loss carry-forwards as well as 20% of the effects related to defined benefit pension plans. These consist of: (i) the cumulative difference between IAS 19 (revised) accounting applied under IFRS and fully applied Basel III CET1 calculations versus a pro-forma IAS 19 treatment applied for Basel III CET1 phase-in calculations and (ii) the Swiss defined benefit pension plan asset under IAS 19 (revised). In addition, the difference between fully applied and phase-in RWA, related to the adoption of IAS 19 (revised), has been reduced by 20% due to the abovementioned activation of prudential filters.

Furthermore, based on current Swiss Financial Market Supervisory Authority (FINMA) regulation, capital instruments which were treated as hybrid tier 1 capital and as tier 2 capital under the Basel 2.5 framework are being phased out under Basel III between 2013 and 2019. On a phase-in basis, our capital and capital ratios include the applicable portion of these capital instruments not yet phased out. Our capital and capital ratios on a fully applied basis do not include these capital instruments.

On 20 December 2013, FINMA issued a decree primarily concerning the regulatory capital requirements of UBS AG (Parent Bank) on a standalone basis. The decree makes changes effective 1 January 2014 to parent bank capital requirements designed to ensure that the fulfillment of the capital requirements at the UBS AG (Parent Bank) level does not result in a de facto overcapitalization of UBS Group.

➔ **Refer to "Supplemental information for UBS AG (Parent Bank) and UBS Limited" in the "Financial information" section of this report for more information**

Capital requirements

In Switzerland, all banks must comply with the Basel III capital framework, as required by the Swiss Capital Adequacy Ordinance and regulations issued by FINMA. UBS, Credit Suisse and Zürcher Kantonalbank are required to comply with specific Swiss SRB rules.

As of 31 March 2014, our total capital requirement was 11.4% of our RWA compared with 8.6% as of 31 December 2013. The requirement as of 31 March 2014 consisted of: (i) base capital of 4%, (ii) buffer capital of 4.6%, including a countercyclical buffer capital requirement that increased our effective capital requirement by 0.1%, and (iii) progressive buffer capital of 2.8%. We satisfied these base and buffer (including the countercyclical buffer) capital requirements through our CET1 capital. High- and low-trigger loss-absorbing capital exceeded the progressive buffer capital requirement.

National regulators can put in place a countercyclical buffer requirement of up to 2.5% of RWA for credit exposures in their jurisdiction. In September 2013, the Swiss Federal Council activated a countercyclical buffer of 1% of RWA for mortgage loans on residential property in Switzerland, resulting in an overall 0.1% additional capital requirement, which is reflected in the CET1 buffer capital requirements. In January 2014, the Swiss Federal Council approved the increase of the countercyclical buffer requirement from the aforementioned 1% to 2% effective 30 June 2014. This will increase our buffer capital requirement by a further 0.1% from the second quarter of 2014 onwards.

Our requirement for the progressive buffer is dynamic and depends on our leverage ratio denominator (LRD) and our market share in the loans and deposits business in Switzerland. Although this requirement for 2019 is presented as 6.0% in the graph "Our capital requirements," we expect this requirement on a fully applied basis to reduce to 4.5% due to our planned reduction of the leverage ratio denominator related to the accelerated implementation of our strategy. This would result in a total capital ratio requirement of 17.5% in 2019. Furthermore, banks governed under the Swiss SRB framework are eligible for an additional capital rebate on the progressive buffer if they take actions that facilitate recovery and resolvability beyond the minimum requirements to ensure the integrity of systemically important functions in the case of impending insolvency.

➔ **Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on the creation of a group holding company**

Swiss SRB Basel III available capital versus capital requirements

	Phase-in						
	Requirements		Actual information				
	Capital ratio (%)	Capital	Capital ratio (%)		Capital		Capital type
CHF million, except where indicated	**31.3.14**	**31.3.14**	**31.3.14**	31.12.13	**31.3.14**	31.12.13	
Base capital	4.0	**9,195**	**4.0**	3.5	**9,195**	8,000	CET1
Buffer capital	4.6	**10,511**	**13.9**	15.0	**31,992**[1]	34,180[1]	CET1
of which: effect of countercyclical buffer	*0.1*	***166***					
Progressive buffer	2.8	**6,506**	**3.5**	2.5	**8,078**[2]	5,665[2]	LAC
Phase-out capital			**1.3**	1.3	**2,957**	2,971	Tier 2
Total	11.4[3]	**26,211**	**22.7**	22.2	**52,222**	50,815	

1 Swiss SRB Basel III CET1 capital exceeding the base capital requirement is allocated to the buffer capital. 2 During the transition period until end of 2017, high-trigger loss-absorbing capital (LAC) can be included in the progressive buffer. 3 Prior to the implementation of the Basel III framework, FINMA also defined a total capital ratio target for UBS Group of 14.4% which is effective until the Swiss SRB Basel III transitional capital requirement exceeds a total capital ratio of 14.4%.

Swiss SRB Basel III capital information

	Phase-in		Fully applied	
CHF million, except where indicated	**31.3.14**	31.12.13	**31.3.14**	31.12.13
Tier 1 capital	**41,187**[1]	42,179[1]	**29,937**	28,908
of which: common equity tier 1 capital	***41,187***	*42,179*	***29,937***	*28,908*
Tier 2 capital	**11,035**	8,636	**8,078**	5,665
of which: high-trigger loss-absorbing capital	***951***	*955*	***951***	*955*
of which: low-trigger loss-absorbing capital	***7,127***	*4,710*	***7,127***	*4,710*
of which: phase-out capital	***2,957***	*2,971*		
Total capital	**52,222**	50,815	**38,015**	34,573
Common equity tier 1 capital ratio (%)	**17.9**	18.5	**13.2**	12.8
Tier 1 capital ratio (%)	**17.9**	18.5	**13.2**	12.8
Total capital ratio (%)	**22.7**	22.2	**16.8**	15.4
Risk-weighted assets	**229,879**	228,557	**226,805**	225,153

1 Includes additional tier 1 capital in the form of hybrid instruments, which was entirely offset by the required deductions for goodwill.

Swiss SRB Basel III capital information

Capital information disclosures in this section focus on UBS Group. Capital information for UBS AG (Parent Bank) is included in the "Supplemental information for UBS AG (Parent Bank) and UBS Limited" in the "Financial information" section of this report.

Capital ratios

As of 31 March 2014, our fully applied CET1 capital ratio was 13.2%, an increase of 0.4 percentage points compared with 31 December 2013, and we have exceeded our 2014 CET1 capital ratio target. On a phase-in basis, our CET1 capital ratio decreased 0.6 percentage points to 17.9% during the quarter.

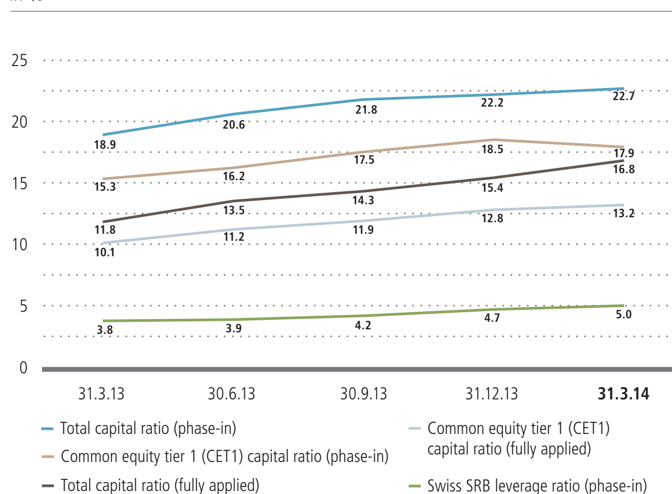
The increase in our fully applied CET1 capital ratio was attributable to a CHF 1.0 billion increase in our fully applied CET1 capital, which was mainly due to the first quarter net profit of CHF 1.1 billion. The reduction in our phase-in CET1 capital ratio was primarily due to a CHF 1.0 billion decrease in phase-in CET1 capital. The decrease in phase-in CET1 capital was mainly due to the negative effect of the aforementioned phase-in capital deductions, which became effective 1 January 2014, partly offset by the first quarter net profit.

Our fully applied total capital ratio increased 1.4 percentage points to 16.8% as of 31 March 2014. Our phase-in total capital ratio stood at 22.7% as of 31 March 2014 compared with 22.2% as of 31 December 2013. Both these improvements were primarily due to the issuance of EUR 2.0 billion of low-trigger, loss-absorbing, Basel III-compliant subordinated notes in February 2014, which qualify as tier 2 capital and progressive buffer capital in compliance with Swiss SRB Basel III rules.

➔ **Refer to the "Our strategy" section of our Annual Report 2013 for more information on our targets**

Swiss SRB capital ratios

In %



Eligible capital

Common equity tier 1 and tier 1 capital

Our CET1 capital mainly comprises share capital, share premium (which primarily consists of additional paid-in capital related to shares issued) and retained earnings. A detailed reconciliation of IFRS equity to CET1 capital is provided in the table "Reconciliation IFRS equity to Swiss SRB Basel III capital."

Our phase-in tier 1 capital was equal to our phase-in CET1 capital, as additional tier 1 capital in the form of hybrid capital instruments was entirely offset by required deductions for goodwill. These hybrid tier 1 capital instruments are not eligible as capital under Basel III and are therefore not included in our fully applied tier 1 capital.

During the first quarter of 2014, our fully applied CET1 capital increased by CHF 1.0 billion to CHF 29.9 billion, mainly due to the first quarter net profit. A further increase mainly relating to the reversal of amortization of deferred tax assets for tax loss carry-forwards and changes to deferred tax assets arising from net deductible temporary differences was offset by the effect of dividend accruals.

On a phase-in basis, our CET1 capital decreased by CHF 1.0 billion to CHF 41.2 billion. This decrease was mainly due to the negative effect of the aforementioned phase-in capital deductions, which became effective 1 January 2014, partly offset by the first quarter net profit.

A more granular analysis of our first quarter 2014 CET1 capital movement on both a fully applied and a phase-in basis is shown in the table "Swiss SRB Basel III capital movement."

Tier 2 capital

Low-trigger loss-absorbing capital accounted for CHF 7.1 billion of tier 2 capital as of 31 March 2014 and consisted of one euro-denominated and three US dollar-denominated subordinated notes with a write-down threshold set at a 5% phase-in CET1 capital ratio, after giving effect to the write-down of any high-trigger loss-absorbing capital. Furthermore, our tier 2 capital included high-trigger loss-absorbing capital of CHF 1.0 billion, in the form of awards under our deferred contingent capital plan (DCCP), with a write-down threshold set at a 7% phase-in CET1 capital ratio, or 10% with respect to awards granted to Group Executive Board members for the performance year 2013. Additionally, our loss-absorbing capital instruments would be written down if FINMA determines that a write-down is necessary to ensure UBS's viability, or if UBS receives a commitment of governmental support that FINMA determines to be necessary to ensure UBS's viability.

The remainder of tier 2 capital on a phase-in basis consisted of outstanding tier 2 instruments which will be phased out by 2019, based on current FINMA regulation.

During the first quarter of 2014, our fully applied tier 2 capital increased by CHF 2.4 billion to CHF 8.1 billion. On a phase-in basis, our tier 2 capital also increased by CHF 2.4 billion to CHF 11.0 billion. These increases were both due to the aforementioned issuance of EUR 2.0 billion of low-trigger, loss-absorbing, Basel III-compliant tier 2 subordinated notes.

Swiss SRB Basel III capital movement

CHF billion	Phase-in	Fully applied
Common equity tier 1 capital as of 31.12.13	**42.2**	**28.9**
Movements during the first quarter of 2014:		
Net profit attributable to UBS shareholders	1.1	1.1
Own credit related to financial liabilities designated at fair value and replacement values, net of tax	(0.1)	(0.1)
Compensation and own shares related capital components (including share premium)	0.2	0.2
Defined benefit pension plans, 20% phase-in effect as of 1.1.14	(0.7)	
Defined benefit pension plans movements during the first quarter of 2014	0.3	(0.2)
Deferred tax assets recognized for tax loss carry-forwards, 20% phase-in effect as of 1.1.14	(1.3)	
Deferred tax assets recognized for tax loss carry-forwards movements during the first quarter of 2014	0.1	0.5
Foreign currency translation effects	(0.1)	(0.1)
Other	(0.5)	(0.5)
Total movement	*(1.0)*	*1.0*
Common equity tier 1 capital as of 31.3.14	**41.2**	**29.9**
Tier 2 capital as of 31.12.13	**8.6**	**5.7**
Movements during the first quarter of 2014:		
Increase in low-trigger loss-absorbing capital	2.4	2.4
Foreign currency translation effects	0.0	0.0
Total movement	*2.4*	*2.4*
Tier 2 capital as of 31.3.14	**11.0**	**8.1**
Total capital as of 31.3.14	**52.2**	**38.0**
Total capital as of 31.12.13	50.8	34.6

Reconciliation IFRS equity to Swiss SRB Basel III capital

	Phase-in		Fully applied	
CHF million	**31.3.14**	31.12.13	**31.3.14**	31.12.13
Equity attributable to UBS shareholders	**49,023**	48,002	**49,023**	48,002
Equity attributable to preferred noteholders and non-controlling interests	**1,913**	1,935	**1,913**	1,935
Total IFRS equity	**50,937**	49,936	**50,937**	49,936
Equity attributable to preferred noteholders and non-controlling interests	**(1,913)**	(1,935)	**(1,913)**	(1,935)
Defined benefit pension plans (before phase-in, as applicable)[1]	**2,611**	2,540	**(1,500)**	(952)
Defined benefit pension plans, 20% phase-in	**(821)**			
Deferred tax assets recognized for tax loss carry-forwards (before phase-in, as applicable)[2]			**(6,088)**	(6,665)
Deferred tax assets recognized for tax loss carry-forwards, 20% phase-in	**(1,217)**			
Goodwill, net of tax, less hybrid capital[3]	**(2,998)**	(3,044)	**(6,088)**	(6,157)
Intangible assets, net of tax	**(414)**	(435)	**(414)**	(435)
Own credit related to financial liabilities designated at fair value and replacement values, net of tax	**240**	304	**240**	304
Unrealized (gains)/losses from cash flow hedges, net of tax	**(1,673)**	(1,463)	**(1,673)**	(1,463)
Compensation and own shares related capital components (not recognized in net profit)	**(751)**	(1,430)	**(751)**	(1,430)
Unrealized gains related to financial investments available-for-sale, net of tax	**(304)**	(325)	**(304)**	(325)
Prudential valuation adjustments	**(98)**	(107)	**(98)**	(107)
Consolidation scope	**(64)**	(55)	**(64)**	(55)
Other[4]	**(2,347)**	(1,806)	**(2,347)**	(1,806)
Common equity tier 1 capital	**41,187**	42,179	**29,937**	28,908
Hybrid capital subject to phase-out	**3,089**	3,113		
Goodwill, net of tax, offset against hybrid capital	**(3,089)**	(3,113)		
Additional tier 1 capital	**0**	0		
Tier 1 capital	**41,187**	42,179	**29,937**	28,908
Tier 2 capital	**11,035**	8,636	**8,078**	5,665
Total capital	**52,222**	50,815	**38,015**	34,573

1 Phase-in number net of tax, fully applied number pre-tax. 2 Includes the reversal of deferred tax assets recognized for tax loss carry-forwards (CHF 690 million) related to the cumulative IAS 19R retained earnings implementation effect. It also includes the reversal of CHF 317 million deferred tax liabilities related to the net defined benefit pension and post-employment assets of CHF 1.5 billion for the Swiss plan as of 31 March 2014 which do not count as Basel III capital. 3 Includes goodwill relating to significant investments in financial institutions of CHF 332 million. 4 Includes an accrual for the proposed distribution of capital contribution reserves, the net charge for compensation related high-trigger, loss-absorbing capital and other items.

Additional capital information

In order to improve the consistency and comparability of regulatory capital instruments disclosures across market participants, BIS and FINMA Basel III Pillar 3 rules require banks to disclose the main features of eligible capital instruments and their terms and conditions. This information is available in the "Bondholder information" section of our Investor Relations website.

➔ **Refer to "Bondholder information" at www.ubs.com/investors for more information on the capital instruments of UBS Group and UBS AG (Parent Bank)**

In order to fulfill BIS and FINMA Basel III Pillar 3 composition of capital disclosure requirements, a full reconciliation of all regulatory capital elements to the published IFRS balance sheet is disclosed in the "SEC filings and other disclosures" section of our Investor Relations website.

➔ **Refer to "SEC filings and other disclosures" at www.ubs.com/investors for more information**

We have estimated the loss in capital that we could incur as a result of the risks associated with the matters described in "Note 14 Provisions and contingent liabilities" to our consolidated financial statements. We have utilized for this purpose the advanced measurement approach (AMA) methodology that we use when determining the capital requirements associated with operational risks, based on a 99.9% confidence level over a 12-month horizon. The methodology takes into consideration UBS and industry experience for the AMA operational risk categories to which those matters correspond, as well as the external environment affecting risks of these types, in isolation from other areas. On this standalone basis, we estimate the loss in capital that we could incur over a 12-month period as a result of our risks associated with these operational risk categories at CHF 3.1 billion as of 31 March 2014. Because this estimate is based upon historical data for the relevant risk categories, it does not constitute a subjective assessment of UBS's actual exposures in those matters and does not take into account any provisions recognized for those matters. For this reason, and because some of those matters are not expected to be resolved within the next 12 months, any possible losses that we may incur with respect to these matters may be materially more or materially less than this estimated amount.

➔ **Refer to "Note 14 Provisions and contingent liabilities" in the "Financial information" section of this report for more information**

Differences between Swiss SRB and BIS Basel III capital

Our Swiss SRB Basel III and BIS Basel III capital have the same basis of calculation, on both a fully applied and phase-in basis, except for two specific items. Firstly, high-trigger loss-absorbing capital is amortized over five years under BIS Basel III, but is not amortized under Swiss SRB regulations, resulting in Swiss SRB Basel III high-trigger loss-absorbing capital being higher by CHF 280 million as of 31 March 2014. Secondly, a portion of unrealized gains on financial investments available-for-sale, totaling CHF 33 million as of 31 March 2014, is recognized as tier 2 capital under BIS Basel III, but not under Swiss SRB regulations.

Differences between Swiss SRB and BIS Basel III capital information

	Phase-in			Fully applied		
	Swiss SRB	BIS	Differences Swiss SRB versus BIS	Swiss SRB	BIS	Differences Swiss SRB versus BIS
CHF million, except where indicated		**31.3.14**			**31.3.14**	
Tier 1 capital	41,187	41,187	0	29,937	29,937	0
of which: common equity tier 1 capital	*41,187*	*41,187*	*0*	*29,937*	*29,937*	*0*
Tier 2 capital	11,035	10,788	247	8,078	7,831	247
of which: high-trigger loss-absorbing capital	*951*	*671*	*280*	*951*	*671*	*280*
of which: low-trigger loss-absorbing capital	*7,127*	*7,127*	*0*	*7,127*	*7,127*	*0*
of which: phase-out capital and other tier 2 capital	*2,957*	*2,990*	*(33)*		*33*	*(33)*
Total capital	52,222	51,975	247	38,015	37,768	247
Common equity tier 1 capital ratio (%)	17.9	17.9	0.0	13.2	13.2	0.0
Tier 1 capital ratio (%)	17.9	17.9	0.0	13.2	13.2	0.0
Total capital ratio (%)	22.7	22.6	0.1	16.8	16.7	0.1
Risk-weighted assets	229,879	229,879	0	226,805	226,805	0

Risk-weighted assets

Our risk-weighted assets (RWA) under BIS Basel III are the same as under Swiss SRB Basel III. RWA on a fully applied basis are the same as on a phase-in basis, except for differences related to the adoption of IAS 19 (revised) *Employee Benefits,* which are phased in between 2014 and 2018. On a fully applied basis, net defined benefit assets / liabilities are determined in accordance with IAS 19 (revised), and any net defined benefit asset that is recognized is deducted from CET1 capital rather than being risk-weighted. On a phase-in basis, defined benefit-related assets / liabilities are determined in accordance with the previous IAS 19 requirements ("corridor method"), and any defined benefit-related asset that is recognized is risk-weighted at 100%.

Phase-in RWA increased by CHF 1.3 billion to CHF 229.9 billion in the first quarter of 2014. This increase was mainly due to a CHF 3.5 billion increase in operational risk RWA and a CHF 1.8 billion increase in market risk RWA, partly offset by a CHF 4.3 billion reduction in credit risk RWA. On a fully applied basis, RWA increased by CHF 1.6 billion to CHF 226.8 billion, including the same effects as the phase-in RWA except for the aforementioned phase-in effect related to defined benefit pension plan-related assets.

➔ Refer to the discussions of "Corporate Center – Non-core and Legacy Portfolio" in the "Risk and treasury management" section of this report for more information on risk-weighted assets

Credit risk

Phase-in credit risk RWA decreased by CHF 4.3 billion to CHF 120.0 billion as of 31 March 2014 compared with CHF 124.3 billion as of 31 December 2013, mainly due to lower RWA related to Corporates and Other exposure segments, partly offset by higher RWA related to Retail exposures. RWA related to exposures treated under the advanced internal ratings-based (IRB) and the standardized approaches decreased by CHF 2.5 billion and CHF 1.8 billion, respectively.

Total credit risk RWA for exposures to Corporates reduced by CHF 3.4 billion, which was primarily related to exposures treated under the advanced IRB approach. This reduction was mainly due to a lower book size resulting from derivative trade unwinds and trade compressions in Corporate Center – Non-core and Legacy Portfolio and a methodology change relating to the implementation of the Basel III exposure model for equity over-the-counter (OTC) derivatives in the Investment Bank.

Total credit risk RWA related to Other exposure segments decreased by CHF 2.8 billion, largely related to exposures measured under the advanced IRB approach in Corporate Center – Non-core and Legacy Portfolio, primarily due to a lower book size as a result of the sale of securitization exposures and lower RWA for credit valuation adjustments (CVA). The implementation of the Basel III exposure model for equity OTC derivatives resulted in a reclassification of CHF 1.9 billion in CVA-related RWA from the standardized to the advanced IRB approach in the Investment Bank.

Credit risk RWA related to Retail exposures increased by CHF 2.0 billion, in line with expectations based on the previously announced methodology change relating to the FINMA requirement to apply a bank-specific multiplier on Swiss residential mortgages for banks using the IRB approach. The difference in the RWA calculation for Swiss residential mortgages between the advanced IRB and the standardized approaches will be further reduced annually until 2019.

➔ Refer to the "Capital management" section of our Annual Report 2013 for more information on expected RWA developments in the first quarter of 2014

Non-counterparty-related risk

Phase-in non-counterparty-related risk RWA slightly increased by CHF 0.4 billion to CHF 13.0 billion.

Market risk

Phase-in market risk RWA amounted to CHF 15.5 billion as of 31 March 2014 compared with CHF 13.7 billion as of 31 December 2013. Incremental risk charge-related RWA increased by CHF 0.9 billion due to an increase in single-name risk and the reversal of a natural hedge benefit in the calculation, as certain residual positions in Non-core were migrated to the correlation portfolio included within the comprehensive risk measure (CRM). The consequential increase in CRM-related RWA was offset by a reduction in book size due to negotiated bilateral settlements of OTC derivative contracts. RWA related to securitizations/re-securitizations in the trading book increased by CHF 1.2 billion, in line with expectations based on the previously announced change in methodology due to the expiry of the transition phase mandated under the Basel 2.5 framework, i.e., net long and net short securitization positions in the trading book require separate underpinning, rather than the higher of net long or net short positions underpinned until 31 December 2013.

➔ Refer to the "Risk management and control" section of this report for more information on market risk developments

➔ Refer to the "Risk management and control" section of our Annual Report 2013 for more information on the comprehensive risk measure and the incremental risk charge

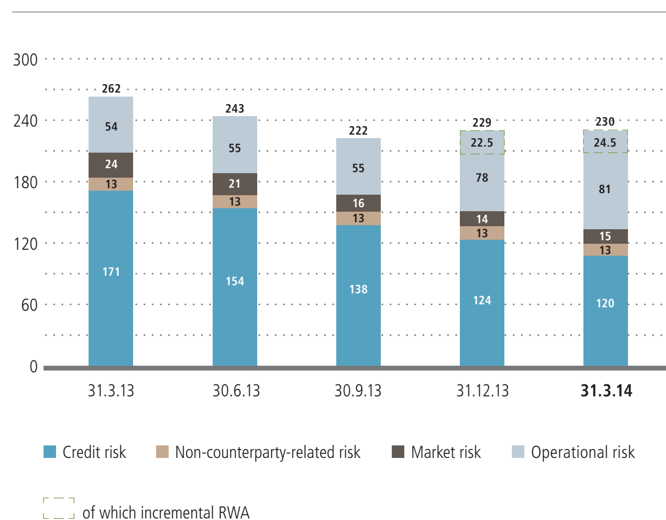
➔ Refer to the "Capital management" section of our Annual Report 2013 for more information on expected RWA developments in the first quarter of 2014

Operational risk

Phase-in operational risk RWA amounted to CHF 81.4 billion as of 31 March 2014, an increase of CHF 3.5 billion compared with the prior quarter. Incremental operational risk RWA calculated by FINMA based on the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA increased by CHF 2.0 billion to CHF 24.5 billion as of 31 March 2014. Additionally, RWA increased as a result of a higher capital requirement based on the advanced measurement approach (AMA) model output using the latest FINMA-approved model parameters.

Phase-in Basel III risk-weighted assets

CHF billion



➔ Refer to the "Regulatory and legal developments" section of our Annual Report 2013 for more information on the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA

Sensitivity to currency movements

The majority of our capital and a significant portion of our RWA are denominated in Swiss francs, but we also hold RWA and some eligible capital in other currencies, primarily US dollars, euros and British pounds. A significant depreciation of the Swiss franc against these currencies can adversely affect our key ratios, and Group Treasury is mandated with the task of minimizing such effects. If the Swiss franc depreciates against other currencies, consolidated RWA increase relative to our capital, and vice versa. The Group Asset and Liability Management Committee, a committee of the UBS Group Executive Board, can adjust the currency mix in capital, within limits set by the Board of Directors, to balance the effect of foreign exchange movements on the fully applied CET1 capital and capital ratio. Limits are in place for the sensitivity of both CET1 capital and capital ratio to a ±10% change in the value of the Swiss franc against other currencies. As of 31 March 2014, we estimate that a 10% depreciation of the Swiss franc against other currencies would increase CET1 capital by CHF 990 million (31 December 2013: CHF 1,075 million) and would decrease the CET1 capital ratio by 19 basis points (31 December 2013: 15 basis points). Conversely, we estimate that a 10% appreciation of the Swiss franc against other currencies would decrease CET1 capital by CHF 896 million (31 December 2013: CHF 973 million) and would increase the CET1 capital ratio by 18 basis points (31 December 2013: 15 basis points).

Basel III risk-weighted assets by risk type, exposure and reporting segment

	31.3.14								
CHF billion	**Wealth Management**	**Wealth Management Americas**	**Retail & Corporate**	**Global Asset Management**	**Investment Bank**	**CC – Core Functions**	**CC – Non-core and Legacy Portfolio**	**Total RWA**	**Total capital requirement[1]**
Credit risk	**12.0**	**8.1**	**32.1**	**2.4**	**33.6**	**5.8**	**25.9**	**120.0**	**13.7**
Advanced IRB approach	*8.3*	*2.4*	*29.7*	*1.4*	*28.5*	*4.4*	*20.4*	*95.0*	*10.8*
Sovereigns[2]	*0.0*	*0.0*	*0.1*	*0.0*	*1.0*	*0.5*	*0.2*	*1.7*	*0.2*
Banks[2]	*0.2*	*0.0*	*1.4*	*0.0*	*5.8*	*1.1*	*2.2*	*10.8*	*1.2*
Corporates[2]	*0.6*	*0.0*	*14.9*	*0.0*	*15.8*	*2.3*	*3.7*	*37.3*	*4.3*
Retail	*7.0*	*2.2*	*12.4*	*0.0*	*0.1*	*0.0*	*0.0*	*21.7*	*2.5*
Other[3]	*0.6*	*0.1*	*0.9*	*1.4*	*5.8*	*0.5*	*14.2*	*23.6*	*2.7*
Standardized approach	*3.8*	*5.7*	*2.5*	*1.0*	*5.2*	*1.3*	*5.5*	*25.0*	*2.9*
Sovereigns	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.2*	*0.0*
Banks	*0.2*	*0.7*	*0.1*	*0.1*	*0.2*	*0.4*	*0.3*	*1.9*	*0.2*
Corporates	*1.5*	*3.2*	*1.7*	*0.9*	*2.0*	*2.8*	*1.6*	*13.8*	*1.6*
Central counterparties[2]	*0.0*	*0.0*	*0.0*	*0.0*	*1.2*	*0.7*	*0.1*	*1.9*	*0.2*
Retail	*1.8*	*1.6*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*3.5*	*0.4*
Other[3]	*0.2*	*0.1*	*0.6*	*0.0*	*1.7*	*(2.5)*	*3.5*	*3.7*	*0.4*
Non-counterparty-related risk	**0.2**	**0.0**	**0.1**	**0.0**	**0.1**	**12.6**	**0.0**	**13.0**	**1.5**
Market risk	**0.0**	**1.0**	**0.0**	**0.0**	**7.8**	**(4.0)[4]**	**10.7**	**15.5**	**1.8**
Value-at-risk (VaR)	*0.0*	*0.2*	*0.0*	*0.0*	*1.5*	*(1.3)*	*1.3*	*1.6*	*0.2*
Stressed value-at-risk (SVaR)	*0.0*	*0.6*	*0.0*	*0.0*	*2.5*	*(2.1)*	*1.7*	*2.7*	*0.3*
Add-on for risks-not-in-VaR	*0.0*	*0.0*	*0.0*	*0.0*	*1.0*	*0.1*	*0.8*	*1.9*	*0.2*
Incremental risk charge (IRC)	*0.0*	*0.2*	*0.0*	*0.0*	*2.5*	*(0.7)*	*0.2*	*2.3*	*0.3*
Comprehensive risk measure (CRM)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*3.9*	*4.0*	*0.5*
Securitization / re-securitization in the trading book	*0.0*	*0.0*	*0.0*	*0.0*	*0.3*	*0.0*	*2.8*	*3.0*	*0.3*
Operational risk	**9.5**	**15.4**	**1.4**	**1.1**	**20.9**	**9.4**	**23.5**	**81.4**	**9.3**
of which: incremental RWA[5]	*2.9*	*4.6*	*0.4*	*0.3*	*6.3*	*2.8*	*7.1*	*24.5*	*2.8*
Total RWA, phase-in	**21.8**	**24.6**	**33.6**	**3.6**	**62.5**	**23.8**	**60.1**	**229.9**	**26.2**
Phase-out items	**0.4**	**0.1**	**1.4**	**0.1**	**0.3**	**0.8**	**0.0**	**3.1**	
Total RWA, fully applied	**21.4**	**24.4**	**32.2**	**3.5**	**62.2**	**23.0**	**60.1**	**226.8**	

1 Calculated based on our Swiss SRB Basel III total capital requirement of 11.4% of RWA. 2 Includes stressed expected positive exposures. 3 Includes securitization / re-securitization exposures in the banking book, equity exposures in the banking book according to the simple risk weight method, credit valuation adjustments, settlement risk and business transfers. 4 Corporate Center – Core Functions market risk RWA were negative as this included the effect of portfolio diversification across businesses. 5 Incremental RWA reflect the effect of the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

Basel III risk-weighted assets by risk type, exposure and reporting segment

	31.12.13								
CHF billion	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total RWA	Total capital requirement[1]
Credit risk	**11.9**	**8.1**	**29.9**	**2.7**	**35.5**	**4.8**	**31.3**	**124.3**	**10.6**
Advanced IRB approach	*8.2*	*2.4*	*27.4*	*1.4*	*28.9*	*3.8*	*25.3*	*97.5*	*8.3*
Sovereigns	*0.0*	*0.0*	*0.1*	*0.0*	*0.5*	*0.1*	*0.2*	*0.8*	*0.1*
Banks	*0.2*	*0.0*	*1.5*	*0.0*	*7.3*	*1.0*	*1.7*	*11.6*	*1.0*
Corporates[2]	*0.4*	*0.0*	*14.5*	*0.0*	*17.7*	*2.3*	*5.9*	*40.9*	*3.5*
Retail	*7.1*	*2.3*	*10.4*	*0.0*	*0.1*	*0.0*	*0.0*	*19.9*	*1.7*
Other[3]	*0.6*	*0.1*	*0.9*	*1.4*	*3.4*	*0.5*	*17.5*	*24.3*	*2.1*
Standardized approach	*3.7*	*5.7*	*2.5*	*1.2*	*6.6*	*1.0*	*6.0*	*26.8*	*2.3*
Sovereigns	*0.1*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.0*	*0.3*	*0.0*
Banks	*0.2*	*0.8*	*0.1*	*0.1*	*0.1*	*0.3*	*0.5*	*2.0*	*0.2*
Corporates	*1.6*	*3.0*	*2.0*	*1.1*	*1.9*	*2.3*	*1.7*	*13.6*	*1.2*
Central counterparties	*0.0*	*0.0*	*0.0*	*0.0*	*1.0*	*0.6*	*0.2*	*1.8*	*0.2*
Retail	*1.6*	*1.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*3.3*	*0.3*
Other[3]	*0.2*	*0.1*	*0.5*	*0.0*	*3.5*	*(2.3)*	*3.6*	*5.8*	*0.5*
Non-counterparty-related risk	**0.2**	**0.0**	**0.1**	**0.0**	**0.1**	**12.2**	**0.0**	**12.6**	**1.1**
Market risk	**0.0**	**1.6**	**0.0**	**0.0**	**7.6**	**(4.9)[4]**	**9.4**	**13.7**	**1.2**
Value-at-risk (VaR)	*0.0*	*0.4*	*0.0*	*0.0*	*1.6*	*(1.4)*	*1.1*	*1.7*	*0.1*
Stressed value-at-risk (SVaR)	*0.0*	*0.9*	*0.0*	*0.0*	*2.5*	*(2.3)*	*1.5*	*2.6*	*0.2*
Add-on for risks-not-in-VaR	*0.0*	*0.0*	*0.0*	*0.0*	*1.2*	*0.1*	*0.6*	*2.0*	*0.2*
Incremental risk charge (IRC)	*0.0*	*0.3*	*0.0*	*0.0*	*2.1*	*(1.4)*	*0.3*	*1.4*	*0.1*
Comprehensive risk measure (CRM)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*4.2*	*4.2*	*0.4*
Securitization / re-securitization in the trading book	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.0*	*1.7*	*1.8*	*0.2*
Operational risk	**9.2**	**14.8**	**1.4**	**1.1**	**19.4**	**9.2**	**22.8**	**77.9**	**6.7**
of which: incremental RWA[5]	*2.7*	*4.3*	*0.4*	*0.3*	*5.6*	*2.7*	*6.6*	*22.5*	*1.9*
Total RWA, phase-in	**21.4**	**24.5**	**31.4**	**3.8**	**62.6**	**21.3**	**63.5**	**228.6**	**19.6**
Phase-out items	**0.4**	**0.2**	**1.7**	**0.1**	**0.4**	**0.7**	**0.0**	**3.4**	
Total RWA, fully applied	**20.9**	**24.3**	**29.7**	**3.7**	**62.3**	**20.7**	**63.5**	**225.2**	

1 Calculated based on our Swiss SRB Basel III total capital requirement of 8.6% of RWA. 2 Includes stressed expected positive exposures. 3 Includes securitization / re-securitization exposures in the banking book, equity exposures in the banking book according to the simple risk weight method, credit valuation adjustments, settlement risk and business transfers. 4 Corporate Center – Core Functions market risk RWA were negative as this included the effect of portfolio diversification across businesses. 5 Incremental RWA reflect the effect of the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

Basel III risk-weighted assets by risk type, exposure and reporting segment

	31.3.14 vs. 31.12.13							
CHF billion	**Wealth Manage-ment**	**Wealth Manage-ment Americas**	**Retail & Corporate**	**Global Asset Manage-ment**	**Invest-ment Bank**	**CC – Core Functions**	**CC – Non-core and Legacy Portfolio**	**Total RWA**
Credit risk	**0.1**	**0.0**	**2.2**	**(0.3)**	**(1.9)**	**1.0**	**(5.4)**	**(4.3)**
Advanced IRB approach	*0.1*	*0.0*	*2.3*	*0.0*	*(0.4)*	*0.6*	*(4.9)*	*(2.5)*
Sovereigns	*0.0*	*0.0*	*0.0*	*0.0*	*0.5*	*0.4*	*0.0*	*0.9*
Banks	*0.0*	*0.0*	*(0.1)*	*0.0*	*(1.5)*	*0.1*	*0.5*	*(0.8)*
Corporates	*0.2*	*0.0*	*0.4*	*0.0*	*(1.9)*	*0.0*	*(2.2)*	*(3.6)*
Retail	*(0.1)*	*(0.1)*	*2.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.8*
Other	*0.0*	*0.0*	*0.0*	*0.0*	*2.4*	*0.0*	*(3.3)*	*(0.7)*
Standardized approach	*0.1*	*0.0*	*0.0*	*(0.2)*	*(1.4)*	*0.3*	*(0.5)*	*(1.8)*
Sovereigns	*0.0*	*0.0*	*0.0*	*0.0*	*(0.1)*	*(0.1)*	*0.0*	*(0.1)*
Banks	*0.0*	*(0.1)*	*0.0*	*0.0*	*0.1*	*0.1*	*(0.2)*	*(0.1)*
Corporates	*(0.1)*	*0.2*	*(0.3)*	*(0.2)*	*0.1*	*0.5*	*(0.1)*	*0.2*
Central counterparties	*0.0*	*0.0*	*0.0*	*0.0*	*0.2*	*0.1*	*(0.1)*	*0.2*
Retail	*0.2*	*(0.1)*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
Other	*0.0*	*0.0*	*0.1*	*0.0*	*(1.8)*	*(0.2)*	*(0.1)*	*(2.1)*
Non-counterparty-related risk	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.4**	**0.0**	**0.4**
Market risk	**0.0**	**(0.6)**	**0.0**	**0.0**	**0.2**	**0.9**	**1.3**	**1.8**
Value-at-risk (VaR)	*0.0*	*(0.2)*	*0.0*	*0.0*	*(0.1)*	*0.1*	*0.2*	*(0.1)*
Stressed value-at-risk (SVaR)	*0.0*	*(0.3)*	*0.0*	*0.0*	*0.0*	*0.2*	*0.2*	*0.1*
Add-on for risks-not-in-VaR	*0.0*	*0.0*	*0.0*	*0.0*	*(0.2)*	*0.0*	*0.2*	*(0.1)*
Incremental risk charge (IRC)	*0.0*	*(0.1)*	*0.0*	*0.0*	*0.4*	*0.7*	*(0.1)*	*0.9*
Comprehensive risk measure (CRM)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*(0.3)*	*(0.2)*
Securitization / re-securitization in the trading book	*0.0*	*0.0*	*0.0*	*0.0*	*0.2*	*0.0*	*1.1*	*1.2*
Operational risk	**0.3**	**0.6**	**0.0**	**0.0**	**1.5**	**0.2**	**0.7**	**3.5**
of which: incremental RWA	*0.2*	*0.3*	*0.0*	*0.0*	*0.7*	*0.1*	*0.5*	*2.0*
Total RWA, phase-in	**0.4**	**0.1**	**2.2**	**(0.2)**	**(0.1)**	**2.5**	**(3.4)**	**1.3**
Phase-out items	**0.0**	**(0.1)**	**(0.3)**	**0.0**	**(0.1)**	**0.1**	**0.0**	**(0.3)**
Total RWA, fully applied	**0.5**	**0.1**	**2.5**	**(0.2)**	**(0.1)**	**2.3**	**(3.4)**	**1.6**

Swiss SRB leverage ratio

Swiss SRB leverage ratio requirements

The Swiss SRB leverage ratio is calculated by dividing the relevant capital amount by the three-month average total IFRS on-balance sheet assets and off-balance sheet items, based on the regulatory scope of consolidation and adjusted for netting of securities financing transactions and derivatives and other items. The capital considered in the calculation of the phase-in leverage ratio includes CET1 capital and loss-absorbing capital, but excludes tier 2 phase-out capital.

The table "Swiss SRB leverage ratio requirements" shows our total leverage ratio requirement, as well as the requirements by capital components and our actual leverage ratio information. As of 31 March 2014, our CET1 capital covered the leverage ratio requirements for the base and buffer capital components, while our high- and low-trigger loss-absorbing capital satisfied our leverage ratio requirement for the progressive buffer component.

The Swiss SRB leverage ratio requirement is equal to 24% of the total capital ratio requirement (excluding the countercyclical buffer requirement). As of 31 March 2014, the effective total leverage ratio requirement was 2.7%, resulting from multiplying the total capital ratio requirement (excluding the countercyclical buffer requirement) of 11.3% by 24%.

In April 2014, the Swiss Federal Council announced revisions to the Capital Adequacy Ordinance which will result in changes to the definition of the leverage ratio denominator (LRD). Effective 1 January 2015, the revised definition of the Swiss LRD must follow Bank for International Settlements (BIS) requirements, with a one-year transition period under which the current Swiss SRB definition may still be used.

➔ **Refer to the "Regulatory and legal developments and financial reporting changes" section of this report for more information on changes to the Capital Adequacy Ordinance**

Swiss SRB leverage ratio requirements

			Phase-in				
	Requirements		Actual information				
	Swiss SRB leverage ratio (%)[1]	Swiss SRB leverage ratio capital	Swiss SRB leverage ratio (%)		Available Swiss SRB Basel III capital		Capital type
CHF million, except where indicated	**31.3.14**	**31.3.14**	**31.3.14**	31.12.13	**31.3.14**	31.12.13	
Base capital	1.0	**9,542**	**1.0**	0.8	**9,542**	8,634	CET1
Buffer capital	1.1	**10,735**	**3.2**	3.3	**31,645**[2]	33,545[2]	CET1
Progressive buffer	0.7	**6,751**	**0.8**	0.6	**8,078**[3]	5,665[3]	LAC
Total	2.7	**27,028**	**5.0**	4.7	**49,265**	47,844	

1 Requirements for base capital (24% of 4%), buffer capital (24% of 4.5%) and progressive buffer capital (24% of 2.8%). 2 Swiss SRB Basel III CET1 exceeding the base capital requirements is allocated to the buffer capital. 3 During the transition period until end of 2017, high-trigger loss-absorbing capital (LAC) can be included in the progressive buffer.

Developments during the first quarter of 2014

As of 31 March 2014, our phase-in total Swiss SRB leverage ratio was 5.0%, an increase of 0.3 percentage points compared with 31 December 2013. This increase was mainly due to a CHF 34 billion decrease in our total adjusted exposure, also known as LRD, which contributed 0.2 percentage points to the improvement in the leverage ratio on a phase-in basis. In addition, the aforementioned increase in low-trigger loss-absorbing capital contributed 0.1 percentage points to the improvement in the leverage ratio.

The exposure reduction of CHF 34 billion mainly reflected a CHF 29 billion reduction in average on-balance sheet asset items of which the main part related to positive replacement values, partly offset by increases in Cash and balances with central banks, Loans and Other assets. A CHF 2 billion combined net effect of reduced derivative and securities financing exposure netting and a lower current exposure add-on for derivative exposures also contributed to the exposure reduction. The decrease in our LRD was mainly attributable to exposure reductions of CHF 26 billion in Corporate Center – Non-core and Legacy Portfolio.

As of 31 March 2014, our fully applied total Swiss SRB leverage ratio was 3.8%, an increase of 0.5 percentage points compared with 31 December 2013.

➔ **Refer to the "Risk management and control" section of this report for more information on exposures held in Corporate Center – Non-core and Legacy Portfolio**

Swiss SRB leverage ratio

CHF million, except where indicated	Average 1Q14	Average 4Q13
Total on-balance sheet assets[1]	**988,093**	1,017,335
Netting of securities financing transactions	**(5,482)**	(1,537)
Netting of derivative exposures	**(177,317)**	(196,992)
Current exposure method (CEM) add-on for derivative exposures	**88,082**	105,352
Off-balance sheet items	**94,611**	96,256
of which: commitments and guarantees – unconditionally cancellable (10%)	***19,645***	*21,538*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	***74,967***	*74,719*
Assets of entities consolidated under IFRS but not in regulatory scope of consolidation	**17,735**	17,878
Items deducted from tier 1 capital, phase-in (at period end)	**(11,751)**	(10,428)
Total adjusted exposure ("leverage ratio denominator"), phase-in[2]	**993,970**	1,027,864
Additional items deducted from tier 1 capital, fully applied (at period end)	**(6,071)**	(7,617)
Total adjusted exposure ("leverage ratio denominator"), fully applied[2]	**987,899**	1,020,247

	As of	
	31.3.14	31.12.13
Common equity tier 1 capital (phase-in)	**41,187**	42,179
Loss-absorbing capital	**8,078**	5,665
Common equity tier 1 capital and loss-absorbing capital	**49,265**	47,844
Swiss SRB leverage ratio, phase-in (%)	**5.0**	4.7

	As of	
	31.3.14	31.12.13
Common equity tier 1 capital (fully applied)	**29,937**	28,908
Loss-absorbing capital	**8,078**	5,665
Common equity tier 1 capital including loss-absorbing capital	**38,015**	34,573
Swiss SRB leverage ratio, fully applied (%)	**3.8**	3.4

1 Represent assets recognized on the balance sheet in accordance with IFRS measurement principles, but based on the regulatory scope of consolidation. Refer to the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of our Annual Report 2013 for more information on the regulatory scope of consolidation. 2 In accordance with current Swiss SRB leverage ratio requirements, the leverage ratio denominator excludes forward starting repos, securities lending indemnifications and CEM add-ons for exchange-traded derivatives (both proprietary and agency transactions) and for OTC derivatives with a qualifying central counterparty.

Swiss SRB leverage ratio denominator by reporting segment

	Average 1Q14							
CHF billion	**Wealth Manage-ment**	**Wealth Manage-ment Americas**	**Retail & Corporate**	**Global Asset Manage-ment**	**Investment Bank**	**CC – Core Functions**	**CC – Non-core and Legacy Portfolio**	**Total LRD**
Total on-balance sheet assets[1]	**109.0**	**45.1**	**142.6**	**3.6**	**242.9**	**243.6**	**201.4**	**988.1**
Netting of securities financing transactions	0.0	0.0	0.0	0.0	(2.1)	(3.4)	0.0	(5.5)
Netting of derivative exposures	(0.1)	0.0	(0.2)	0.0	(46.1)	0.0	(130.9)	(177.3)
Current exposure method (CEM) add-on for derivative exposures	1.1	0.0	1.0	0.0	31.3	0.0	54.6	88.1
Off-balance sheet items	9.2	10.7	20.7	0.0	44.7	0.0	9.2	94.6
of which: commitments and guarantees – unconditionally cancellable (10%)	*5.3*	*10.0*	*4.0*	*0.0*	*0.3*	*0.0*	*0.0*	*19.6*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	*3.8*	*0.7*	*16.7*	*0.0*	*44.4*	*0.0*	*9.2*	*75.0*
Assets of entities consolidated under IFRS but not in regulatory scope of consolidation	6.2	0.2	0.1	10.1	0.9	0.3	*0.0*	17.7
Items deducted from tier 1 capital, phase-in (at period end)						(11.8)		(11.8)
Total adjusted exposure ("leverage ratio denominator"), phase-in[2]	**125.4**	**56.0**	**164.2**	**13.7**	**271.7**	**228.8**	**134.3**	**994.0**
Additional items deducted from tier 1 capital, fully applied (at period end)						(6.1)		(6.1)
Total adjusted exposure ("leverage ratio denominator"), fully applied[2]	**125.4**	**56.0**	**164.2**	**13.7**	**271.7**	**222.7**	**134.3**	**987.9**

	Average 4Q13							
CHF billion	Wealth Manage-ment	Wealth Manage-ment Americas	Retail & Corporate	Global Asset Manage-ment	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total LRD
Total on-balance sheet assets[1]	**104.9**	**45.3**	**142.8**	**4.0**	**245.9**	**245.1**	**229.4**	**1,017.3**
Netting of securities financing transactions	0.0	0.0	0.0	0.0	(1.1)	(0.4)	0.0	(1.5)
Netting of derivative exposures	(0.1)	0.0	(0.3)	0.0	(49.0)	0.0	(147.6)	(197.0)
Current exposure method (CEM) add-on for derivative exposures	1.2	0.0	1.1	0.0	34.4	0.0	68.6	105.4
Off-balance sheet items	9.6	11.7	21.1	0.0	44.2	0.0	9.6	96.3
of which: commitments and guarantees – unconditionally cancellable (10%)	*5.9*	*11.0*	*4.2*	*0.0*	*0.4*	*0.0*	*0.0*	*21.5*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	*3.7*	*0.6*	*16.9*	*0.0*	*43.9*	*0.0*	*9.6*	*74.7*
Assets of entities consolidated under IFRS but not in regulatory scope of consolidation	6.6	0.2	0.0	10.0	0.9	0.2	0.0	17.9
Items deducted from tier 1 capital, phase-in (at period end)						(10.4)		(10.4)
Total adjusted exposure ("leverage ratio denominator"), phase-in[2]	**122.1**	**57.2**	**164.7**	**14.0**	**275.3**	**234.5**	**160.0**	**1,027.9**
Additional items deducted from tier 1 capital, fully applied (at period end)						(7.6)		(7.6)
Total adjusted exposure ("leverage ratio denominator"), fully applied[2]	**122.1**	**57.2**	**164.7**	**14.0**	**275.3**	**226.9**	**160.0**	**1,020.2**

1 Represent assets recognized on the balance sheet in accordance with IFRS measurement principles, but based on the regulatory scope of consolidation. Refer to the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of our Annual Report 2013 for more information on the regulatory scope of consolidation. 2 In accordance with current Swiss SRB leverage ratio requirements, the leverage ratio denominator excludes forward starting repos, securities lending indemnifications and CEM add-ons for exchange-traded derivatives (both proprietary and agency transactions) and for OTC derivatives with a qualifying central counterparty.

Equity attribution and return on attributed equity

The equity attribution framework reflects our objectives of maintaining a strong capital base and managing performance by guiding each business towards activities that appropriately balance profit potential, risk and capital usage. This framework, which includes some forward-looking elements, enables us to integrate Group-wide capital management activities with those at a business division level and to calculate and assess return on attributed equity (RoAE) in each of our business divisions.

Tangible equity is attributed to our business divisions by applying a weighted-driver approach that combines phase-in Basel III capital requirements with internal models to determine the amount of capital required to cover each business division's risk.

Risk-weighted assets (RWA) and leverage ratio denominator usage are converted to their common equity tier 1 (CET1) equivalents based on capital ratios as targeted by industry peers. Risk-based capital (RBC) is converted to its CET1 equivalent based on a conversion factor that considers the amount of RBC exposure covered by loss-absorbing capital. In addition to tangible equity, we allocate equity to support goodwill and intangible assets as well as certain Basel III capital deduction items. The amount of equity attributed to all business divisions and Corporate Center corresponds to the amount we believe is required to maintain a strong capital base and to support our businesses adequately, and can differ from the Group's actual equity during a given period.

➔ **Refer to the "Risk management and control" section of our Annual Report 2013 for more information on risk-based capital**

Average total equity attributed to the business divisions and Corporate Center was CHF 41.2 billion in the first quarter of 2014, an increase of CHF 0.4 billion compared with the prior quarter. This increase was largely due to higher attributed equity in Retail & Corporate, which increased to CHF 4.2 billion from CHF 3.8 billion mainly as a result of higher projected RWA related to the additional capital requirement for Swiss residential mortgage loans. Attributed equity in Group items within Corporate Center – Core Functions increased largely due to the first-time inclusion of equity required to underpin certain Basel III capital deduction items that are relevant from the beginning of the first quarter. Attributed equity in Corporate Center – Non-core and Legacy Portfolio decreased mainly due to the exercise of the SNB StabFund option in the fourth quarter of 2013 as well as lower projected resource consumption in the first quarter of 2014. Attributed equity for all business divisions was also affected by the use of a higher industry-standard capital ratio for the conversion of the leverage ratio denominator exposure to its CET1 equivalent.

Average equity attributable to UBS shareholders increased to CHF 48.5 billion in the first quarter of 2014 from CHF 47.7 billion in the fourth quarter of 2013. The difference between average equity attributable to UBS shareholders and average equity attributed to the business divisions and Corporate Center increased to CHF 7.3 billion in the first quarter of 2014 from CHF 6.9 billion in the prior quarter. This difference mainly results from holding higher levels of equity than required under the Basel III phase-in rules.

Annualized RoAE is a pre-tax profitability measure that is an indicator of efficiency in the usage of the firm's financial resources.

The return on equity (RoE) for the Group increased to 8.7% in the first quarter of 2014 from 7.7% in the fourth quarter of 2013 due to an increase in net profit attributable to UBS shareholders, partly offset by an increase in average equity attributable to UBS shareholders. The RoE of the Group was lower than the average of the RoAE of the business divisions as a result of the negative RoAE of the Corporate Center and due to the fact that more equity was attributable to UBS shareholders than the total equity attributed to the business divisions and Corporate Center.

Average attributed equity

	For the quarter ended		
CHF billion	**31.3.14**	31.12.13	31.3.13
Wealth Management	**3.4**	3.4	3.7
Wealth Management Americas	**2.7**	2.7	2.9
Retail & Corporate	**4.2**	3.8	4.4
Global Asset Management	**1.7**	1.7	1.9
Investment Bank	**7.9**	7.8	7.9
Corporate Center	**21.3**	21.4	24.8
of which: Core Functions	***15.3***	*13.7*	*10.9*
of which: Group items[1]	***11.2***	*9.5*	*7.8*
of which: Non-core and Legacy Portfolio	***6.0***	*7.7*	*13.9*
Average equity attributed to the business divisions and Corporate Center	**41.2**	40.8	45.6
Difference	**7.3**	6.9	1.0
Average equity attributable to UBS shareholders	**48.5**	47.7	46.6

1 Group items within the Corporate Center carries common equity not allocated to the business divisions, reflecting equity that we have targeted above a 10% common equity tier 1 ratio. Additionally, this includes attributed equity for PaineWebber goodwill and intangible assets, for centrally held risk-based capital items and for certain Basel III capital deduction items.

Return on attributed equity and return on equity[1]

	For the quarter ended		
In %	**31.3.14**	31.12.13	31.3.13
Wealth Management	**72.8**	55.4	71.8
Wealth Management Americas	**35.9**	34.1	26.9
Retail & Corporate	**36.8**	34.9	31.5
Global Asset Management	**28.7**	30.6	40.0
Investment Bank	**21.5**	15.2	49.5
Corporate Center – Core Functions	**(4.6)**	(16.5)	(25.0)
Corporate Center – Non-core and Legacy Portfolio	**(15.0)**	(23.2)	(7.1)
UBS Group	**8.7**	7.7	8.5

1 Return on attributed equity shown for the business divisions and Corporate Center and return on equity shown for UBS Group.

UBS shares

Total UBS shares issued increased by 1,381,123 shares in the first quarter of 2014 due to the exercise of employee share options.

Treasury shares, which are primarily held to hedge employee share and option participation plans, increased by 18,441,454 shares on a net basis, mainly reflecting the acquisition of treasury shares in relation to employee share-based compensation awards.

UBS shares

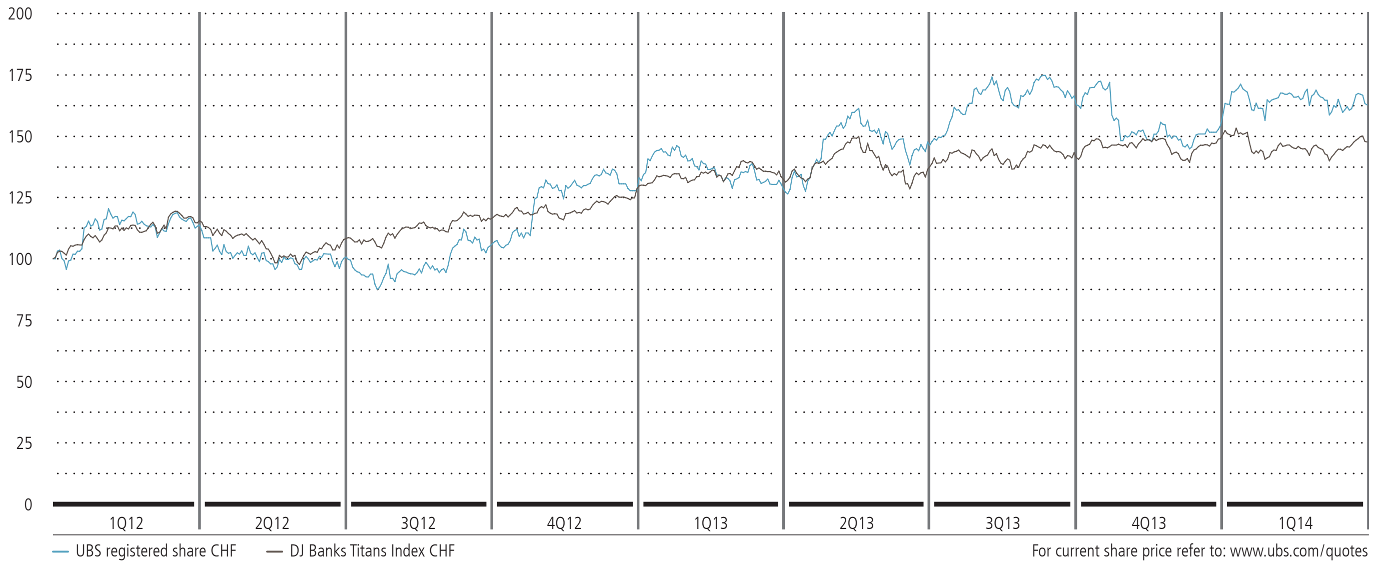
	As of			Change from	
	31.3.14	31.12.13	31.3.13	31.12.13	31.3.13
Shares outstanding					
Shares issued	**3,843,383,192**	3,842,002,069	3,836,939,178	1,381,123	6,444,014
of which: related to employee option plans				*1,381,123*	*6,444,014*
Treasury shares	**92,241,706**	73,800,252	79,083,158	18,441,454	13,158,548
Shares outstanding	**3,751,141,486**	3,768,201,817	3,757,856,020	(17,060,331)	(6,714,534)

	As of or for the quarter ended			% change from	
	31.3.14	31.12.13	31.3.13	31.12.13	31.3.13
Earnings per share (CHF)[1]					
Basic	**0.28**	0.24	0.26	17	8
Diluted	**0.27**	0.24	0.26	13	4
Shareholders' equity (CHF million)					
Equity attributable to UBS shareholders	**49,023**	48,002	47,239	2	4
Less: goodwill and intangible assets	**6,211**	6,293	6,705	(1)	(7)
Tangible shareholders' equity	**42,812**	41,709	40,534	3	6
Book value per share (CHF)					
Total book value per share	**13.07**	12.74	12.57	3	4
Tangible book value per share	**11.41**	11.07	10.79	3	6
Market capitalization and share price					
Share price (CHF)	**18.26**	16.92	14.55	8	25
Market capitalization (CHF million)[2]	**70,180**	65,007	55,827	8	26

1 Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of this report for more information. 2 Market capitalization is calculated based on the total UBS shares issued multiplied by the UBS share price at period end.

UBS share price chart vs DJ Banks Titans Index

in % *1 January 2012–31 March 2014*



UBS shares are registered shares with a par value of CHF 0.10 per share. They are traded and settled as Global Registered Shares. Global Registered Shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange on which they are traded. The shares are currently listed on the SIX Swiss Exchange and the New York Stock Exchange.

Ticker symbols

Trading exchange	Bloomberg	Reuters
SIX Swiss Exchange	UBSN VX	UBSN.VX
New York Stock Exchange	UBS UN	UBS.N

Security identification codes

ISIN	**CH0024899483**
Valoren	**2 489 948**
Cusip	**CINS H89231 33 8**

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Unaudited

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Interim consolidated financial statements (unaudited)

Income statement

		For the quarter ended			% change from	
CHF million, except per share data	Note	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Interest income	3	**3,191**	2,965	3,484	8	(8)
Interest expense	3	**(1,620)**	(1,419)	(2,003)	14	(19)
Net interest income	3	**1,572**	1,546	1,481	2	6
Credit loss (expense) / recovery		**28**	(15)	(15)		
Net interest income after credit loss expense		**1,600**	1,531	1,466	5	9
Net fee and commission income	4	**4,112**	4,096	4,123	0	0
Net trading income	3	**1,357**	604	2,222	125	(39)
Other income	5	**189**	75	(37)	152	
Total operating income		**7,258**	6,307	7,775	15	(7)
Personnel expenses	6	**3,967**	3,660	4,100	8	(3)
General and administrative expenses	7	**1,679**	1,956	1,999	(14)	(16)
Depreciation and impairment of property and equipment		**199**	221	208	(10)	(4)
Amortization and impairment of intangible assets		**20**	22	20	(9)	0
Total operating expenses		**5,865**	5,858	6,327	0	(7)
Operating profit / (loss) before tax		**1,393**	449	1,447	210	(4)
Tax expense / (benefit)	8	**339**	(470)	458		(26)
Net profit / (loss)		**1,054**	919	989	15	7
Net profit / (loss) attributable to preferred noteholders		**0**	0	0		
Net profit / (loss) attributable to non-controlling interests		**0**	2	1	(100)	(100)
Net profit / (loss) attributable to UBS shareholders		**1,054**	917	988	15	7

Earnings per share (CHF)

Basic	9	**0.28**	0.24	0.26	17	8
Diluted	9	**0.27**	0.24	0.26	13	4

Statement of comprehensive income

	For the quarter ended		
CHF million	**31.3.14**	31.12.13	31.3.13
Comprehensive income attributable to UBS shareholders			
Net profit / (loss)	**1,054**	917	988
Other comprehensive income			
Other comprehensive income that may be reclassified to the income statement			
Foreign currency translation			
Foreign currency translation movements, before tax	**(176)**	(207)	557
Foreign exchange amounts reclassified to the income statement from equity	**0**	24	(26)
Income tax relating to foreign currency translation movements	**2**	1	(3)
Subtotal foreign currency translation, net of tax	**(174)**	(182)	528
Financial investments available-for-sale			
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	**88**	(18)	20
Impairment charges reclassified to the income statement from equity	**0**	5	18
Realized gains reclassified to the income statement from equity	**(43)**	(61)	(64)
Realized losses reclassified to the income statement from equity	**3**	40	12
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	**(18)**	13	16
Subtotal financial investments available-for-sale, net of tax	**31**	(20)	3
Cash flow hedges			
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	**538**	(72)	(21)
Net (gains) / losses reclassified to the income statement from equity	**(268)**	(297)	(319)
Income tax relating to cash flow hedges	**(60)**	75	70
Subtotal cash flow hedges, net of tax	**210**	(294)	(270)
Total other comprehensive income that may be reclassified to the income statement, net of tax	**67**	(496)	261
Other comprehensive income that will not be reclassified to the income statement			
Defined benefit plans			
Gains / (losses) on defined benefit plans, before tax	**454**	(74)	375
Income tax relating to defined benefit plans	**(110)**	35	(122)
Subtotal defined benefit plans, net of tax	**344**	(39)	253
Property revaluation surplus			
Gains on property revaluation, before tax	**0**	0	0
Net (gains) / losses reclassified to retained earnings	**0**	(6)	0
Income tax relating to gains on property revaluation	**0**	0	0
Subtotal changes in property revaluation surplus, net of tax	**0**	(6)	0
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**344**	(45)	253
Total other comprehensive income	**411**	(541)	514
Total comprehensive income attributable to UBS shareholders	**1,465**	376	1,503

Statement of comprehensive income (continued)

	For the quarter ended		
CHF million	**31.3.14**	31.12.13	31.3.13
Comprehensive income attributable to preferred noteholders			
Net profit / (loss)	**0**	0	0
Other comprehensive income			
Other comprehensive income that will not be reclassified to the income statement			
Foreign currency translation movements, before tax	**(16)**	(13)	57
Income tax relating to foreign currency translation movements	**0**	0	0
Subtotal foreign currency translation, net of tax	**(16)**	(13)	57
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**(16)**	(13)	57
Total comprehensive income attributable to preferred noteholders	**(16)**	(13)	57
Comprehensive income attributable to non-controlling interests			
Net profit / (loss)	**0**	2	1
Other comprehensive income			
Other comprehensive income that will not be reclassified to the income statement			
Foreign currency translation movements, before tax	**(1)**	0	0
Income tax relating to foreign currency translation movements	**0**	0	0
Subtotal foreign currency translation, net of tax	**(1)**	0	0
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**(1)**	0	0
Total comprehensive income attributable to non-controlling interests	**(1)**	2	1
Total comprehensive income			
Net profit / (loss)	**1,054**	919	989
Other comprehensive income	**394**	(553)	571
of which: other comprehensive income that may be reclassified to the income statement	***67***	*(496)*	*261*
of which: other comprehensive income that will not be reclassified to the income statement	***327***	*(57)*	*310*
Total comprehensive income	**1,448**	366	1,560

Balance sheet

CHF million	Note	31.3.14	31.12.13	% change from 31.12.13
Assets				
Cash and balances with central banks		**87,548**	80,879	8
Due from banks		**19,711**	17,170	15
Cash collateral on securities borrowed	12	**30,096**	27,496	9
Reverse repurchase agreements	12	**80,605**	91,563	(12)
Trading portfolio assets	10	**125,668**	122,848	2
of which: assets pledged as collateral which may be sold or repledged by counterparties		***46,889***	*42,449*	*10*
Positive replacement values	10, 11, 12	**215,307**	254,084	(15)
Cash collateral receivables on derivative instruments	12	**25,757**	28,271	(9)
Financial assets designated at fair value	10, 12	**5,862**	7,364	(20)
Loans		**294,805**	286,959	3
Financial investments available-for-sale	10	**53,184**	59,525	(11)
Investments in associates		**846**	842	0
Property and equipment		**6,094**	6,006	1
Goodwill and intangible assets		**6,211**	6,293	(1)
Deferred tax assets		**8,370**	8,845	(5)
Other assets	13	**22,468**	20,228	11
Total assets		**982,530**	1,018,374	(4)

Balance sheet (continued)

CHF million	Note	31.3.14	31.12.13	% change from 31.12.13
Liabilities				
Due to banks		14,077	12,862	9
Cash collateral on securities lent	12	13,351	9,491	41
Repurchase agreements	12	17,728	13,811	28
Trading portfolio liabilities	10	29,459	26,609	11
Negative replacement values	10, 11, 12	210,056	248,079	(15)
Cash collateral payables on derivative instruments	12	46,679	49,526	(6)
Financial liabilities designated at fair value	10, 12	68,748	69,901	(2)
Due to customers		388,839	390,825	(1)
Debt issued		76,779	81,586	(6)
Provisions	14	3,200	2,971	8
Other liabilities	13	62,677	62,777	0
Total liabilities		931,593	968,438	(4)
Equity				
Share capital		384	384	0
Share premium		33,919	33,952	0
Treasury shares		(1,464)	(1,031)	42
Equity classified as obligation to purchase own shares		(23)	(46)	(50)
Retained earnings		25,529	24,475	4
Cumulative net income recognized directly in equity, net of tax		(9,322)	(9,733)	(4)
Equity attributable to UBS shareholders		49,023	48,002	2
Equity attributable to preferred noteholders		1,877	1,893	(1)
Equity attributable to non-controlling interests		36	41	(12)
Total equity		50,937	49,936	2
Total liabilities and equity		982,530	1,018,374	(4)

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares	Retained earnings	Cumulative net income recognized directly in equity, net of tax
Balance as of 1 January 2013	**384**	**33,898**	**(1,071)**	**(37)**	**21,297**	**(8,522)**
Issuance of share capital	0					
Acquisition of treasury shares			(651)			
Disposition of treasury shares			648			
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		148				
Premium on shares issued and warrants exercised		8				
Employee share and share option plans		(367)				
Tax (expense) / benefit recognized in share premium		0				
Dividends						
Equity classified as obligation to purchase own shares – movements				11		
Preferred notes						
New consolidations and other increases / (decreases)						
Deconsolidations and other decreases		(11)				
Total comprehensive income for the period recognized in equity					988	514
Balance as of 31 March 2013	**384**	**33,677**	**(1,074)**	**(25)**	**22,285**	**(8,008)**
Balance as of 1 January 2014	**384**	**33,952**	**(1,031)**	**(46)**	**24,475**	**(9,733)**
Issuance of share capital	**0**					
Acquisition of treasury shares			**(819)**			
Disposition of treasury shares			**385**			
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		**24**				
Premium on shares issued and warrants exercised		**(5)**				
Employee share and share option plans		**(52)**				
Tax (expense) / benefit recognized in share premium		**1**				
Dividends						
Equity classified as obligation to purchase own shares – movements				**22**		
Preferred notes						
New consolidations and other increases / (decreases)						
Deconsolidations and other decreases						
Total comprehensive income for the period recognized in equity					**1,054**	**411**
Balance as of 31 March 2014	**384**	**33,919**	**(1,464)**	**(23)**	**25,529**	**(9,322)**

of which: Foreign currency translation	*of which: Financial investments available-for-sale*	*of which: Cash flow hedges*	*of which: Defined benefit plans*	*of which: Property revaluation surplus*	Total equity attributable to UBS shareholders	Preferred noteholders	Non-controlling interests	Total equity
(6,954)	***249***	***2,983***	***(4,806)***	***6***	**45,949**	**3,109**	**42**	**49,100**
					0			0
					(651)			(651)
					648			648
					148			148
					8			8
					(367)			(367)
					0			0
					0			0
					11			11
					0	4		4
					0			0
					(11)			(11)
528	*3*	*(270)*	*253*		1,503	57	1	1,560
(6,426)	***252***	***2,714***	***(4,553)***	***6***	**47,239**	**3,170**	**43**	**50,452**
(7,425)	***95***	***1,463***	***(3,867)***	***0***	**48,002**	**1,893**	**41**	**49,936**
					0			**0**
					(819)			**(819)**
					385			**385**
					24			**24**
					(5)			**(5)**
					(52)			**(52)**
					1			**1**
					0		**(4)**	**(4)**
					22			**22**
					0	**0**		**0**
					0			**0**
					0			**0**
(174)	***31***	***210***	***344***		**1,465**	**(16)**	**(1)**	**1,448**
(7,599)	***126***	***1,673***	***(3,523)***	***0***	**49,023**	**1,877**	**36**	**50,937**

Statement of cash flows

	For the quarter ended	
CHF million	**31.3.14**	31.3.13
Cash flow from / (used in) operating activities		
Net profit / (loss)	**1,054**	989
Adjustments to reconcile net profit to cash flow from / (used in) operating activities		
Non-cash items included in net profit and other adjustments:		
Depreciation and impairment of property and equipment	**199**	208
Amortization and impairment of intangible assets	**20**	20
Credit loss expense / (recovery)	**(28)**	15
Share of net profits of associates	**(35)**	(12)
Deferred tax expense / (benefit)	**265**	327
Net loss / (gain) from investing activities	**(48)**	(93)
Net loss / (gain) from financing activities	**393**	5,354
Other net adjustments	**336**	(2,646)
Net (increase) / decrease in operating assets and liabilities:		
Due from / to banks	**1,374**	(980)
Cash collateral on securities borrowed and reverse repurchase agreements	**8,070**	3,080
Cash collateral on securities lent and repurchase agreements	**7,904**	(13,088)
Trading portfolio, replacement values and financial assets designated at fair value	**1,482**	8,732
Cash collateral on derivative instruments	**(1,497)**	(2,410)
Loans / due to customers	**(9,582)**	(3,942)
Other assets, provisions and other liabilities	**(1,102)**	1,594
Income taxes paid, net of refunds	**(81)**	(83)
Net cash flow from / (used in) operating activities	**8,723**	(2,934)
Cash flow from / (used in) investing activities		
Purchase of subsidiaries, associates and intangible assets	**0**	(55)
Disposal of subsidiaries, associates and intangible assets[1]	**26**	63
Purchase of property and equipment	**(329)**	(303)
Disposal of property and equipment	**66**	8
Net (investment in) / divestment of financial investments available-for-sale[2]	**3,756**	4,025
Net cash flow from / (used in) investing activities	**3,519**	3,737
Cash flow from / (used in) financing activities		
Net short-term debt issued / (repaid)	**(5,032)**	10,084
Net movements in treasury shares and own equity derivative activity	**(755)**	(528)
Issuance of long-term debt, including financial liabilities designated at fair value	**8,306**	5,327
Repayment of long-term debt, including financial liabilities designated at fair value	**(9,061)**	(19,791)
Dividends paid and repayment of preferred notes	**(1)**	(1)
Net changes of non-controlling interests	**(4)**	0
Net cash flow from / (used in) financing activities	**(6,546)**	(4,909)

1 Includes dividends received from associates. 2 Includes gross cash inflows from sales and settlements (CHF 32,567 million for the three months ended 31 March 2014, CHF 38,563 million for the three months ended 31 March 2013) and gross cash outflows from purchases (CHF 28,811 million for the three months ended 31 March 2014, CHF 34,538 million for the three months ended 31 March 2013).

Statement of cash flows (continued)

	For the quarter ended	
CHF million	**31.3.14**	31.3.13
Effects of exchange rate differences on cash and cash equivalents	**(715)**	1,820
Net increase / (decrease) in cash and cash equivalents	**4,980**	(2,286)
Cash and cash equivalents at the beginning of the period	**108,632**	99,108
Cash and cash equivalents at the end of the period	**113,612**	96,822
Cash and cash equivalents comprise:		
Cash and balances with central banks	**87,548**	63,976
Due from banks[1]	**24,956**	29,702
Money market paper[2]	**1,109**	3,144
Total[3]	**113,612**	96,822

Additional information

Net cash flow from / (used in) operating activities include:		
Cash received as interest	**2,690**	2,833
Cash paid as interest	**1,356**	1,818
Cash received as dividends on equity investments, investment funds and associates[4]	**554**	313

1 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments with bank counterparties. 2 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 3 CHF 7,429 million and CHF 9,955 million of cash and cash equivalents were restricted as of 31 March 2014 and 31 March 2013, respectively. Refer to "Note 25 Restricted and transferred financial assets" in our Annual Report 2013 for more information. 4 Includes dividends received from associates reported within cash flow from / (used in) investing activities.

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Notes to the interim consolidated financial statements

Note 1 Basis of accounting

The consolidated financial statements (the "Financial Statements") of UBS AG and its subsidiaries ("UBS" or the "Group") are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are stated in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. These interim Financial Statements are presented in accordance with IAS 34, *Interim Financial Reporting.*

In preparing these interim Financial Statements, the same accounting policies and methods of computation have been applied as in the annual Financial Statements for the period ended 31 December 2013, except for the changes set out below. These interim Financial Statements are unaudited and should be read in conjunction with the audited Financial Statements included in our Annual Report 2013. In the opinion of management, all necessary adjustments have been made for a fair presentation of the Group's financial position, results of operations and cash flows.

In preparing these interim Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and the disclosure of contingent assets and liabilities. Assessing available information and the application of judgment are necessary elements in making such estimates. Actual results in the future could differ from such estimates, and such differences may be material to the Financial Statements. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to estimates resulting from these reviews are recognized in the period in which they occur. For more information on areas of estimation uncertainty considered to require critical judgment, refer to item 2) of "Note 1 a) Significant accounting policies" in our Annual Report 2013.

International Financial Reporting Standards and Interpretations adopted in the first quarter of 2014

Offsetting Financial Assets and Financial Liabilities
(Amendments to IAS 32, *Financial Instruments: Presentation)*
On 1 January 2014, the Group adopted *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32, *Financial Instruments: Presentation).* The amended IAS 32 restricts offsetting on the balance sheet to only those arrangements in which a right of set-off exists that is unconditional and legally enforceable, in the normal course of business and in the event of the default, bankruptcy or insolvency of the Group and its relevant counterparties and for which the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments also provide incremental guidance for determining when gross settlement systems, e.g., a delivery versus payment (DVP) process used to settle repurchase agreements, result in the functional equivalent of net settlement.

In assessing whether the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously, emphasis is placed on the effectiveness of the operational mechanics in eliminating substantially all credit and liquidity exposure between the counterparties at the time of settlement. This condition precludes offsetting on the balance sheet for substantial amounts of the Group's financial assets and liabilities, even if

Amendments to IAS 32: Effect on the balance sheet

CHF million	Balance as of 31 December 2013 previously reported	Change in reported figures	Restated balance as of 31 December 2013
Total assets	**1,009,860**	**8,513**	**1,018,374**
of which: Positive replacement values	*245,835*	*8,249*	*254,084*
of which: Cash collateral receivables on derivative instruments	*28,007*	*264*	*28,271*
Total liabilities	**959,925**	**8,513**	**968,438**
of which: Negative replacement values	*239,953*	*8,125*	*248,079*
of which: Cash collateral payables on derivative instruments	*49,138*	*388*	*49,526*
Total equity	**49,936**	**0**	**49,936**
Total liabilities and equity	**1,009,860**	**8,513**	**1,018,374**

they may be subject to enforceable netting arrangements. For derivative contracts, balance sheet offsetting is generally only permitted in circumstances in which a market settlement mechanism exists via an exchange or clearing house which effectively accomplishes net settlement through a daily cash margining process. Bilateral over-the-counter derivatives and exchange-traded derivatives that are not margined on a daily basis are commonly precluded from offsetting on the balance sheet unless a mechanism exists to provide for net settlement of the cash flows arising from these contracts. For repurchase arrangements and securities financings, balance sheet offsetting may be permitted only to the extent that the settlement mechanism eliminates or results in insignificant credit and liquidity risk and processes the receivables and payables in a single settlement process or cycle.

Under the revised rules, the Group is no longer able to offset certain derivative arrangements, mainly credit derivative contracts and equity/index contracts, due to a combination of product and counterparty-specific considerations. The prior period balance sheet as of 31 December 2013 was restated to reflect the effects of adopting these amendments to IAS 32, as noted in the table on the previous page. There was no impact on total equity, net profit or earnings per share. In addition, there was no material impact on the Group's Basel III capital, capital ratios and Swiss SRB leverage ratio.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39, *Financial Instruments: Recognition and Measurement)*

On 1 January 2014, the Group adopted *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39, *Financial Instruments: Recognition and Measurement)* which provides relief from discontinuing hedge accounting when a derivative designated as a hedging instrument is novated to effect clearing with a central counterparty as a result of laws and regulations, provided certain criteria are met. Adoption of the amendments had no impact on the Financial Statements.

IFRIC Interpretation 21, *Levies*

On 1 January 2014, the Group adopted IFRIC Interpretation 21, *Levies.* IFRIC 21 sets out the accounting for an obligation to pay a government levy that is not within the scope of IAS 12, *Income Taxes.* The interpretation specifies that liabilities for levies should not be recognized prior to the occurrence of a specified triggering event, even when an entity has no realistic ability to avoid the triggering event. Adoption of the interpretation did not have a material impact on the Financial Statements.

Refinement to the allocation of operating costs for internal services

To further enhance cost discipline and strengthen our efforts to reduce our underlying cost base, beginning this quarter, the Group has refined the way that operating costs for internal services are allocated from Corporate Center – Core Functions to the business divisions and Corporate Center – Non-core and Legacy Portfolio. Under this refinement, each year, as part of the annual business planning cycle, Corporate Center – Core Functions agrees with the business divisions and Corporate Center – Non-core and Legacy Portfolio cost allocations for services at fixed amounts or at variable amounts based on formulas, depending on capital and service consumption levels as well as the nature of the services performed. These pre-agreed cost allocations are designed with the expectation that Corporate Center – Core Functions recovers its costs, without a mark-up. Because actual costs incurred may differ from those expected, however, Corporate Center – Core Functions may recognize significant under- or over-allocations depending on various factors, including Corporate Center – Core Functions' ability to manage the delivery of its services and achieve cost savings. Each year these cost allocations will be reset, taking account of the prior year's experience and plans for the forthcoming period. We expect the refined approach to strengthen the effectiveness and efficiency of the services performed by Corporate Center – Core Functions, and in particular to facilitate the achievement of cost savings, by better aligning cost accountability with the management of these services. Prior periods have not been adjusted for this refinement.

Changes in presentation

Trading portfolio, Financial investments available-for-sale and Reclassification of financial assets

Starting with the first quarter 2014, Trading portfolio and Financial investments available-for-sale are no longer disclosed as separate Notes in the interim Financial Statements, as this information is already presented in Note 10e. In addition, the information on reclassification of financial assets is no longer disclosed in the interim Financial Statements due to the reduced relevance of remaining balances.

Net fee and commission income

Starting in the first quarter of 2014, the Group revised its presentation of certain line items within Net fee and commission income in order to provide more relevant information. Prior period information was adjusted accordingly. Refer to Note 4 for more information.

Other income

Starting in the first quarter of 2014, the Group introduced several new reporting lines in order to enhance transparency on the composition of Other within Other income. Prior period information was adjusted accordingly. Refer to Note 5 for more information.

Note 2 Segment reporting

UBS's internal accounting policies, which include management accounting policies and service level agreements, determine the revenues and expenses directly attributable to each reportable segment. Internal charges and transfer pricing adjustments are reflected in operating results of the reportable segments. Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are also reflected in the operating results of the reportable segments.

Revenue-sharing agreements are used to allocate external client revenues to reportable segments where several reportable segments are involved in the value-creation chain. Commissions are credited to the reportable segments based on the corresponding client relationship. Net interest income is generally allocated to the reportable segments based on their balance sheet positions. Assets and liabilities of the reportable segments are funded through and invested with Group Treasury within Corporate Center – Core Functions, and the net interest margin is reflected in the results of each reportable segment. Interest income earned from managing UBS's consolidated equity is allocated to the reportable segments based on average attributed equity. Total intersegment revenues for the Group are immaterial as the majority of the revenues are allocated across the segments by means of revenue-sharing agreements.

Effective from 2014 onwards, each year, as part of the annual business planning cycle, Corporate Center – Core Functions agrees with the business divisions and Corporate Center – Non-core and Legacy Portfolio cost allocations for services at fixed amounts or at variable amounts based on formulas, depending on capital and service consumption levels as well as the nature of the services performed. Because actual costs incurred may differ from those expected, however, Corporate Center – Core Functions may recognize significant under- or over-allocations depending on various factors. Each year these cost allocations will be reset, taking account of the prior years' experience and plans for the forthcoming period. Refer to "Note 1 Basis of accounting" for more information. Until December 2013, the operating expenses of Corporate Center – Core Functions were allocated to the reportable segments based on internally determined allocation bases. These allocations were adjusted on a periodic basis and differences may have arisen between actual costs incurred and amounts recharged.

Segment balance sheets assets are based on a third-party view, i.e., the amounts do not include intercompany balances. This view is in line with internal reporting to management. Certain assets managed centrally by Corporate Center – Core Functions (including property and equipment and certain financial assets) are allocated to the segments on a basis different to which the corresponding costs and/or revenues are allocated. Specifically, certain assets are reported in Corporate Center – Core Functions, whereas the corresponding costs and/or revenues are entirely or partially allocated to the segments based on various internally determined allocations. Similarly, certain assets are reported in the business divisions, whereas the corresponding costs and/or revenues are entirely or partially allocated to Corporate Center – Core Functions.

	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	Corporate Center		UBS
CHF million						Core Functions	Non-core and Legacy Portfolio	
For the quarter ended 31 March 2014								
Net interest income	496	223	523	(6)	403	(8)	(59)	1,572
Non-interest income	1,447	1,422	398	457	1,786	59	88	5,658
Income[1]	1,943	1,644	921	451	2,190	51	30	7,230
Credit loss (expense) / recovery	0	17	12	0	0	0	0	28
Total operating income	1,943	1,661	932	451	2,190	51	29	7,258
Personnel expenses	847	1,126	353	208	1,191	139	104	3,967
General and administrative expenses	412	250	192	114	499	85	128	1,679
Services (to) / from other business divisions	17	2	(31)	(5)	2	0	15	0
Depreciation and impairment of property and equipment	48	30	33	10	70	2	7	199
Amortization and impairment of intangible assets	2	12	0	2	3	1	0	20
Total operating expenses[2]	1,325	1,419	547	329	1,765	227	254	5,865
Operating profit / (loss) before tax	**619**	**242**	**386**	**122**	**425**	**(176)**	**(225)**	**1,393**
Tax expense / (benefit)								339
Net profit / (loss)								**1,054**
As of 31 March 2014								
Total assets	**115,430**	**45,416**	**142,711**	**13,284**	**242,100**	**233,379**	**190,209**	**982,530**

1 Refer to "Note 10 Fair value measurement" for more information on own credit in Corporate Center – Core Functions. 2 Refer to "Note 16 Changes in organization" for information on restructuring charges.

Note 2 Segment reporting (continued)[1]

CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	Corporate Center – Core Functions	Corporate Center – Non-core and Legacy Portfolio	UBS
For the quarter ended 31 March 2013								
Net interest income	508	202	531	(6)	256	47	(56)	1,481
Non-interest income	1,418	1,378	388	523	2,529	(487)	561	6,309
Income[2]	1,926	1,580	919	517	2,785	(441)	506	7,790
Credit loss (expense) / recovery	(12)	0	0	0	(1)	0	(2)	(15)
Total operating income	1,913	1,579	919	517	2,783	(441)	504	7,775
Personnel expenses	839	1,120	378	211	1,265	146	141	4,100
General and administrative expenses	345	219	197	107	457	94	580	1,999
Services (to) / from other business divisions	19	4	(37)	(4)	21	0	(4)	0
Depreciation and impairment of property and equipment	46	28	34	11	59	(1)	31	208
Amortization and impairment of intangible assets	1	13	0	2	3	0	1	20
Total operating expenses[3]	1,250	1,384	572	327	1,806	239	749	6,327
Operating profit / (loss) before tax	**664**	**195**	**347**	**190**	**977**	**(680)**	**(245)**	**1,447**
Tax expense / (benefit)								458
Net profit / (loss)								**989**
As of 31 December 2013								
Total assets	**109,758**	**45,491**	**141,369**	**14,223**	**244,990**	**247,407**	**215,135**	**1,018,374**

1 Figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes. 2 Refer to "Note 10 Fair value measurement" for more information on own credit in Corporate Center – Core Functions. 3 Refer to "Note 16 Changes in organization" for information on restructuring charges.

Note 3 Net interest and trading income

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest and trading income					
Net interest income	**1,572**	1,546	1,481	2	6
Net trading income	**1,357**	604	2,222	125	(39)
Total net interest and trading income	**2,929**	2,150	3,703	36	(21)
Wealth Management	**671**	697	727	(4)	(8)
Wealth Management Americas	**324**	340	307	(5)	6
Retail & Corporate	**602**	628	609	(4)	(1)
Global Asset Management	**(1)**	4	6		
Investment Bank	**1,257**	954	1,833	32	(31)
of which: Corporate Client Solutions	***254***	*173*	*498*	*47*	*(49)*
of which: Investor Client Services	***1,003***	*781*	*1,335*	*28*	*(25)*
Corporate Center	**76**	(472)	223		(66)
of which: Core Functions	***65***	*(313)*	*(276)*		
of which: own credit on financial liabilities designated at fair value[1]	***88***	*(94)*	*(181)*		
of which: Non-core and Legacy Portfolio	***12***	*(159)*	*499*		*(98)*
Total net interest and trading income	**2,929**	2,150	3,703	36	(21)
Net interest income					
Interest income					
Interest earned on loans and advances	**2,052**	2,072	2,297	(1)	(11)
Interest earned on securities borrowed and reverse repurchase agreements	**164**	168	238	(2)	(31)
Interest and dividend income from trading portfolio	**852**	551	797	55	7
Interest income on financial assets designated at fair value	**56**	86	94	(35)	(40)
Interest and dividend income from financial investments available-for-sale	**67**	88	59	(24)	14
Total	**3,191**	2,965	3,484	8	(8)
Interest expense					
Interest on amounts due to banks and customers	**199**	192	262	4	(24)
Interest on securities lent and repurchase agreements	**178**	152	217	17	(18)
Interest expense from trading portfolio[2]	**436**	239	491	82	(11)
Interest on financial liabilities designated at fair value	**247**	268	335	(8)	(26)
Interest on debt issued	**560**	569	697	(2)	(20)
Total	**1,620**	1,419	2,003	14	(19)
Net interest income	**1,572**	1,546	1,481	2	6
Net trading income					
Investment Bank Corporate Client Solutions	**139**	53	372	162	(63)
Investment Bank Investor Client Services	**714**	603	1,205	18	(41)
Other business divisions and Corporate Center	**504**	(51)	645		(22)
Net trading income	**1,357**	604	2,222	125	(39)
of which: net gains/(losses) from financial liabilities designated at fair value[1, 3]	***(465)***	*(1,278)*	*(1,144)*	*(64)*	*(59)*

1 Refer to "Note 10 Fair value measurement" for more information on own credit. 2 Includes expense related to dividend payment obligations on trading liabilities. 3 Excludes fair value changes of hedges related to financial liabilities designated at fair value and foreign currency effects arising from translating foreign currency transactions into the respective functional currency, both of which are reported within net trading income.

Note 4 Net fee and commission income[1]

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Underwriting fees	**320**	351	395	(9)	(19)
of which: equity underwriting fees	***185***	*239*	*205*	*(23)*	*(10)*
of which: debt underwriting fees	***135***	*113*	*190*	*19*	*(29)*
M&A and corporate finance fees	**155**	207	119	(25)	30
Brokerage fees	**1,010**	894	1,094	13	(8)
Investment fund fees	**933**	890	1,031	5	(10)
Portfolio management and advisory fees	**1,719**	1,736	1,556	(1)	10
Other	**423**	420	420	1	1
Total fee and commission income	**4,560**	4,498	4,616	1	(1)
Brokerage fees paid	**200**	142	236	41	(15)
Other	**248**	261	256	(5)	(3)
Total fee and commission expense	**448**	402	492	11	(9)
Net fee and commission income	**4,112**	4,096	4,123	0	0
of which: net brokerage fees	***811***	*752*	*858*	*8*	*(5)*

1 In 2014, changes in the presentation of this Note were made. Insurance-related and other fees, Credit-related fees and commissions and Commission income from other services are no longer presented as separate line items in this Note but are instead included under Other. Prior period information was adjusted accordingly.

Note 5 Other income[1]

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Associates and subsidiaries					
Net gains / (losses) from disposals of subsidiaries[2]	**6**	9	82	(33)	(93)
Net gains / (losses) from disposals of investments in associates	**0**	0	0		
Share of net profits of associates	**35**	11	12	218	192
Total	**42**	20	94	110	(55)
Financial investments available-for-sale					
Net gains / (losses) from disposals	**40**	21	52	90	(23)
Impairment charges	**0**	(5)	(18)	(100)	(100)
Total	**39**	16	34	144	15
Net income from properties (excluding net gains / losses from disposals)[3]	**7**	7	9	0	(22)
Net gains / (losses) from disposals of investment properties at fair value[4]	**1**	(2)	1		0
Net gains / (losses) from disposals of properties held for sale	**23**	62	0	(63)	
Net gains / (losses) from disposals of loans and receivables	**9**	11	4	(18)	125
Other[5]	**67**	(38)	(177)		
Total other income	**189**	75	(37)	152	

1 In 2014, changes in the presentation of this Note were made. Net gains / (losses) from disposals of properties held for sale and Net gains / (losses) from disposals of loans and receivables are now presented as separate line items. Previously, these were included in the line item Other. Prior period information was adjusted accordingly. 2 Includes foreign exchange gains / losses reclassified from other comprehensive income related to disposed or dormant subsidiaries. 3 Includes net rent received from third parties and net operating expenses. 4 Includes unrealized and realized gains / losses from investment properties at fair value and foreclosed assets. 5 The fourth and first quarters of 2013 included losses of CHF 75 million and CHF 119 million, respectively, related to the buyback of debt in public tender offers.

Note 6 Personnel expenses

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Salaries and variable compensation	**2,520**	2,272	2,689	11	(6)
Contractors	**54**	57	43	(5)	26
Social security	**259**	176	218	47	19
Pension and other post-employment benefit plans	**193**	211	216	(9)	(11)
Wealth Management Americas: Financial advisor compensation[1]	**790**	778	776	2	2
Other personnel expenses	**152**	166	159	(8)	(4)
Total personnel expenses[2]	**3,967**	3,660	4,100	8	(3)

1 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. 2 Includes restructuring charges. Refer to "Note 16 Changes in organization" for more information.

Note 7 General and administrative expenses

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Occupancy	**251**	268	261	(6)	(4)
Rent and maintenance of IT and other equipment	**117**	117	115	0	2
Communication and market data services	**150**	145	152	3	(1)
Administration	**106**	262[4]	128	(60)	(17)
Marketing and public relations	**94**	155	112	(39)	(16)
Travel and entertainment	**107**	136	101	(21)	6
Professional fees	**256**	328	206	(22)	24
Outsourcing of IT and other services	**357**	382	302	(7)	18
Provisions for litigation, regulatory and similar matters[1, 2]	**193**	79	378	144	(49)
Other	**49**	84	243	(42)	(80)
Total general and administrative expenses[3]	**1,679**	1,956	1,999	(14)	(16)

1 Reflects the net increase / release of provisions for litigation, regulatory and similar matters recognized in the income statement. In addition, the first quarter of 2014 included recoveries from third parties of CHF 1 million (fourth quarter 2013: CHF 8 million, first quarter 2013: CHF 3 million). A portion (CHF 6 million release) of the net increase / release recognized in the income statement for provisions for certain litigation, regulatory and similar matters for the first quarter of 2014 as presented in "Note 14a Provisions" was recorded as other income rather than as general and administrative expenses. 2 Refer to "Note 14 Provisions and contingent liabilities" for more information. 3 Includes restructuring charges. Refer to "Note 16 Changes in organization" for more information. 4 The fourth quarter of 2013 included a net charge of CHF 128 million for the annual UK bank levy.

Note 8 Income taxes

The Group recognized a net income tax expense of CHF 339 million for the first quarter of 2014, compared with a net tax benefit of CHF 470 million in the prior quarter. The first quarter net expense included a deferred tax expense of CHF 234 million in respect of the amortization of deferred tax assets previously recognized in relation to tax losses carried forward to reflect their offset against Swiss taxable profits for the quarter. In addition, it included net tax expenses of CHF 146 million in respect of taxable profits primarily relating to branches and subsidiaries outside of Switzerland. This was partially offset by a decrease in provisions of CHF 41 million in respect of tax matters which are now resolved.

Note 9 Earnings per share (EPS) and shares outstanding

	As of or for the quarter ended			% change from	
	31.3.14	31.12.13	31.3.13	4Q13	1Q13
Basic earnings (CHF million)					
Net profit / (loss) attributable to UBS shareholders	1,054	917	988	15	7
Diluted earnings (CHF million)					
Net profit / (loss) attributable to UBS shareholders	1,054	917	988	15	7
Less: (profit) / loss on UBS equity derivative contracts	0	(3)	(1)	(100)	(100)
Net profit / (loss) attributable to UBS shareholders for diluted EPS	1,054	914	987	15	7
Weighted average shares outstanding					
Weighted average shares outstanding for basic EPS	3,766,005,832	3,767,988,346	3,754,790,008	0	0
Effect of dilutive potential shares resulting from notional shares, in-the-money options and warrants outstanding	85,654,571	83,600,300	85,707,866	2	0
Weighted average shares outstanding for diluted EPS	3,851,660,403	3,851,588,646	3,840,497,874	0	0
Earnings per share (CHF)					
Basic	0.28	0.24	0.26	17	8
Diluted	0.27	0.24	0.26	13	4
Shares outstanding					
Shares issued	3,843,383,192	3,842,002,069	3,836,939,178	0	0
Treasury shares	92,241,706	73,800,252	79,083,158	25	17
Shares outstanding	3,751,141,486	3,768,201,817	3,757,856,020	0	0
Exchangeable shares	0	246,042	418,526	(100)	(100)
Shares outstanding for EPS	3,751,141,486	3,768,447,859	3,758,274,546	0	0

The table below outlines the potential shares which could dilute basic earnings per share in the future, but were not dilutive for the periods presented.

				% change from	
Number of shares	31.3.14	31.12.13	31.3.13	4Q13	1Q13
Potentially dilutive instruments					
Employee share-based compensation awards	106,001,462	117,623,624	134,285,814	(10)	(21)
Other equity derivative contracts	13,408,690	13,670,778	11,004,435	(2)	22
SNB warrants[1]	0	0	100,000,000		(100)
Total	119,410,152	131,294,402	245,290,249	(9)	(51)

1 These warrants related to the SNB transaction. The SNB provided a loan to a fund owned and controlled by the SNB (the SNB StabFund), to which UBS transferred certain illiquid securities and other positions in 2008 and 2009. As part of this arrangement, UBS granted warrants on shares to the SNB, which would have been exercisable if the SNB incurred a loss on its loan to the SNB StabFund. In the fourth quarter of 2013, these warrants were terminated by the SNB following the full repayment of the loan in the third quarter of 2013.

Note 10 Fair value measurement

This note provides fair value measurement information for both financial and non-financial instruments and is structured as follows:
a) Valuation principles
b) Valuation governance
c) Valuation techniques
d) Valuation adjustments
e) Fair value measurements and classification within the fair value hierarchy
f) Transfers between Level 1 and Level 2 in the fair value hierarchy
g) Movements of Level 3 instruments
h) Valuation of assets and liabilities classified as Level 3
i) Sensitivity of fair value measurements to changes in unobservable input assumptions
j) Deferred day-1 profit or loss
k) Financial instruments not measured at fair value

a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or most advantageous market, in the absence of a principal market) as of the measurement date. In measuring fair value, the Group utilizes various valuation approaches and applies a hierarchy for prices and inputs that maximizes the use of observable market data, if available.

All financial and non-financial assets and liabilities measured or disclosed at fair value are categorized into one of three fair value hierarchy levels. In certain cases, the inputs used to measure fair value may fall within different levels of the fair value hierarchy. For disclosure purposes, the level in the hierarchy within which the instrument is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurement:
- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – valuation techniques for which all significant inputs are, or are based on, observable market data or
- Level 3 – valuation techniques for which significant inputs are not based on observable market data

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price multiplied by the number of units of the instrument held.

Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when forming a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability's classification within the fair value hierarchy.

Many cash instruments and over-the-counter (OTC) derivative contracts have bid and offer prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Offer prices represent the lowest price that a party is willing to accept for an asset. In general, long positions are measured at a bid price and short positions at an offer price, reflecting the prices at which the instruments could be transferred under normal market conditions. Offsetting positions in the same financial instrument are marked at the mid-price within the bid-offer spread.

Generally, the unit of account for a financial instrument is the individual instrument, and UBS applies valuation adjustments at an individual instrument level, consistent with that unit of account. However, if certain conditions are met, UBS may estimate the fair value of a portfolio of financial assets and liabilities with substantially similar and offsetting risk exposures on the basis of the net open risks.

For transactions where the valuation technique used to measure fair value requires significant inputs that are not based on observable market data, the financial instrument is initially recognized at the transaction price. This initial recognition amount may differ from the fair value obtained using the valuation technique. Any such difference is deferred and not recognized in the income statement and referred to as deferred day-1 profit or loss. Refer to "Note 10j Deferred day-1 profit or loss" for more information.

Note 10 Fair value measurement (continued)

b) Valuation governance

UBS's fair value measurement and model governance framework includes numerous controls and other procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders from risk and finance control functions. Responsibility for the ongoing measurement of financial and non-financial instruments at fair value resides with the business divisions, but is validated by risk and finance control functions, which are independent of the business divisions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market data and to provide justification and rationale for their fair value estimates.

Independent price verification is performed by the finance function to evaluate the business divisions' pricing input assumptions and modeling approaches. By benchmarking the business divisions' fair value estimates with observable market prices and other independent sources, the degree of valuation uncertainty embedded in these measurements is assessed and managed as required in the governance framework. Fair value measurement models are assessed for their ability to value specific products in the principal market of the product itself, as well as the principal market for the main valuation input parameters to the model.

An independent model review group evaluates UBS's valuation models on a regular basis, or when established triggers occur, and approves them for valuation of specific products. As a result of the valuation controls employed, valuation adjustments may be made to the business divisions' estimates of fair value to align with independent market data and accounting standards (refer to "Note 10d Valuation adjustments" for more information).

c) Valuation techniques

Valuation techniques are used to value positions for which a market price is not available from market sources. This includes certain less liquid debt and equity instruments, certain exchange-traded derivatives and all derivatives transacted in the OTC market. UBS uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include discounted value of expected cash flows, relative value and option pricing methodologies.

Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

Option pricing models incorporate assumptions regarding the behavior of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed-form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation).

Where available, valuation techniques use market-observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, UBS selects the non-market-observable inputs to be used in its valuation techniques, based on a combination of historical experience, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches.

For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services. UBS also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry.

Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation, (refer to "Note 10h Valuation of assets and liabilities classified as Level 3"). The discount curves used by the Group incorporate the funding and credit characteristics of the instruments to which they are applied.

Note 10 Fair value measurement (continued)

d) Valuation adjustments

The output of a valuation technique is always an estimate or approximation of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted, where appropriate, to reflect close-out costs, credit exposure, model-driven valuation uncertainty, trading restrictions and other factors, when such factors would be considered by market participants in measuring fair value. Valuation adjustments are an important component of fair value for assets and liabilities that are measured using valuation techniques. Such adjustments are applied to reflect uncertainties within the fair value measurement process, to adjust for an identified model simplification or to incorporate an aspect of fair value that requires an overall portfolio assessment rather than an evaluation based on an individual instrument level characteristic.

The major classes of valuation adjustments are discussed in further detail below.

Reflection of market bid-offer levels

Instruments that are measured as part of a portfolio of combined long and short positions are valued at mid-market levels to ensure consistent valuation of the long and short component risks. A valuation adjustment is then made to the overall net long or short exposure to move the fair value to bid or offer as appropriate, reflecting current levels of market liquidity. The bid-offer spreads used in the calculation of the valuation adjustment are obtained from market transactions and other relevant sources and are updated periodically.

Reflection of model uncertainty

Uncertainties associated with the use of model-based valuations are incorporated into the measurement of fair value through the use of model reserves. These reserves reflect the amounts that the Group estimates should be deducted from valuations produced directly by models to incorporate uncertainties in the relevant modeling assumptions, in the model and market inputs used, or in the calibration of the model output to adjust for known model deficiencies. In arriving at these estimates, the Group considers a range of market practices, including how it believes market participants would assess these uncertainties. Model reserves are reassessed periodically in light of data from market transactions, consensus pricing services and other relevant sources.

Day-1 reserves

Day-1 profit or loss reserves are reflected, where appropriate, as valuation adjustments. Refer to “Note 10j Deferred day-1 profit or loss” for more information.

Counterparty credit risk in the valuation of derivatives

In order to measure fair value, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in OTC derivative instruments. This amount represents the estimated fair value of protection required to hedge the counterparty credit risk of such instruments. The CVA is determined for each counterparty considering all exposures to that counterparty and is dependent on the expected future value of exposures, default probabilities and recovery rates, applicable collateral or netting arrangements, break clauses and other contractual factors.

Own credit risk in the valuations of OTC derivative instruments

The Group estimates debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, effectively consistent with the CVA methodology. DVA represents the theoretical cost to counterparties of hedging, or the credit risk reserve that a counterparty could reasonably be expected to hold, against their credit risk exposure to UBS. DVA is determined for each counter-

Note 10 Fair value measurement (continued)

party considering all exposures with that counterparty and taking into account collateral netting agreements, expected future mark-to-market movements and UBS's credit default spreads.

UBS's own credit risk in the valuations of financial liabilities designated at fair value

In addition to considering the valuation of the derivative risk component, the valuation of fair value option liabilities also requires consideration of the funded component and specifically the own credit component of fair value. Own credit risk is reflected if this component would be considered for valuation purposes by market participants. Consequently, own credit risk is not reflected for those contracts that are fully collateralized and for other contracts for which it is established market practice not to include an own credit component. The own credit component is estimated using a funds transfer price (FTP) curve to derive a single, market-based level of discounting for uncollateralized funded instruments. UBS senior debt curve spreads are discounted in order to arrive at the FTP curve, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS debt and the levels at which UBS medium-term notes are currently issued. The FTP curve is generally a Level 2 pricing input. However, certain long-dated exposures that are beyond the tenors that are actively traded are classified as Level 3.

The effects of own credit adjustments related to financial liabilities designated at fair value (predominantly issued structured products) as of 31 March 2014, 31 December 2013 and 31 March 2013, respectively, are summarized in the table below.

Year-to-date amounts represent the change during the year, and life-to-date amounts reflect the cumulative change since initial recognition. The change in own credit for the period consists of changes in fair value that are attributable to the change in UBS's credit spreads as well as the effect of changes in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay and changes in interest and other market rates.

Own credit on financial liabilities designated at fair value

	As of or for the quarter ended		
CHF million	**31.3.14**	31.12.13	31.3.13
Gain / (loss) for the period ended	**88**	(94)	(181)
Life-to-date gain / (loss)	**(485)**	(577)	(482)

Note 10 Fair value measurement (continued)

e) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Group's financial and non-financial assets and liabilities measured at fair value is summarized in the table below. The narrative that follows describes the significant valuation inputs and assumptions for each class of assets and liabilities measured at fair value, the valuation techniques, where applicable, used in measuring their fair value, and the factors determining their classification within the fair value hierarchy.

Determination of fair values from quoted market prices or valuation techniques[1]

	31.3.14				31.12.13[4]			
CHF billion	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis								
Financial assets held for trading[2]	81.7	33.2	3.9	118.7	79.9	30.1	4.3	114.2
of which:								
Government bills/bonds	7.7	5.5	0.0	13.2	7.9	5.1	0.0	13.1
Corporate bonds and municipal bonds, including bonds issued by financial institutions	0.9	13.2	1.5	15.5	1.1	13.3	1.7	16.0
Loans	0.0	4.5	0.8	5.4	0.0	2.0	1.0	3.0
Investment fund units	5.5	6.2	0.2	11.9	4.8	6.0	0.3	11.1
Asset-backed securities	0.0	2.4	1.0	3.4	0.0	2.3	1.0	3.3
Equity instruments	52.9	0.9	0.2	54.0	50.7	1.0	0.2	51.9
Financial assets for unit-linked investment contracts	14.8	0.5	0.1	15.4	15.4	0.4	0.1	15.8
Positive replacement values	0.8	208.8	5.6	215.3	0.7	247.9	5.5	254.1
of which:								
Interest rate contracts	0.0	120.6	0.6	121.2	0.0	130.4	0.3	130.7
Credit derivative contracts	0.0	16.5	2.9	19.4	0.0	20.1	3.0	23.1
Foreign exchange contracts	0.3	52.1	0.8	53.2	0.5	74.6	0.9	76.0
Equity/index contracts	0.0	16.9	1.3	18.2	0.0[5]	19.3[5]	1.2	20.6
Commodities contracts	0.0	2.7	0.0	2.7	0.0	3.5	0.0	3.5
Financial assets designated at fair value	0.1	1.7	4.1	5.9	0.1	2.9	4.4	7.4
of which:								
Loans (including structured loans)	0.0	1.2	1.2	2.4	0.0	1.4	1.1	2.5
Structured reverse repurchase and securities borrowing agreements	0.0	0.1	2.7	2.8	0.0	1.1	3.1	4.2
Other	0.1	0.4	0.1	0.7	0.1	0.5	0.2	0.7
Financial investments available-for-sale	32.5	19.9	0.8	53.2	39.7	19.0	0.8	59.5
of which:								
Government bills/bonds	30.2	1.3	0.0	31.5	38.0	1.2	0.0	39.2
Corporate bonds and municipal bonds, including bonds issued by financial institutions	2.2	14.6	0.1	16.8	1.6	13.6	0.1	15.3
Investment fund units	0.0	0.0	0.2	0.3	0.0	0.0	0.2	0.3
Asset-backed securities	0.0	3.9	0.0	3.9	0.0	4.0	0.0	4.0
Equity instruments	0.1	0.1	0.4	0.6	0.1	0.1	0.4	0.6
Non-financial assets								
Investment properties at fair value	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Precious metals and other physical commodities	7.0	0.0	0.0	7.0	8.6	0.0	0.0	8.6
Assets measured at fair value on a non-recurring basis								
Other assets[3]	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Total assets measured at fair value	122.1	263.7	14.4	400.2	129.1	299.9	15.0	444.0

Note 10 Fair value measurement (continued)

Determination of fair values from quoted market prices or valuation techniques[1] (continued)

	31.3.14				31.12.13[4]			
CHF billion	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value on a recurring basis								
Trading portfolio liabilities	24.5	4.9	0.1	29.5	22.5	3.9	0.2	26.6
of which:								
Government bills / bonds	*8.3*	*1.1*	*0.0*	*9.5*	*6.9*	*0.5*	*0.0*	*7.3*
Corporate bonds and municipal bonds, including bonds issued by financial institutions	*0.1*	*3.5*	*0.1*	*3.7*	*0.3*	*3.2*	*0.2*	*3.6*
Investment fund units	*0.4*	*0.1*	*0.0*	*0.4*	*0.4*	*0.1*	*0.0*	*0.5*
Asset-backed securities	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Equity instruments	*15.7*	*0.2*	*0.0*	*15.8*	*15.0*	*0.2*	*0.0*	*15.1*
Negative replacement values[6]	0.9	203.9	5.3	210.1	0.8	242.9	4.4	248.1
of which:								
Interest rate contracts	*0.0*	*108.6*	*0.9*	*109.4*	*0.0*	*118.0*	*0.4*	*118.4*
Credit derivative contracts	*0.0*	*16.0*	*2.1*	*18.1*	*0.0*	*19.5*	*2.0*	*21.5*
Foreign exchange contracts	*0.3*	*56.9*	*0.4*	*57.6*	*0.5*	*79.3*	*0.5*	*80.3*
Equity / index contracts	*0.0*	*19.5*	*1.9*	*21.4*	*0.0*[5]	*22.9*[5]	*1.5*	*24.4*
Commodities contracts	*0.0*	*2.9*	*0.0*	*2.9*	*0.0*	*3.2*	*0.0*	*3.2*
Financial liabilities designated at fair value	0.0	56.5	12.3	68.7	0.0	57.8	12.1	69.9
of which:								
Non-structured fixed-rate bonds	*0.0*	*2.2*	*1.5*	*3.7*	*0.0*	*2.4*	*1.2*	*3.7*
Structured debt instruments issued	*0.0*	*47.8*	*8.1*	*55.8*	*0.0*	*48.4*	*7.9*	*56.3*
Structured over-the-counter debt instruments	*0.0*	*6.1*	*1.8*	*7.9*	*0.0*	*6.5*	*1.8*	*8.3*
Structured repurchase agreements	*0.0*	*0.4*	*1.0*	*1.3*	*0.0*	*0.4*	*1.2*	*1.6*
Loan commitments	*0.0*	*0.1*	*0.0*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*
Other liabilities – amounts due under unit-linked investment contracts	0.0	15.6	0.0	15.6	0.0	16.2	0.0	16.2
Total liabilities measured at fair value	**25.3**	**280.9**	**17.7**	**323.9**	23.3	320.7	16.8	360.7

1 Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 31 March 2014, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.1 billion (of which CHF 0.2 billion were net Level 2 assets and CHF 0.3 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 December 2013, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.2 billion (of which CHF 0.2 billion were net Level 2 assets and CHF 0.4 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. 2 Financial assets held for trading do not include precious metals and commodities. 3 Other assets primarily consist of assets held for sale, which are measured at the lower of their net carrying amount or fair value less costs to sell. 4 In 2014, certain figures for 31 December 2013 were restated upon the adoption of the amendments to IAS 32. Both PRV and NRV for Level 2 Interest rate contracts, Credit derivative contracts and Equity / index contracts were increased by approximately CHF 1 billion, CHF 5 billion and CHF 3 billion, respectively. Refer to Note 1 "Basis of accounting" for more information on the adoption of the amendments to IAS 32. 5 In 2014, the Group has reclassified listed equity option contracts, with all now classified in Level 2. The prior period fair value hierarchy was restated for this change, reducing Level 1 equity / index contracts in both PRV and NRV by approximately CHF 2 billion, with corresponding increases to Level 2. 6 Includes a life-to-date debit valuation adjustment gain on derivatives of CHF 229 million as of 31 March 2014 (31 December 2013: CHF 256 million).

Financial assets and liabilities held for trading, financial assets designated at fair value and financial investments available-for-sale

Government bills and bonds

Government bills and bonds include fixed-rate, floating-rate and inflation-linked bills and bonds issued by sovereign governments, as well as interest and principal strips based on these bonds. Such instruments are generally traded in active markets and prices can be obtained directly from these markets, resulting in classification as Level 1, while the majority of the remaining positions are classified as Level 2. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques that incorporate market data for similar government instruments converted into yield curves. These yield curves are used to project future index levels, and to discount expected future cash flows. The main inputs to valuation techniques for these instruments are bond prices and inputs to estimate the future index levels for floating or inflation index-linked instruments. Instruments classified as Level 3 are limited and are generally classified as such due to the requirement to extrapolate yield curve inputs outside the range of active market trading.

Corporate and municipal bonds

Corporate bonds include senior, junior and subordinated debt issued by corporate entities. Municipal bonds are issued by state and local governments. While most instruments are standard fixed or floating-rate securities, some may have more complex

Note 10 Fair value measurement (continued)

coupon or embedded option features. Corporate and municipal bonds are generally valued using prices obtained directly from the market. In cases where no directly comparable price is available, instruments may be valued using yields derived from other securities by the same issuer or benchmarked against similar securities, adjusted for seniority, maturity and liquidity. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques incorporating the credit spread of the issuer, which may be derived from other issuances or CDS data for the issuer, estimated with reference to other equivalent issuer price observations or from credit modeling techniques. Corporate bonds are typically classified as Level 2 because, although market data is readily available, there is often insufficient third-party trading transaction data to justify an active market and corresponding Level 1 classification. Municipal bonds are generally classified as Level 1 or Level 2 depending on the depth of trading activity behind price sources. Level 3 instruments have no suitable price available for the security held or by reference to other securities issued by the same issuer. Therefore, these instruments are measured based on price levels for similar issuers adjusted for relative tenor and issuer quality.

Convertible bonds are generally valued using prices obtained directly from market sources. In cases where no directly comparable price is available, issuances may be priced using a convertible bond model, which values the embedded equity option and debt components and discounts these amounts using a curve that incorporates the credit spread of the issuer. Although market data is readily available, convertible bonds are typically classified as Level 2 because there is insufficient third-party trading transaction data to justify a Level 1 classification.

Traded loans and loans designated at fair value

Traded loans and loans designated at fair value are valued directly using market prices that reflect recent transactions or quoted dealer prices where available. For illiquid loans where no market price data is available, alternative valuation techniques are used, which include relative value benchmarking using pricing derived from debt instruments in comparable entities or different products in the same entity. The corporate lending portfolio is valued using either directly observed market prices typically from consensus providers or by using a credit default swap valuation technique, which requires inputs for credit spreads, credit recovery rates and interest rates. The market for these instruments is not actively traded and even though price data is available it may not be directly observable, and therefore corporate loans typically do not meet Level 1 classification. Instruments with suitably deep and liquid price data available will be classified as Level 2, while any positions requiring the use of valuation techniques or for which the price sources have insufficient trading depth are classified as Level 3. Recently originated commercial real estate loans which are classified as Level 3 are measured using a securitization approach based on rating agency guidelines. Future profit and loss from the securitization is not recognized, but overall spread moves are captured in the loan valuation.

Included within loans are various contingent lending transactions, for which valuations are dependent on actuarial mortality levels and actuarial life insurance policy lapse rates. Mortality and lapse rate assumptions are based on external actuarial estimations for large homogeneous pools, and contingencies are derived from a range relative to the actuarially expected amount. In addition, the pricing technique uses volatility of mortality as an input.

Investment fund units

Investment fund units are predominantly exchange traded, with readily available quoted prices in liquid markets. Where market prices are not available, fair value may be measured using net asset values (NAV), taking into account any restrictions imposed upon redemption. Listed units are classified as Level 1, provided there is sufficient trading to justify active market classification, while other positions are classified as Level 2. Positions where NAV is not available or which are not redeemable at the measurement date or in the near future are classified as Level 3.

Asset-backed securities

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), other asset-backed securities (ABS) and collateralized debt obligations (CDO)

RMBS, CMBS, ABS and CDO are instruments generally issued through the process of securitization of underlying interest bearing assets. The underlying collateral for RMBS is residential mortgages, for CMBS, commercial mortgages, for ABS, other assets such as credit card, car or student loans and leases and for CDO, other securitized positions of RMBS, CMBS or ABS. The market for these securities is not active, and therefore a variety of valuation techniques are used to measure fair value. For more liquid securities, trade data or quoted prices may be obtained periodically for the instrument held, and the valuation process will use this trade and price data, updated for movements in market levels between the time of trading and the time of valuation. Less liquid instruments are measured using discounted expected cash flows incorporating price data for instruments or indices with similar risk profiles. Expected cash flow estimation involves the modeling of the expected collateral cash flows using input assumptions derived from proprietary models, fundamental analysis and/or market research based on management's quantitative and qualitative assessment of current and future economic conditions. The expected collateral cash flows thus estimated are then converted into the securities' projected performance under such conditions based on the credit enhancement and subordination terms of the securitization. Expected cash flow schedules are discounted using a rate or discount margin that reflects the discount levels required by the market for instruments with similar risk and liquidity profiles. Inputs to discounted expected cash flow techniques include

Note 10 Fair value measurement (continued)

asset prepayment rates, discount margin or discount yields, asset default rates and asset loss on default severity, which may in turn be estimated using more fundamental loan and economic drivers such as, but not limited to, loan-to-value data, house price appreciation, foreclosure costs, rental income levels, void periods and employment rates. RMBS, CMBS and ABS are generally classified as Level 2. However, if significant inputs are unobservable, or if market or fundamental data is not available for instruments or collateral with a sufficiently similar risk profile to the positions held, they are classified as Level 3.

Equity instruments

The majority of equity securities are actively traded on public stock exchanges where quoted prices are readily and regularly available, resulting in their classification as Level 1. Units held in hedge funds are also classified as equity instruments. Fair value for these units is measured based on their published NAV, taking into account any restrictions imposed upon the redemption. These units are classified as Level 2, except for positions where published NAV is not available or which are not redeemable at the measurement date or in the near future, which are classified as Level 3.

Unlisted equity holdings, including private equity positions, are initially marked at their transaction price and are periodically revalued to the extent reliable evidence of price movements becomes available or the position is deemed to be impaired.

Financial assets underlying unit-linked investments

Unit-linked investment contracts allow investors to invest in a pool of assets through issued investment units. The unit holders are exposed to all risks and rewards associated with the reference asset pool. Assets held under unit-linked investment contracts are presented as Trading portfolio assets. The majority of assets are listed on exchanges and are classified as Level 1 if actively traded, or Level 2 if trading is not active. However, instruments for which prices are not readily available are classified as Level 3.

Structured repurchase agreements and structured reverse repurchase agreements

Structured repurchase agreements and structured reverse repurchase agreements designated at fair value are measured using discounted expected cash flow techniques. The discount rate applied is based on funding curves that are specific to the collateral eligibility terms for the contract in question. Collateral terms for these positions are not standard and therefore funding spread levels used for valuation purposes cannot be observed in the market. As a result, these positions are mostly classified as Level 3.

Replacement values

Collateralized and uncollateralized instruments

The curves used for discounting expected cash flows in the valuation of collateralized derivatives reflect the funding terms associated with the relevant collateral arrangement for the instrument being valued. These collateral arrangements differ across counterparties with respect to the eligible currency and interest terms of the collateral. The majority of collateralized derivatives are measured using a discount curve that is based on funding rates derived from overnight interest in the cheapest eligible currency for the respective counterparty collateral agreement.

Uncollateralized derivatives are discounted using the LIBOR (or equivalent) curve for the currency of the instrument. As described in "Note 10d Valuation adjustments," the fair value of uncollateralized derivatives is adjusted using CVA or DVA processes to reflect an estimation of the impact of counterparty credit and UBS own credit risk on the fair value of assets and liabilities.

Interest rate contracts

Interest rate swap contracts include interest rate swaps, basis swaps, cross-currency swaps, inflation swaps and interest rate forwards, often referred to as forward rate agreements (FRA). These products are valued by estimating future interest cash flows and discounting those cash flows using a rate that reflects the appropriate funding rate for the position being measured. The yield curves used to estimate future index levels and discount rates are generated using market standard yield curve models using interest rates associated with current market activity. The key inputs to the models are interest rate swap rates, FRA rates, short-term interest rate futures prices, basis swap spreads and inflation swap rates. In most cases, the standard market contracts that form the inputs for yield curve models are traded in active and observable markets, resulting in the majority of these financial instruments being classified as Level 2.

Interest rate option contracts include caps and floors, swaptions, swaps with complex payoff profiles and other more complex interest rate options. These contracts are valued using various market standard option models, using inputs that include interest rate yield curves, inflation curves, volatilities and correlations. The volatility and correlation inputs within the models are implied from market data based on market observed prices for standard option instruments trading within the market. Option models used to value more exotic products have a number of model parameter inputs that require calibration to enable the exotic model to price standard option instruments to the price levels observed in the market. Although these inputs cannot be directly observed, they are generally treated as Level 2, as the calibration process enables the model output to be validated to active market levels. Models calibrated in this way are then used to revalue the portfolio of both standard options as well as more exotic products. In most cases, there are active and observable markets for the standard market instruments that form the inputs for yield curve models as well as the financial instruments from which volatility and correlation inputs are derived, resulting in the majority of these products being classified as Level 2. Within interest rate option contracts, exotic options for which appro-

priate volatility or correlation input levels cannot be implied from observable market data are classified as Level 3. These options are valued using volatility and correlation levels derived from non-market sources.

Interest rate swap and option contracts are classified as Level 3 when the maturity of the contract exceeds the term for which standard market quotes are observable for a significant input parameter. Such positions are valued by extrapolation from the last observable point using standard assumptions or by reference to another observable comparable input parameter to represent a suitable proxy for that portion of the term.

Balance guaranteed swaps (BGS) are interest rate or currency swaps that have a notional schedule based on a securitization vehicle, requiring the valuation to incorporate an adjustment for the unknown future variability of the notional schedule. Inputs to value BGS are those used to value the standard market risk on the swap and those used to estimate the notional schedule of the underlying securitization pool (i.e., prepayment, default and interest rates). BGS are classified as Level 3, as the correlation between unscheduled notional changes and the underlying market risk of the BGS does not have an active market and cannot be observed.

Credit derivative contracts

Credit derivative contracts based on a single credit name include credit default swaps (CDS) based on corporate and sovereign single names, CDS on loans and certain total return swaps (TRS). These contracts are valued by estimating future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using market standard discounted cash flow models and a discount rate that reflects the appropriate funding rate for that portion of the portfolio. TRS and certain single-name CDS contracts for which a derivative-based credit spread is not directly available are valued using a credit spread derived from the price of the cash bond that is referenced in the credit derivative, adjusted for any funding differences between the cash and synthetic product. Loan CDS for which a credit spread cannot be observed directly may be valued, where possible, using the corporate debt curve for the entity, adjusted for differences between loan and debt default definitions and recovery rate assumptions. Inputs to the valuation models used to value single-name and loan CDS include single-name credit spreads and upfront pricing points, recovery rates and funding curves. In addition, corporate bond prices are used as inputs to the valuation model for TRS and certain single-name or loan CDS as described. Many single-name credit default swaps are classified as Level 2 because the credit spreads and recovery rates used to value these contracts are actively traded and observable market data is available. Where the underlying reference name is not actively traded, these contracts are classified as Level 3.

Credit derivative contracts based on a portfolio of credit names include credit default swaps on a credit index, credit default swaps based on a bespoke portfolio or first to default swaps (FTD). The valuation of these contracts is similar to that described above for single-name CDS and includes an estimation of future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using market standard discounted cash flow models based on an estimation of the funding rate for that portion of the portfolio. Tranche products and FTD are valued using industry standard models that, in addition to default and recovery assumptions as above, incorporate implied correlations to be applied to the credits within the portfolio in order to apportion the expected credit loss at a portfolio level across the different tranches or names within the overall structure. These correlation assumptions are derived from prices of actively traded index tranches or other FTD baskets. Inputs to the valuation models used for all portfolio credit default swaps include single-name or index credit spreads and upfront pricing points, recovery rates and funding curves. In addition, models used for tranche and FTD products have implied credit correlations as inputs. Credit derivative contracts based on a portfolio of credit names are classified as Level 2 when credit spreads and recovery rates are determined from actively traded observable market data, and when the correlation data used to value bespoke and index tranches is based on actively traded index tranche instruments. This correlation data undergoes a mapping process that takes into account both the relative tranche attachment / detachment points in the overall capital structure of the portfolio and portfolio composition. Where the mapping process requires extrapolation beyond the range of available and active market data, the position is classified as Level 3. This relates to a small number of index and all bespoke tranche contracts. FTD are classified as Level 3, as the correlations between specific names in the FTD portfolio are not actively traded. Also classified as Level 3 are several older credit index positions, referred to as "off the run" indices, due to the lack of any active market for the index credit spread.

Credit derivative contracts on securitized products have an underlying reference asset that is a securitized product (RMBS, CMBS, ABS or CDO) and include credit default swaps and certain TRS. These credit default swaps (typically referred to as "pay-as-you-go" or "PAYG CDS") and TRS are valued using a similar valuation technique to the underlying security (by reference to equivalent securities trading in the market, or through cash flow estimation and discounted cash flow techniques as described in the Asset-backed securities section above), with an adjustment made to reflect the funding differences between cash and synthetic form. Inputs to the PAYG CDS and TRS are those used to value the underlying security (prepayment rates, default rates, loss severity, discount margin / rate and other inputs) and those used

Note 10 Fair value measurement (continued)

to capture the funding basis differential between cash and synthetic form. The classification of PAYG CDS and these TRS follow the characteristics of the underlying security and are therefore distributed across Level 2 and Level 3.

Foreign exchange (FX) contracts

Open spot FX contracts are valued using the FX spot rate observed in the market. Forward FX contracts are valued using the FX spot rate adjusted for forward pricing points observed from standard market-based sources. As the markets for both FX spot and FX forward pricing points are both actively traded and observable, FX contracts are generally classified as Level 2.

OTC FX option contracts include standard call and put options, options with multiple exercise dates, path-dependent options, options with averaging features, options with discontinuous pay-off characteristics and options on a number of underlying FX rates. OTC FX option contracts are valued using market standard option valuation models. The models used for shorter-dated options (i.e., maturities of five years or less) tend to be different than those used for longer-dated options because the models needed for longer-dated OTC FX contracts require additional consideration of interest rate and FX rate interdependency. Inputs to the option valuation models include spot FX rates, FX forward points, FX volatilities, interest rate yield curves, interest rate volatilities and correlations. The inputs for volatility and correlation are implied through the calibration of observed prices for standard option contracts trading within the market.

As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of OTC FX option contracts are classified as Level 2. OTC FX option contracts classified as Level 3 include long-dated FX exotic option contracts for which there is no active market from which to derive volatility or correlation inputs. The inputs used to value these OTC FX option contracts are calculated using consensus pricing services without an underlying principal market, historical asset prices or by extrapolation.

Cross-currency balance guaranteed swaps (BGS) are classified as foreign exchange contracts. Details of the fair value classification can be found under the interest rate contracts section above.

Equity / index contracts

Equity / index contracts include equity forward contracts and equity option contracts. Equity forward contracts have a single stock or index underlying and are valued using market standard models. The key inputs to the models are stock prices, estimated dividend rates and equity funding rates (which are implied from prices of forward contracts observed in the market). Estimated cash flows are then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of equity forward contracts are classified as Level 2. Positions classified as Level 3 have no market data available for the instrument maturity and are valued by some form of extrapolation of available data, use of historical dividend data, or use of data for a related equity.

Equity option contracts include market standard single or basket stock or index call and put options as well as equity option contracts with more complex features including option contracts with multiple or continuous exercise dates, option contracts for which the payoff is based on the relative or average performance of components of a basket, option contracts with discontinuous payoff profiles, path-dependent options and option contracts with a payoff calculated directly upon equity features other than price (i.e., dividend rates, volatility or correlation). Equity option contracts are valued using market standard models that estimate the equity forward level as described above for equity forward contracts and incorporate inputs for stock volatility and for correlation between stocks within a basket. The probability-weighted expected option payoff generated is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. Positions for which inputs are derived from standard market contracts traded in active and observable markets are classified as Level 2. Level 3 positions are those for which volatility, forward or correlation inputs are not observable and are therefore valued using extrapolation of available data, historical dividend, correlation or volatility data, or the equivalent data for a related equity.

During the quarter, the Group has reclassified listed equity option contracts, with all now classified in Level 2. The prior period fair value hierarchy was restated for this change, reducing Level 1 equity / index contracts in both PRV and NRV by approximately CHF 2 billion, with corresponding increases to Level 2.

Commodity derivative contracts

Commodity derivative contracts include forward, swap and option contracts on individual commodities and on commodity indices. Commodity forward and swap contracts are measured using market standard models that use market forward levels on standard instruments. Commodity option contracts are measured using market standard option models that estimate the commodity forward level as described above for commodity forward and swap contracts, incorporating inputs for the volatility of the underlying index or commodity. The option model produces a probability-weighted expected option payoff that is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. For commodity options on baskets of commodities or bespoke commodity indices, the valuation technique also incorporates inputs for the correlation between different commodities or commodity indices. Individual commodity contracts are typically classified as Level 2 because active forward and volatility market data is available.

Note 10 Fair value measurement (continued)

Financial liabilities designated at fair value

Structured and OTC debt instruments issued
Structured debt instruments issued are comprised of medium-term notes (MTN), which are held at fair value under the fair value option. These MTN are tailored specifically to the holder's risk or investment appetite with structured coupons or payoffs. The risk management and the valuation approaches for these MTN are closely aligned to the equivalent derivatives business and the underlying risk, and the valuation techniques used for this component are the same as the relevant valuation techniques described above. For example, equity-linked notes should be referenced to equity/index contracts in the replacement value section and credit-linked notes should be referenced to credit derivative contacts.

Other liabilities – amounts due under unit-linked contracts
Unit-linked investment contracts allow investors to invest in a pool of assets through issued investment units. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amounts due to unit holders and is equal to the fair value of the reference asset pool. The fair values of investment contract liabilities are determined by reference to the fair value of the corresponding assets. The liabilities themselves are not actively traded, but are mainly referenced to instruments which are and are therefore classified as Level 2.

f) Transfers between Level 1 and Level 2 in the fair value hierarchy

The amounts disclosed reflect transfers between Level 1 and Level 2 for instruments which were held for the entire reporting period.

Assets totaling approximately CHF 1.3 billion, which were mainly comprised of financial investments available-for-sale and financial assets held for trading, were transferred from Level 2 to Level 1 during the first quarter of 2014, generally due to increased levels of trading activity observed within the market. Transfers of financial liabilities from Level 2 to Level 1 during the first quarter of 2014 were not significant.

Assets totaling approximately CHF 0.7 billion, which were mainly comprised of financial investments available-for-sale and financial assets held for trading, and liabilities totaling approximately CHF 0.2 billion were transferred from Level 1 to Level 2 during the first quarter of 2014, generally due to diminished levels of trading activity observed within the market.

g) Movements of Level 3 instruments

Significant changes in Level 3 instruments

The table on the following pages presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis. Level 3 assets and liabilities may be hedged with instruments classified as Level 1 or Level 2 in the fair value hierarchy and, as a result, realized and unrealized gains and losses included in the table may not include the effect of related hedging activity. Further, the realized and unrealized gains and losses presented within the table are not limited solely to those arising from Level 3 inputs, as valuations are generally derived from both observable and unobservable parameters.

Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the year.

As of 31 March 2014, financial instruments measured with valuation techniques using significant non-market-observable inputs (Level 3) mainly comprised the following:
– structured debt instruments issued (equity- and credit-linked);
– structured reverse repurchase and securities borrowing agreements;
– credit derivative contracts and
– equity/index contracts

Significant movements in Level 3 instruments during the quarter ended 31 March 2014 were as follows.

Financial assets held for trading

Financial assets held for trading decreased to CHF 3.9 billion from CHF 4.3 billion during the quarter. Sales of CHF 0.9 billion, primarily comprised of loans, were mostly offset by issuances of CHF 0.6 billion and purchases of CHF 0.2 billion, which were mainly comprised of loans and corporate bonds. Transfers out of Level 3 during the period amounted to CHF 0.4 billion and were mainly comprised of corporate bonds and mortgage-backed securities due to increased observability of credit spread inputs. Transfers into Level 3 amounted to CHF 0.3 billion and were primarily comprised of corporate bonds and mortgage-backed securities.

Financial assets designated at fair value

Financial assets designated at fair value decreased to CHF 4.1 billion from CHF 4.4 billion during the quarter, mainly reflecting settlements of CHF 0.3 billion, which were primarily comprised of structured reverse repurchase and securities borrowing agreements.

Note 10 Fair value measurement (continued)

Movements of Level 3 instruments

CHF billion	Balance as of 31 December 2013	Total gains / losses included in comprehensive income: Net trading income	*of which: related to Level 3 instruments held at the end of the reporting period*	Net interest income and other income	*of which: related to Level 3 instruments held at the end of the reporting period*	Other comprehensive income
Financial assets held for trading[1]	**4.3**	**(0.1)**	***(0.1)***	**0.0**	***0.0***	**0.0**
of which:						
Corporate bonds and municipal bonds, including bonds issued by financial institutions	*1.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Loans	*1.0*	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*
Asset-backed securities	*1.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other	*0.6*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*
Financial assets designated at fair value	**4.4**	**(0.1)**	***0.0***	**0.0**	***0.0***	**0.0**
of which:						
Loans (including structured loans)	*1.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Structured reverse repurchase and securities borrowing agreements	*3.1*	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*
Other	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Financial investments available-for-sale	**0.8**	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**
Positive replacement values	**5.5**	**(0.3)**	***(0.2)***	**0.0**	***0.0***	**0.0**
of which:						
Credit derivative contracts	*3.0*	*(0.1)*	*(0.2)*	*0.0*	*0.0*	*0.0*
Foreign exchange contracts	*0.9*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*
Equity / index contracts	*1.2*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*
Other	*0.3*	*(0.2)*	*(0.1)*	*0.0*	*0.0*	*0.0*
Negative replacement values	**4.4**	**0.1**	***0.2***	**0.0**	***0.0***	**0.0**
of which:						
Credit derivative contracts	*2.0*	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*
Foreign exchange contracts	*0.5*	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*
Equity / index contracts	*1.5*	*0.1*	*0.2*	*0.0*	*0.0*	*0.0*
Other	*0.5*	*0.1*	*0.2*	*0.0*	*0.0*	*0.0*
Financial liabilities designated at fair value	**12.1**	**0.6**	***0.8***	**0.0**	***0.0***	**0.0**
of which:						
Non-structured fixed-rate bonds	*1.2*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*
Structured debt instruments issued	*7.9*	*0.4*	*0.4*	*0.0*	*0.0*	*0.0*
Structured over-the-counter debt instruments	*1.8*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*
Structured repurchase agreements	*1.2*	*0.1*	*0.3*	*0.0*	*0.0*	*0.0*

1 Includes assets pledged as collateral which may be sold or repledged by counterparties. 2 Total Level 3 assets as of 31 March 2014 were CHF 14.4 billion (31 December 2013: CHF 15.0 billion). Total Level 3 liabilities as of 31 March 2014 were CHF 17.7 billion (31 December 2013: CHF 16.8 billion).

Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation	**Balance as of 31 March 2014[2]**
0.2	**(0.9)**	**0.6**	**0.0**	**0.3**	**(0.4)**	**0.0**	**3.9**
0.1	*(0.2)*	*0.0*	*0.0*	*0.1*	*(0.2)*	*0.0*	*1.5*
0.0	*(0.6)*	*0.6*	*0.0*	*0.0*	*(0.1)*	*0.0*	*0.8*
0.0	*0.0*	*0.0*	*0.0*	*0.1*	*(0.2)*	*0.0*	*1.0*
0.0	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.6*
0.0	**0.0**	**0.1**	**(0.3)**	**0.0**	**0.0**	**0.0**	**4.1**
0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.2*
0.0	*0.0*	*0.1*	*(0.3)*	*0.0*	*0.0*	*0.0*	*2.7*
0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.8**
0.0	**0.0**	**0.6**	**(0.7)**	**0.8**	**(0.3)**	**0.0**	**5.6**
0.0	*0.0*	*0.1*	*(0.4)*	*0.5*	*(0.1)*	*0.0*	*2.9*
0.0	*0.0*	*0.1*	*0.0*	*0.0*	*(0.1)*	*0.0*	*0.8*
0.0	*0.0*	*0.3*	*(0.2)*	*0.1*	*(0.1)*	*0.0*	*1.3*
0.0	*0.0*	*0.2*	*0.0*	*0.3*	*0.0*	*0.0*	*0.6*
0.0	**0.0**	**0.8**	**(0.6)**	**0.7**	**(0.2)**	**0.0**	**5.3**
0.0	*0.0*	*0.3*	*(0.3)*	*0.4*	*(0.2)*	*0.0*	*2.1*
0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.4*
0.0	*0.0*	*0.4*	*(0.2)*	*0.1*	*0.0*	*0.0*	*1.9*
0.0	*0.0*	*0.0*	*0.0*	*0.3*	*0.0*	*0.0*	*0.9*
0.0	**0.0**	**1.7**	**(2.1)**	**1.2**	**(1.2)**	**(0.1)**	**12.3**
0.0	*0.0*	*0.0*	*0.0*	*0.3*	*(0.2)*	*0.0*	*1.5*
0.0	*0.0*	*0.9*	*(0.9)*	*0.8*	*(1.0)*	*0.0*	*8.1*
0.0	*0.0*	*0.7*	*(0.9)*	*0.1*	*0.0*	*0.0*	*1.8*
0.0	*0.0*	*0.0*	*(0.3)*	*0.0*	*0.0*	*0.0*	*1.0*

Note 10 Fair value measurement (continued)

Financial investments available-for-sale
Financial investments available-for-sale were unchanged at CHF 0.8 billion with no significant movements during the quarter.

Positive replacement values
Positive replacement values increased to CHF 5.6 billion from CHF 5.5 billion during the quarter. Settlements and issuances amounted to CHF 0.7 billion and CHF 0.6 billion, respectively, and were primarily comprised of credit derivative contracts and equity/index contracts. Transfers into and out of Level 3 amounted to CHF 0.8 billion and CHF 0.3 billion, respectively, and were mainly comprised of credit derivative contracts and interest rate contracts resulting from both changes in the availability of observable inputs for credit spread and changes in correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Negative replacement values
Negative replacement values increased to CHF 5.3 billion from CHF 4.4 billion during the quarter. Issuances and settlements amounted to CHF 0.8 billion and CHF 0.6 billion, respectively, and were primarily comprised of credit derivative contracts and equity/index contracts. Transfers into and out of Level 3 amounted to CHF 0.7 billion and CHF 0.2 billion, respectively, and were mainly comprised of credit derivative contracts and interest rate contracts resulting from both changes in the availability of observable inputs for credit spread and changes in correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Financial liabilities designated at fair value
Financial liabilities designated at fair value increased to CHF 12.3 billion from CHF 12.1 billion during the quarter. Settlements of CHF 2.1 billion, mainly comprised of structured over-the-counter debt instruments and equity-linked structured debt instruments issued, were more than offset by issuances of CHF 1.7 billion, primarily comprised of equity-linked structured debt instruments issued and structured over-the-counter debt instruments, and net losses of CHF 0.6 billion included in comprehensive income. Financial liabilities designated at fair value transferred into and out of Level 3 each totaled CHF 1.2 billion. Transfers out of Level 3 were mainly comprised of equity- and rates-linked structured debt instruments issued and resulted from changes in the availability of observable equity volatility inputs and changes in rates correlation used to determine the fair value of the embedded options in these structures. Transfers into Level 3 were primarily comprised of equity- and credit-linked structured debt instruments issued as a reduction in observable equity volatility inputs and credit spread affected the embedded options in these structures.

h) Valuation of assets and liabilities classified as Level 3

The table on the following pages presents the Group's assets and liabilities recognized at fair value and classified as Level 3, together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values for those unobservable inputs.

The range of values represents the highest and lowest level input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities. The ranges will therefore vary from period to period and parameter to parameter based on characteristics of the instruments held at each balance sheet date. Further, the ranges of unobservable inputs may differ across other financial institutions due to the diversity of the products in each firm's inventory.

Significant unobservable inputs in Level 3 positions
This section discusses the significant unobservable inputs identified in the table on the following pages and assesses the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown. Relationships between observable and unobservable inputs have not been included in the summary below.

Bond price equivalent: Where market prices are not available for a bond, fair value is measured by comparison with observable pricing data from similar instruments. Factors considered when selecting comparable instruments include credit quality, maturity and industry of the issuer. Fair value may be measured either by a direct price comparison or by conversion of an instrument price into a yield (either as an outright yield or as a spread to LIBOR). Bond prices are expressed as points of the nominal, where 100 represents a fair value equal to the nominal value (i.e., par).

For corporate and municipal bonds, the range of 0–132 represents the range of prices from reference issuances used in determining fair value. Bonds priced at 0 are distressed to the point that no recovery is expected, while prices significantly in excess of 100 or "par" relate to inflation-linked or structured issuances that pay a coupon in excess of the market benchmark as of the measurement date. The weighted average price is approximately 93 points, with a majority of positions concentrated around this price.

For asset-backed securities, the bond price range of 0–102 points represents the range of prices for reference securities used

Note 10 Fair value measurement (continued)

in determining fair value. An instrument priced at 0 is not expected to pay any principal or interest, while an instrument priced close to 100 points is expected to be repaid in full as well as pay a yield close to the market yield. More than 85% of the portfolio is priced at 80 points or higher, and the weighted average price for Level 3 assets within this portion of the Level 3 portfolio is 85 points.

For credit derivatives, the bond price range of 0–100 points disclosed within credit derivatives represents the range of prices used for reference instruments that are typically converted to an equivalent yield or credit spread as part of the valuation process. The range is comparable to that for corporate and asset-backed issuances described above.

Loan price equivalent: Where market prices are not available for a traded loan, fair value is measured by comparison with observable pricing data for similar instruments. Factors considered when selecting comparable instruments include industry segment, collateral quality, maturity and issuer-specific covenants. Fair value may be measured either by a direct price comparison or by conversion of an instrument price into a yield. The range of 0–101 points represents the range of prices derived from reference issuances of a similar credit quality used in measuring fair value for loans classified as Level 3. Loans priced at 0 are distressed to the point that no recovery is expected, while a current price of 101 represents a loan that is expected to be repaid in full, and also pays a yield marginally higher than market yield. The portfolio is distributed at both the very low end and the very high end of the disclosed range with a weighted average of approximately 96 points.

Credit spread: Valuation models for many credit derivatives require an input for the credit spread, which is a reflection of the credit quality of the associated referenced underlying. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either US Treasury or LIBOR, and is generally expressed in terms of basis points. An increase/(decrease) in credit spread will increase/(decrease) the value of credit protection offered by CDS and other credit derivative products. The impact on the results of the Group of such changes depend on the nature and direction of the positions held. Credit spreads may be negative where the asset is more creditworthy than the benchmark against which the spread is calculated. A wider credit spread represents decreasing creditworthiness. The ranges of 25–268 basis points in loans and 1–1,666 basis points in credit derivatives represents a diverse set of underlyings, with the lower end of the range representing credits of the highest quality (e.g., approximating the risk of LIBOR) and the upper end of the range representing greater levels of credit risk.

Constant prepayment rate: A prepayment rate represents the amount of unscheduled principal repayment for a pool of loans. The prepayment estimate is based on a number of factors, such as historical prepayment rates for previous loans that are similar pool loans and the future economic outlook, considering factors including, but not limited to, future interest rates. In general, a significant increase (decrease) in this unobservable input in isolation would result in a significantly higher (lower) fair value for bonds trading at a discount. For bonds trading at a premium the reverse would apply, with a decrease in fair value when the constant prepayment rate increases. However, in certain cases the effect of a change in prepayment speed upon instrument price is more complicated and is dependent upon both the precise terms of the securitization and the position of the instrument within the securitization capital structure.

For asset-backed securities, the range of 0–18% represents inputs across various classes of asset-backed securities. Securities with an input of 0% typically reflect no current prepayment behavior within their underlying collateral with no expectation of this changing in the immediate future, while the high range of 18% relates to securities that are currently experiencing high prepayments. Different classes of asset-backed securities typically show different ranges of prepayment characteristics depending on a combination of factors, including the borrowers' ability to refinance, prevailing refinancing rates, and the quality or characteristics of the underlying loan collateral pools. The weighted average constant prepayment rate for the portfolio is 5%.

For credit derivatives, the range of 0–15% represents the input assumption for credit derivatives on asset-backed securities. The range is driven in a similar manner to that for asset-backed securities.

For FX contracts and interest rate contracts, the ranges of 0–13% and 0–3%, respectively, represent the prepayment assumptions on securitizations underlying the BGS portfolio. This portfolio is less diverse than other asset-backed securities portfolios and the range of prepayment speed is therefore narrower.

Constant default rate (CDR): The CDR represents the percentage of outstanding principal balances in the pool that are projected to default and liquidate and is the annualized rate of default for a group of mortgages or loans. The CDR estimate is based on a number of factors, such as collateral delinquency rates in the pool and the future economic outlook. In general, a significant increase (decrease) in this unobservable input in isolation would result in significantly lower (higher) cash flows for the deal (and thus lower (higher) valuations). However, different instruments within the capital structure can react differently to changes in the CDR rate. Generally, subordinated bonds will decrease in value as CDR increases, but for well-protected senior bonds an increase in CDR may cause an increase in price. In addition, the presence of a guarantor wrap on the collateral pool of a security may result in notes at the junior end of the capital structure experiencing a price increase with an increase in the default rate.

The ranges of 0–10% for asset-backed securities and 0–8% for credit derivatives represent the expected default percentage

Note 10 Fair value measurement (continued)

Valuation techniques and inputs used in the fair value measurement of Level 3 assets and liabilities

	Fair value						Range of inputs				
	Assets		Liabilities				31.3.14		31.12.13		
CHF billion	**31.3.14**	31.12.13	**31.3.14**	31.12.13	Valuation technique(s)	Significant unobservable input(s)[1]	**low**	**high**	low	high	unit[1]
Financial assets held for trading / Trading portfolio liabilities, Financial assets / liabilities designated at fair value and Financial investments available-for-sale											
Corporate bonds and municipal bonds, including bonds issued by financial institutions	***1.6***	*1.8*	***0.1***	*0.2*	Relative value to market comparable	Bond price equivalent	**0**	**132**	0	127	points
Traded loans, loans designated at fair value and loan commitments	***2.2***	*2.2*	***0.0***	*0.0*	Relative value to market comparable	Loan price equivalent	**0**	**101**	0	102	points
					Discounted expected cash flows	Credit spread	**25**	**268**	65	125	basis points
					Market comparable and securitization model	Discount margin / spread	**1**	**15**	1	15	%
					Mortality dependent cash flow	Volatility of mortality	**21**	**158**	21	128	%
Investment fund units[2]	***0.5***	*0.6*	***0.0***	*0.0*	Relative value to market comparable	Net asset value					
Asset-backed securities	***1.0***	*1.0*	***0.0***	*0.0*	Discounted cash flow projection	Constant prepayment rate	**0**	**18**	0	18	%
						Constant default rate	**0**	**10**	0	10	%
						Loss severity	**0**	**100**	0	100	%
						Discount margin / spread	**1**	**37**	1	39	%
					Relative value to market comparable	Bond price equivalent	**0**	**102**	0	102	points
Equity instruments[2]	***0.6***	*0.6*	***0.0***	*0.0*	Relative value to market comparable	Price					
Structured (reverse) repurchase agreements	***2.7***	*3.1*	***1.0***	*1.2*	Discounted expected cash flows	Funding spread	**10**	**163**	10	163	basis points
Financial assets for unit-linked investment contracts[2]	***0.1***	*0.1*			Relative value to market comparable	Price					
Structured debt instruments and non-structured fixed-rate bonds[3]			***11.3***	*11.0*							

Note 10 Fair value measurement (continued)

Valuation techniques and inputs used in the fair value measurement of Level 3 assets and liabilities (continued)

	Fair value						Range of inputs				
	Assets		Liabilities				31.3.14		31.12.13		
CHF billion	**31.3.14**	31.12.13	**31.3.14**	31.12.13	Valuation technique(s)	Significant unobservable input(s)[1]	**low**	**high**	low	high	unit[1]
Replacement values											
Interest rate contracts	***0.6***	*0.3*	***0.9***	*0.4*	Option model	Volatility of interest rates	**11**	**68**	13	73	%
						Rate-to-rate correlation	**84**	**94**	84	94	%
						Intra-curve correlation	**50**	**94**	50	84	%
					Discounted expected cash flows	Constant prepayment rate	**0**	**3**	0	3	%
Credit derivative contracts	***2.9***	*3.0*	***2.1***	*2.0*	Discounted expected cash flow based on modeled defaults and recoveries	Credit spreads	**1**	**1,666**	2	1,407	basis points
						Upfront price points	**(12)**	**93**	(12)	68	%
						Recovery rates	**0**	**95**	0	95	%
						Credit index correlation	**10**	**90**	10	90	%
						Discount margin / spread	**0**	**37**	0	39	%
						Credit pair correlation	**42**	**92**	42	92	%
					Discounted cash flow projection on underlying bond	Constant prepayment rate	**0**	**15**	0	15	%
						Constant default rate	**0**	**8**	0	12	%
						Loss severity	**0**	**100**	0	100	%
						Discount margin / spread	**0**	**35**	0	38	%
						Bond price equivalent	**0**	**100**	0	100	points
Foreign exchange contracts	***0.8***	*0.9*	***0.4***	*0.5*	Option model	Volatility of foreign exchange	**5**	**18**	7	20	%
						Rate-to-FX correlation	**(71)**	**60**	(71)	60	%
						FX-to-FX correlation	**(83)**	**80**	(83)	80	%
					Discounted expected cash flows	Constant prepayment rate	**0**	**13**	0	13	%
Equity / index contracts	***1.3***	*1.2*	***1.9***	*1.5*	Option model	Equity dividend yields	**0**	**11**	0	10	%
						Volatility of equity stocks, equity and other indices	**2**	**83**	1	88	%
						Equity-to-FX correlation	**(42)**	**79**	(52)	77	%
						Equity-to-equity correlation	**12**	**98**	17	99	%
Non-financial assets[2, 4]	***0.1***	*0.1*			Relative value to market comparable	Price					
					Discounted cash flow projection	Projection of cost and income related to the particular property					
						Discount rate					
						Assessment of the particular property's condition					

1 The ranges of significant unobservable inputs are represented in points, percentages and basis points. Points are a percentage of par. For example, 100 points would be 100% of par. 2 The range of inputs is not disclosed due to the dispersion of possible values given the diverse nature of the investments. 3 Valuation techniques, significant unobservable inputs and the respective input ranges for structured debt instruments and non-structured fixed-rate bonds are the same as the equivalent derivative or structured financing instruments presented elsewhere in this table. 4 Non-financial assets include investment properties at fair value and other assets which primarily consist of assets held for sale.

Note 10 Fair value measurement (continued)

across the individual instruments' underlying collateral pools. For asset-backed securities, the weighted average CDR is 6%.

Loss severity/recovery rate: The projected loss severity/recovery rate reflects the estimated loss that will be realized given expected defaults. Loss severity is generally applied to collateral within asset-backed securities while the recovery rate is the analogous pricing input for corporate or sovereign credits. Recovery is the reverse of loss severity, so a 100% recovery rate is the equivalent of a 0% loss severity. Increases in loss severity levels/decreases in recovery rates will result in lower expected cash flows into the structure upon the default of the instruments. In general, a significant decrease (increase) in the loss severity in isolation would result in significantly higher (lower) fair value for the respective asset-backed securities. The impact of a change in recovery rate on a credit derivative position will depend upon whether credit protection has been bought or sold.

Loss severity is ultimately driven by the value recoverable from collateral held after foreclosure occurs relative to the loan principal and possibly unpaid interest accrued at that point. The range of 0–100% for asset-backed securities represents the different quality and nature of collateral within the asset-backed securities portfolio. The weighted average loss severity is 75%. For credit derivatives, the loss severity range of 0–100% applies to derivatives on asset-backed securities and is broadly similar to the range for cash positions held. The recovery rate range of 0–95% represents a wide range of expected recovery levels on credit derivative contracts within the Level 3 portfolio.

Discount margin (DM) spread: The DM spread represents the discount rates used to present value cash flows of an asset to reflect the market return required for uncertainty in the estimated cash flows. DM spreads are a rate or rates applied on top of a floating index (e.g., LIBOR) to discount expected cash flows. Generally, a decrease (increase) in the unobservable input in isolation would result in a significantly higher (lower) fair value.

The different ranges represent the different discount rates across loans (1–15%), asset-backed securities (1–37%) and credit derivatives (0–37%). The high end of the range relates to securities that are priced very low within the market relative to the expected cash flow schedule and there is significant discounting relative to the expected cash flow schedule. This indicates that the market is pricing an increased risk of credit loss into the security that is greater than what is being captured by the expected cash flow generation process. The low ends of the ranges are typical of funding rates on better quality instruments. For asset-backed securities, the weighted average DM is 7%. For loans, the average effective DM is 1.70% compared with the disclosed range of 1–15%.

Equity dividend yields: The derivation of a forward price for an individual stock or index is important both for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price, is based on a combination of expected future dividend levels and payment timings, and, to a lesser extent, the relevant funding rates applicable to the stock in question. Dividend yields are generally expressed as an annualized percentage of share price with the lowest limit of 0% representing a stock that is not expected to pay any dividend. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price. The range of 0–11% reflects the expected range of dividend rates for the portfolio.

Volatility: Volatility measures the variability of future prices for a particular instrument and is generally expressed as a percentage, where a higher number reflects a more volatile instrument for which future price movements are more likely to occur. The minimum level of volatility is 0% and there is no theoretical maximum. Volatility is a key input into option models, where it is used to derive a probability-based distribution of future prices for the underlying instrument. The effect of volatility on individual positions within the portfolio is driven primarily by whether the option contract is a long or short position. In most cases, the fair value of an option increases as a result of an increase in volatility and is reduced by a decrease in volatility. Generally, volatility used in the measurement of fair value is derived from active market option prices (referred to as "implied" volatility). A key feature of implied volatility is the volatility "smile" or "skew," which represents the effect of pricing options of different option strikes at different implied volatility levels.

- Volatility of interest rates – the range of 11–68% reflects the range of unobservable volatilities across different currencies and related underlying interest rate levels. Volatilities of low interest rates tend to be much higher than volatilities of high interest rates. In addition, different currencies may have significantly different implied volatilities.
- Volatility of foreign exchange – the range of 5–18% reflects differences across various FX rates.
- Volatility of equity stocks, equity and other indices – the range of 2–83% is reflective of the range of underlying stock volatilities.
- Volatility of mortality – the range of 21–158% represents mortality volatility assumptions for different components of the mortality contingent loan portfolio. The range in volatility inputs is driven by different characteristics of contracts within the portfolio. An increase in volatility will cause an increase in loan value as the notional drawn will tend to increase.

Note 10 Fair value measurement (continued)

Correlation: Correlation measures the inter-relationship between the movements of two variables. It is expressed as a percentage between –100% and +100% where +100% are perfectly correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the same direction), and –100% are inversely correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the opposite direction). The effect of correlation on the measurement of fair value is dependent on the specific terms of the instruments being valued, due to the range of different payoff features within such instruments.

- Rate-to-rate correlation – the correlation between interest rates of two separate currencies. The range of 84–94% results from the different pairs of currency involved.
- Intra-curve correlation – the correlation between different tenor points of the same yield curve. Correlations are typically fairly high, as reflected by the range of 50–94%.
- Credit index correlation of 10–90% reflects the implied correlation derived from different indices across different parts of the benchmark index capital structure. The input is particularly important for bespoke and Level 3 index tranches.
- Credit pair correlation is particularly important for FTD credit structures. The range of 42–92% reflects the difference between credits with low correlation and similar highly correlated credits.
- Rate-to-FX correlation – captures the correlation between interest rates and FX rates. The range for the portfolio is (71)–60%, which represents the relationship between interest rates and foreign exchange levels. The signage on such correlations is dependent on the quotation basis of the underlying FX rate (e.g., EUR/USD and USD/EUR correlations to the same interest rate will have opposite signs).
- FX-to-FX correlation is particularly important for complex options that incorporate different FX rates in the projected payoff. The range of (83)–80% reflects the underlying characteristics across the main FX pairs to which the Group has exposures.
- Equity-to-equity correlation is particularly important for complex options that incorporate, in some manner, different equities in the projected payoff. The closer the correlation is to 100%, the more related one equity is to another. For example, equities with a very high correlation could be from different parts of the same corporate structure. The range of 12–98% is reflective of this.
- Equity-to-FX correlation is important for equity options based on a currency different to the currency of the underlying stock. The range of (42)–79% represents the range of the relationship between underlying stock and foreign exchange volatilities.

Funding spread: Structured financing transactions are valued using synthetic funding curves that best represent the assets that are pledged as collateral to the transactions. They are not representative of where the Group can fund itself on an unsecured basis, but provide an estimate of where the Group can source and deploy secured funding with counterparties for a given type of collateral. The funding spreads are expressed in terms of basis points over or under LIBOR and if funding spreads widen this increases the impact of discounting. The range of 10–163 basis points for both structured repurchase agreements and structured reverse repurchase agreements represents the range of asset funding curves, where wider spreads are due to a reduction in liquidity of underlying collateral for funding purposes.

A small proportion of structured debt instruments and non-structured fixed-rate bonds within financial liabilities designated at fair value has an exposure to funding spreads that is longer in duration than the actively traded market. Such positions are within the range of 10–163 basis points reported above.

Upfront price points: A component in the price quotation of credit derivative contracts, whereby the overall fair value price level is split between the credit spread (basis points running over the life of the contract as described above) and a component that is quoted and settled upfront on transacting a new contract. This latter component is referred to as upfront price points and represents the difference between the credit spread paid as protection premium on a current contract versus a small number of standard contracts defined by the market. Distressed credit names frequently trade and quote CDS protection only in upfront points rather than as a running credit spread. An increase/(decrease) in upfront points will increase/(decrease) the value of credit protection offered by CDS and other credit derivative products. The effect on the results of the Group of increases or decreases in upfront price points depends on the nature and direction of the positions held. Upfront pricing points may be negative where a contract is quoting for a narrower premium than the market standard, but are generally positive, reflecting an increase in credit premium required by the market as creditworthiness deteriorates. The range of (12)–93% within the table above represents the variety of current market credit spread levels relative to the benchmarks used as a quotation basis. Upfront points of (12)% reflect an instrument that is trading with a tighter credit spread than the underlying quotation instrument, while upfront points of 93% represent a distressed credit.

Note 10 Fair value measurement (continued)

i) Sensitivity of fair value measurements to changes in unobservable input assumptions

The table below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof. As of 31 March 2014, the total favorable and unfavorable effects of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for financial instruments classified as Level 3 were CHF 1.3 billion and CHF 1.1 billion, respectively (31 December 2013: CHF 1.2 billion and CHF 1.1 billion, respectively).

The table shown presents the favorable and unfavorable effects for each class of financial assets and liabilities for which the potential change in fair value is considered significant. The sensitivity data presented represents an estimation of valuation uncertainty based on reasonably possible alternative values for Level 3 inputs at the balance sheet date and does not represent the estimated effect of stress scenarios. Typically, these financial assets and liabilities are sensitive to a combination of inputs from Levels 1–3. Although well-defined interdependencies may exist between Levels 1–2 and Level 3 parameters (e.g., between interest rates, which are generally Level 1 or Level 2, and prepayments, which are generally Level 3), these have not been incorporated in the table. Further, direct inter-relationships between the Level 3 parameters discussed below are not a significant element of the valuation uncertainty.

Sensitivity data is estimated using a number of techniques including the estimation of price dispersion among different market participants, variation in modeling approaches and reasonably possible changes to assumptions used within the fair value measurement process. The sensitivity ranges are not always symmetrical around the fair values as the inputs used in valuations are not always precisely in the middle of the favorable and unfavorable range.

Sensitivity data is determined at a product or parameter level and then aggregated assuming no diversification benefit. The calculated sensitivity is applied to both the outright position and any related Level 3 hedges. The main interdependencies across different Level 3 products to a single unobservable input parameter have been included in the basis of netting exposures within the calculation. Aggregation without allowing for diversification involves the simple summation of individual results with, the total sensitivity therefore representing the impact of all unobservable inputs which, if moved to a reasonably possible favorable or unfavorable level at the same time, would result in a significant change in the valuation. Diversification would incorporate estimated correlations across different sensitivity results and, as such, would result in an overall sensitivity that would be less than the sum of the individual component sensitivities. The Group believes that, while there are diversification benefits within the portfolios representing these sensitivity numbers, they are not significant to this analysis.

Sensitivity of fair value measurements to changes in unobservable input assumptions

	31.3.14		31.12.13	
CHF million	**Favorable changes[1]**	**Unfavorable changes[1]**	Favorable changes[1]	Unfavorable changes[1]
Government bills / bonds	**9**	**(1)**	17	(4)
Corporate bonds and municipal bonds, including bonds issued by financial institutions	**27**	**(73)**	35	(76)
Traded loans, loans designated at fair value and loan commitments	**140**	**(55)**	148	(70)
Asset-backed securities	**33**	**(34)**	54	(46)
Equity instruments	**134**	**(89)**	137	(84)
Interest rate derivative contracts, net	**98**	**(65)**	127	(91)
Credit derivative contracts, net	**517**	**(475)**	366	(419)
Foreign exchange derivative contracts, net	**50**	**(47)**	57	(56)
Equity / index derivative contracts, net	**57**	**(55)**	41	(43)
Structured debt instruments and non-structured fixed-rate bonds	**163**	**(128)**	184	(151)
Other	**46**	**(38)**	63	(54)
Total	**1,275**	**(1,060)**	1,229	(1,094)

1 Of the total favorable change, CHF 144 million as of 31 March 2014 (31 December 2013: CHF 154 million) related to financial investments available-for-sale. Of the total unfavorable change, CHF 149 million as of 31 March 2014 (31 December 2013: CHF 159 million) related to financial investments available-for-sale.

Note 10 Fair value measurement (continued)

j) Deferred day-1 profit or loss

As explained above, for new transactions resulting in a financial instrument classified as Level 3, the financial instrument is initially recognized at the transaction price. The transaction price may differ from the fair value obtained using a valuation technique, and any such difference is deferred and not recognized in the income statement and referred to as deferred day-1 profit or loss. The table below reflects the activity in deferred day-1 profit or loss for these financial instruments, including the aggregate difference yet to be recognized in the income statement at the beginning and end of the reporting period and a reconciliation of changes during the reporting period. Amounts deferred are released and gains or losses are recorded in Net trading income when pricing of equivalent products or the underlying parameters become observable or when the transaction is closed out.

Deferred day-1 profit or loss

	For the quarter ended		
CHF million	31.3.14	31.12.13	31.3.13
Balance at the beginning of the period	**486**	494	474
Profit / (loss) deferred on new transactions	103	60	424
(Profit) / loss recognized in the income statement	(70)	(57)	(433)
Foreign currency translation	(5)	(11)	19
Balance at the end of the period	**514**	486	483

k) Financial instruments not measured at fair value

The following table reflects the estimated fair values and the fair value hierarchy for UBS's financial instruments not measured at fair value.

Financial instruments not measured at fair value

	31.3.14		31.12.13	
CHF billion	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and balances with central banks	87.5	87.5	80.9	80.9
Due from banks	19.7	19.7	17.2	17.2
Cash collateral on securities borrowed	30.1	30.1	27.5	27.5
Reverse repurchase agreements	80.6	80.6	91.6	91.6
Cash collateral receivables on derivative instruments	25.8	25.8	28.3	28.3
Loans	294.8	297.4	287.0	289.3
Other assets	19.3	19.1	17.6	17.4
Liabilities				
Due to banks	14.1	14.1	12.9	12.9
Cash collateral on securities lent	13.4	13.4	9.5	9.5
Repurchase agreements	17.7	17.7	13.8	13.8
Cash collateral payables on derivative instruments	46.7	46.7	49.5	49.5
Due to customers	388.8	388.8	390.8	390.8
Debt issued	76.7	79.6	81.4	84.0
Other liabilities	41.7	41.7	39.5	39.5
Guarantees / Loan commitments				
Guarantees[1]	0.1	(0.1)	0.1	(0.1)
Loan commitments[2]	0.0	0.1	0.0	0.1

1 The carrying value of guarantees represented a liability of CHF 0.1 billion as of 31 March 2014 (31 December 2013: CHF 0.1 billion). The estimated fair value of guarantees represented an asset of CHF 0.1 billion as of 31 March 2014 (31 December 2013: CHF 0.1 billion). 2 The carrying value of loan commitments represented a liability of CHF 0.0 billion as of 31 March 2014 (31 December 2013: CHF 0.0 billion). The estimated fair value of loan commitments represented a liability of CHF 0.1 billion as of 31 March 2014 (31 December 2013: CHF 0.1 billion).

Note 10 Fair value measurement (continued)

The fair values included in the table on the previous page were calculated for disclosure purposes only. The fair value valuation techniques and assumptions described below relate only to the fair value of UBS's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another. UBS applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than UBS's established fair value and model governance policies and processes applied to financial instruments accounted for at fair value whose fair values impact UBS's balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments not measured at fair value:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments not measured at fair value have remaining maturities of three months or less as of 31 March 2014: 100% of cash and balances with central banks, 91% of amounts due from banks, 100% of cash collateral on securities borrowed, 89% of reverse repurchase agreements, 100% of cash collateral receivables on derivatives, 55% of loans, 92% of amounts due to banks, 96% of cash collateral on securities lent, 93% of repurchase agreements, 100% of cash collateral payable on derivatives, 99% of amount due to customers and 21% of debt issued.
- The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.
- The estimated fair values of off-balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 11 Derivative instruments[1]

CHF billion	Positive replacement values	Notional values related to positive replacement values[2]	Negative replacement values	Notional values related to negative replacement values[2]	Other notional values[3]
			31.3.14		
Derivative instruments					
Interest rate contracts	121	3,160	109	2,989	14,863
Credit derivative contracts	19	551	18	539	3
Foreign exchange contracts	53	2,942	58	2,869	8
Equity / index contracts	18	232	21	266	37
Commodity contracts, including precious metals contracts	3	40	3	38	9
Unsettled purchases of non-derivative financial assets[4]	0	37	0	22	0
Unsettled sales of non-derivative financial assets[4]	0	30	0	30	0
Total derivative instruments, based on IFRS netting[5]	215	6,993	210	6,752	14,920
Replacement value netting, based on capital adequacy rules	(164)		(164)		
Cash collateral netting, based on capital adequacy rules	(26)		(14)		
Total derivative instruments, based on capital adequacy netting[6]	26		32		

CHF billion	Positive replacement values	Notional values related to positive replacement values[2]	Negative replacement values	Notional values related to negative replacement values[2]	Other notional values[3]
			31.12.13[7]		
Derivative instruments					
Interest rate contracts	131	3,480	118	3,307	16,503
Credit derivative contracts	23	648	22	631	3
Foreign exchange contracts	76	3,084	80	2,988	7
Equity / index contracts	21	231	24	275	33
Commodity contracts, including precious metals contracts	3	43	3	35	11
Unsettled purchases of non-derivative financial assets[4]	0	20	0	9	0
Unsettled sales of non-derivative financial assets[4]	0	13	0	15	0
Total derivative instruments, based on IFRS netting[5]	254	7,519	248	7,259	16,557
Replacement value netting, based on capital adequacy rules	(193)		(193)		
Cash collateral netting, based on capital adequacy rules	(28)		(14)		
Total derivative instruments, based on capital adequacy netting[6]	33		41		

1 Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract and are excluded from the table. As of 31 March 2014, these derivatives amounted to a PRV of CHF 0.2 billion (related notional values of CHF 7.1 billion) and an NRV of CHF 0.3 billion (related notional values of CHF 13.0 billion). As of 31 December 2013, bifurcated embedded derivatives amounted to a PRV of CHF 0.2 billion (related notional values of CHF 6.7 billion) and an NRV of CHF 0.4 billion (related notional values of CHF 12.8 billion). 2 In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. 3 Other notional values relate to derivatives which are cleared through either a central clearing counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivatives instruments and were not material for all periods presented. 4 Changes in the fair value of purchased and sold non-derivative financial assets between trade date and settlement date are recognized as replacement values. 5 Includes agency transactions and OTC derivatives cleared for clients with a central counterparty with a combined PRV of CHF 6.1 billion as of 31 March 2014 (31 December 2013: CHF 5.7 billion) and a combined NRV of CHF 6.4 billion as of 31 March 2014 (31 December 2013: CHF 5.9 billion) for which notional values were not included in the table above due to their significantly different risk profile. 6 Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking law. 7 In 2014, certain figures for 31 December 2013 were restated upon the adoption of the amendments to IAS 32. Both PRV and NRV for Interest rate contracts, Credit derivative contracts and Equity / index contracts were increased by approximately CHF 1 billion, CHF 5 billion and CHF 3 billion, respectively. There was no impact on the line "Total derivative instruments, based on capital adequacy netting." Refer to Note 1 "Basis of accounting" for more information on the adoption of the amendments to IAS 32.

Note 12 Offsetting financial assets and financial liabilities

UBS enters into netting agreements with counterparties to manage the credit risks associated primarily with repurchase and reverse repurchase transactions, securities borrowing and lending and over-the-counter and exchange-traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to set-off liabilities against available assets received – in the ordinary course of business and/or in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The right of set-off is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

On 1 January 2014, the Group adopted *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32, *Financial Instruments: Presentation).* Under the revised rules, the Group is no longer able to offset certain derivative arrangements. Refer to Note 1 for more information. The prior period offsetting disclosure as of 31 December 2013 presented on the following page was restated to reflect the effects of adopting these amendments.

The table on the following page provides a summary of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets. The gross financial assets of the Group that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net amounts presented within the associated balance sheet line, after giving effect to financial liabilities with the same counterparties that have been offset on the balance sheet and other financial assets not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial liabilities and collateral received that are not offset on the balance sheet are shown to arrive at financial assets after consideration of netting potential.

The Group engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented in the tables on the next pages do not purport to represent the Group's actual credit exposure.

Note 12 Offsetting financial assets and financial liabilities (continued)

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	31.3.14							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements and other out-of-scope items**	**Total assets recognized on the balance sheet**
Cash collateral on securities borrowed	28.9	0.0	**28.9**	(2.0)	(26.9)	0.0	**1.2**	**30.1**
Reverse repurchase agreements	98.0	(27.0)	**71.0**	(2.3)	(68.7)	0.0	**9.6**	**80.6**
Positive replacement values	208.9	(2.6)	**206.2**	(164.1)	(30.2)	11.9	**9.1**	**215.3**
Cash collateral receivables on derivative instruments[1]	182.5	(162.8)	**19.7**	(13.7)	(0.9)	5.1	**6.1**	**25.8**
Financial assets designated at fair value	3.5	0.0	**3.5**	0.0	(3.0)	0.5	**2.4**	**5.9**
Total assets	521.8	(192.4)	**329.4**	(182.1)	(129.7)	17.5	**28.2**	**357.6**

	31.12.13[4]							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements and other out-of-scope items**	**Total assets recognized on the balance sheet**
Cash collateral on securities borrowed	26.5	0.0	**26.5**	(1.2)	(25.2)	0.2	**1.0**	**27.5**
Reverse repurchase agreements	111.5	(25.4)	**86.1**	(5.4)	(80.7)	0.0	**5.5**	**91.6**
Positive replacement values	244.5	(2.8)	**241.8**	(192.9)	(35.5)	13.4	**12.3**	**254.1**
Cash collateral receivables on derivative instruments[1]	220.0	(196.1)	**23.8**	(14.4)	(1.1)	8.2	**4.5**	**28.3**
Financial assets designated at fair value	3.9	0.0	**3.9**	0.0	(3.9)	0.1	**3.4**	**7.4**
Total assets	**606.4**	**(224.3)**	**382.0**	**(213.9)**	**(146.4)**	**21.8**	**26.7**	**408.8**

1 The net amount of Cash collateral receivables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32 and ETD derivatives which are economically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral pledged, reflected on the Negative replacement values line in the table presented on the following page. 2 The logic of the table results in amounts presented in the "Balance sheet netting with gross liabilities" column corresponding directly to the amounts presented in the "Balance sheet netting with gross assets" column in the liabilities table presented on the following page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral not set off in the balance sheet have been capped by relevant netting agreement so as not to exceed the net amount of financial assets presented on the balance sheet, i.e., over-collateralization, where it exists, is not reflected in the table. 4 In 2014, certain figures for 31 December 2013 were restated upon the adoption of the amendments to IAS 32. This restatement resulted primarily in an increase in total "Assets recognized on the balance sheet, net" by approximately CHF 8 billion and a corresponding increase in "Netting potential not recognized in the balance sheet", within "Financial liabilities." Accordingly, there was no impact on total ''Assets after consideration of netting potential". Refer to Note 1 "Basis of accounting" for more information on the adoption of the amendments to IAS 32.

Note 12 Offsetting financial assets and financial liabilities (continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	31.3.14							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements and other out-of-scope items**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	12.4	0.0	**12.4**	(2.0)	(10.4)	0.0	**1.0**	**13.4**
Repurchase agreements	33.5	(27.0)	**6.5**	(2.3)	(4.2)	0.0	**11.2**	**17.7**
Negative replacement values	201.1	(2.6)	**198.4**	(164.1)	(18.0)	16.4	**11.6**	**210.1**
Cash collateral payables on derivative instruments[1]	199.9	(162.8)	**37.2**	(25.5)	(3.7)	7.9	**9.5**	**46.7**
Financial liabilities designated at fair value	5.7	0.0	**5.7**	0.0	(1.8)	4.0	**63.0**	**68.7**
Total liabilities	452.6	(192.4)	**260.2**	(193.9)	(38.0)	28.3	**96.4**	**356.6**

	31.12.13[4]							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements and other out-of-scope items**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	8.5	0.0	**8.5**	(1.2)	(7.3)	0.0	**1.0**	**9.5**
Repurchase agreements	34.2	(25.4)	**8.8**	(5.4)	(3.4)	0.0	**5.0**	**13.8**
Negative replacement values	235.5	(2.8)	**232.7**	(192.9)	(20.9)	18.8	**15.4**	**248.1**
Cash collateral payables on derivative instruments[1]	236.8	(196.1)	**40.7**	(28.3)	(3.6)	8.8	**8.8**	**49.5**
Financial liabilities designated at fair value	6.6	0.0	**6.6**	0.0	(2.1)	4.6	**63.3**	**69.9**
Total liabilities	**521.6**	**(224.3)**	**297.3**	**(227.8)**	**(37.2)**	**32.2**	**93.5**	**390.8**

1 The net amount of Cash collateral payables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32 and ETD derivatives which are economically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral received reflected on the Positive replacement values line in the table presented on the previous page. 2 The logic of the table results in amounts presented in the "Balance sheet netting with gross assets" column corresponding directly to the amounts presented in the "Balance sheet netting with gross liabilities" column in the assets table presented on the previous page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral not set off on the balance sheet have been capped by relevant netting arrangement so as not to exceed the net amount of financial liabilities presented in the balance sheet, i.e., over-collateralization, where it exists, is not reflected in the table. 4 In 2014, certain figures for 31 December 2013 were restated upon the adoption of the amendments to IAS 32. This restatement resulted primarily in an increase in total "Liabilities recognized on the balance sheet, net" by approximately CHF 8 billion and a corresponding increase in "Netting potential not recognized in the balance sheet," within "Financial assets." Accordingly, there was no impact on total "Liabilities after consideration of netting potential." Refer to Note 1 "Basis of accounting" for more information on the adoption of the amendments to IAS 32.

Note 13 Other assets and liabilities

CHF million	**31.3.14**	31.12.13
Other assets		
Prime brokerage receivables[1]	**12,125**	11,175
Recruitment loans financial advisors	**2,667**	2,733
Other loans to financial advisors	**381**	358
Accrued interest income	**477**	433
Accrued income – other	**947**	931
Prepaid expenses	**1,130**	985
Net defined benefit pension and post-employment assets	**1,500**	952
Settlement and clearing accounts	**828**	466
VAT and other tax receivables	**262**	410
Properties and other non-current assets held for sale	**105**	119
Other	**2,047**	1,665
Total other assets	**22,468**	20,228
Other liabilities		
Prime brokerage payables[1]	**33,988**	32,543
Amounts due under unit-linked investment contracts	**15,631**	16,155
Accrued expenses – compensation related	**1,155**	2,631
Accrued expenses – interest expense	**1,255**	1,199
Accrued expenses – other	**2,459**	2,465
Deferred compensation plans	**1,969**	1,919
Net defined benefit pension and post-employment liabilities	**1,040**	1,048
Third-party interest in consolidated investment funds	**1,007**	953
Settlement and clearing accounts	**1,540**	946
Current and deferred tax liabilities	**664**	667
VAT and other tax payables	**487**	570
Deferred income	**282**	264
Other	**1,198**	1,417
Total other liabilities	**62,677**	62,777

1 Prime brokerage services include clearance, settlement, custody, financing and portfolio reporting services for corporate clients trading across multiple asset classes. Prime brokerage receivables are mainly comprised of margin lending receivables. Prime brokerage payables are mainly comprised of client securities financing and deposits.

Note 14 Provisions and contingent liabilities

a) Provisions

CHF million	Operational risks[1]	Litigation, regulatory and similar matters[2]	Restructuring	Loan commitments and guarantees	Real estate	Employee benefits	Other	Total provisions
Balance as of 31 December 2013	45	1,622	658	61	157	222	205	**2,971**
Increase in provisions recognized in the income statement	6	203	135	0	2	2	16	**364**
Release of provisions recognized in the income statement	0	(15)	(10)	(1)	0	(1)	(4)	**(32)**
Provisions used in conformity with designated purpose	(6)	(24)	(52)	0	(6)	(2)	(5)	**(94)**
Capitalized reinstatement costs	0	0	0	0	(1)	0	0	**(1)**
Reclassifications	0	0	0	(2)	0	0	0	**(2)**
Foreign currency translation / unwind of discount	1	(7)	(2)	0	1	1	1	**(6)**
Balance as of 31 March 2014	47	1,778	729[3]	58	153[4]	222[5]	213	**3,200**

1 Comprises provisions for losses resulting from security risks and transaction processing risks. 2 Comprises provisions for losses resulting from legal, liability and compliance risks. 3 Includes personnel-related restructuring provisions of CHF 178 million as of 31 March 2014 (31 December 2013: CHF 104 million) and provisions for onerous lease contracts of CHF 550 million as of 31 March 2014 (31 December 2013: CHF 554 million). 4 Includes reinstatement costs for leasehold improvements of CHF 94 million as of 31 March 2014 (31 December 2013: CHF 95 million), provisions for onerous lease contracts of CHF 59 million as of 31 March 2014 (31 December 2013: CHF 62 million). 5 Includes provisions for sabbatical and anniversary awards as well as provisions for severance which are not part of restructuring provisions.

Restructuring provisions primarily relate to onerous lease contracts and severance amounts. The utilization of onerous lease provisions is driven by the maturities of the underlying lease contracts, which cover a period of up to 11 years. Severance related provisions are utilized within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces the number of people affected by a restructuring and therefore the estimated costs.

Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in Note 14b. There are no material contingent liabilities associated with the other classes of provisions.

b) Litigation, regulatory and similar matters

The Group operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this note may refer to UBS AG and/or one or more of its subsidiaries, as applicable) is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. If any of those conditions is not met, such matters result in contingent liabilities.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

In the case of certain matters below, we state that we have established a provision, and for the other matters we make no such statement. When we make this statement and we expect disclosure of the amount of a provision to prejudice seriously our position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, we do not disclose that amount. In some cases we are subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which we do not state whether we have established a provision, either (a) we have not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard or (b) we have established a provision but expect disclosure of that fact to prejudice seriously our position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

Note 14 Provisions and contingent liabilities (continued)

With respect to certain litigation, regulatory and similar matters as to which we have established provisions, we are able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which we are able to estimate expected timing is immaterial relative to our current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 14a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, we can confirm that we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining our capital requirements. Information concerning our capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" and "Risk management and control" sections of this report.

Provisions for litigation, regulatory and similar matters by segment[1]

CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	UBS
Balance as of 31 December 2013	165	56	82	3	22	488	808	**1,622**
Increase in provisions recognized in the income statement	89	47	11	0	0	0	55	**203**
Release of provisions recognized in the income statement	(3)	(5)	0	0	(1)	(6)	(1)	**(15)**
Provisions used in conformity with designated purpose	(12)	(5)	(3)	0	(1)	0	(4)	**(24)**
Reclassifications	0	0	0	0	(2)	0	2	**0**
Foreign currency translation / unwind of discount	0	(1)	0	0	0	1	(7)	**(7)**
Balance as of 31 March 2014	239	92	90	3	19	483	853	**1,778**

1 Provisions, if any, for the matters described in (a) item 4 of this Note 14b are recorded in Wealth Management, (b) item 7 of this Note 14b are recorded in Wealth Management Americas, (c) item 11 of this Note 14b are recorded in the Investment Bank, (d) items 3 and 10 of this Note 14b are recorded in Corporate Center – Core Functions and (e) items 2 and 6 of this Note 14b are recorded in Corporate Center – Non-core and Legacy Portfolio. Provisions for the matters described in items 1 and 9 of this Note 14b are allocated between Wealth Management and Retail & Corporate, provisions for the matter described in item 5 of this Note 14b are allocated between the Investment Bank and Corporate Center – Non-core and Legacy Portfolio, and provisions for the matter described in item 8 of this Note 14b are allocated between the Investment Bank and Corporate Center – Core Functions.

1. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. As a result of investigations in France, in May and June 2013, respectively, UBS (France) S.A. and UBS AG were put under formal examination *("mise en examen")* for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance *("témoin assisté")* regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. Separately, in June 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and "know your customer" obligations. It imposed a penalty of EUR 10 million, and a provision in that amount is reflected on our balance sheet at 31 March 2014. In Germany, several authorities have been conducting investigations against UBS Deutschland AG, UBS AG, and against certain employees of these entities concerning certain matters relating to our cross-border business. UBS is cooperating with these authorities within the limits of financial privacy obligations under Swiss and other applicable laws. Settlement discussions are ongoing with respect to the German investigations.

2. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter of US residential mortgage-backed securities (RMBS) and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. (UBS RESI), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into securitization trusts. In this manner, from 2004 through 2007, UBS RESI sponsored approximately USD 80 billion in RMBS, based on the original principal balances of the securities issued.

Note 14 Provisions and contingent liabilities (continued)

UBS RESI also sold pools of loans acquired from originators to third-party purchasers. These whole loan sales during the period 2004 through 2007 totaled approximately USD 19 billion in original principal balance.

We were not a significant originator of US residential loans. A subsidiary of UBS originated approximately USD 1.5 billion in US residential mortgage loans during the period in which it was active from 2006 to 2008, and securitized less than half of these loans.

Securities lawsuits concerning disclosures in RMBS offering documents: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits related to approximately USD 13 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the USD 13 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans (UBS-sponsored RMBS). The remaining USD 10 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS).

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights. A class action settlement by a third-party issuer received final approval by the district court in 2013. The settlement reduced the original face amount of RMBS at issue in these cases from USD 37 billion to USD 13 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 34 billion to USD 10 billion, as noted above. The third-party issuer will fund the settlement at no cost to UBS. In January 2014, certain objectors to the settlement filed a notice of appeal from the district court's approval of the settlement.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, we generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, we were in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. We have been notified by certain institutional purchasers and insurers of mortgage loans and RMBS of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table "Loan repurchase demands by year received – original principal balance of loans" summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 29 April 2014. In the table, repurchase demands characterized as Demands resolved in litigation and Demands rescinded by counterparty are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

Loan repurchase demands by year received – original principal balance of loans[1]

USD million	2006–2008	2009	2010	2011	2012	2013	2014, through 29 April	**Total**
Resolved demands								
Actual or agreed loan repurchases / make whole payments by UBS	12	1						**13**
Demands rescinded by counterparty	110	104	19	303	237			**773**
Demands resolved in litigation	1	21						**21**
Demands expected to be resolved by third parties								
Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators		77	2	45	124	99	30	**377**
Demands in dispute								
Demands in litigation			346	732	1,041			**2,118**
Demands in review by UBS				2	2	3		**8**
Demands rebutted by UBS but not yet rescinded by counterparty		1	2	1	17	515	115	**651**
Total	122	205	368	1,084	1,421	618	145	**3,962**

1 Loans submitted by multiple counterparties are counted only once.

Note 14 Provisions and contingent liabilities (continued)

Payments that UBS has made or agreed to make to date to resolve repurchase demands equate to approximately 62% of the original principal balance of the related loans. Most of the payments that UBS has made or agreed to make to date have related to so-called "Option ARM" loans; severity rates may vary for other types of loans or for Option ARMs with different characteristics. Actual losses upon repurchase will reflect the estimated value of the loans in question at the time of repurchase as well as, in some cases, partial repayment by the borrowers or advances by servicers prior to repurchase. It is not possible to predict future losses upon repurchase for reasons including timing and market uncertainties.

In most instances in which we would be required to repurchase loans due to misrepresentations, we would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. We estimate that, of the total original principal balance of loans sold or securitized by UBS from 2004 through 2007, less than 50% was purchased from surviving third-party originators. In connection with approximately 60% of the loans (by original principal balance) for which UBS has made payment or agreed to make payment in response to demands received in 2010, UBS has asserted indemnity or repurchase demands against originators. Since 2011, UBS has advised certain surviving originators of repurchase demands made against UBS for which UBS would be entitled to indemnity, and has asserted that such demands should be resolved directly by the originator and the party making the demand.

We cannot reliably estimate the level of future repurchase demands, and do not know whether our rebuttals of such demands will be a good predictor of future rates of rebuttal. We also cannot reliably estimate the timing of any such demands.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In 2012, certain RMBS trusts filed an action in the Southern District of New York (Trustee Suit) seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations (Transactions) with an original principal balance of approximately USD 2 billion for which Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, had previously demanded repurchase. Plaintiffs in the Trustee Suit have recently indicated that they intend to seek damages beyond the loan repurchase demands identified in the complaint, specifically for all loans purportedly in breach of any of the three Transactions. Discovery is ongoing. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. Related litigation brought by Assured Guaranty was resolved in 2013.

In 2012, the FHFA, on behalf of Freddie Mac, filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach of contract and declaratory relief arising from alleged breaches of representations and warranties in connection with certain mortgage loans and UBS RESI's alleged failure to repurchase such mortgage loans. The lawsuit seeks, among other relief, specific performance of UBS RESI's alleged loan repurchase obligations for at least USD 94 million in original principal balance of loans for which Freddie Mac had previously demanded repurchase; no damages are specified. In 2013, the Court dismissed the complaint for lack of standing, on the basis that only the RMBS trustee could assert the claims in the complaint, and the complaint was unclear as to whether the trustee was the plaintiff and had proper authority to bring suit. The trustee subsequently filed an amended complaint, which UBS moved to dismiss. The motion remains pending.

In 2013, Residential Funding Company LLC (RFC) filed a complaint in New York Supreme Court against UBS RESI asserting claims for breach of contract and indemnification in connection with loans purchased from UBS RESI with an original principal balance of at least USD 460 million that were securitized by an RFC affiliate. This is the first case filed against UBS seeking damages allegedly arising from the securitization of whole loans purchased from UBS. Damages are unspecified.

We also have tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

As reflected in the table "Provisions for claims related to sales of residential mortgage-backed securities and mortgages", our balance sheet at 31 March 2014 reflected a provision of USD 819 million with respect to matters described in this item 2. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

UBS has received requests from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the US Department of Justice, Criminal Division, Fraud Section) and the SEC for information relating to its practices in connection with purchases and sales of mortgage-backed securities. We are cooperating with the authorities in these matters,

Note 14 Provisions and contingent liabilities (continued)

Provision for claims related to sales of residential mortgage-backed securities and mortgages

USD million	
Balance as of 31 December 2013	**807**
Increase in provision recognized in the income statement	**15**
Release of provision recognized in the income statement	**0**
Provision used in conformity with designated purpose	**(3)**
Balance as of 31 March 2014	**819**

which are in an early stage. Numerous other banks reportedly have received similar requests.

3. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US cross-border business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, in 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary shares made in the US for failure to state a claim. Plaintiffs have appealed the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In 2012, the court denied plaintiffs' motion for leave to file an amended complaint. On appeal, the Second Circuit upheld the dismissal of all counts relating to one of the retirement plans. With respect to the second retirement plan, the Court upheld the dismissal of some of the counts, and vacated and remanded for further proceedings with regard to the counts alleging that defendants had violated their fiduciary duty to prudently manage the plan's investment options, as well as the claims derivative of that duty.

In 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. In 2013, the district court granted UBS's motion to dismiss the complaint in its entirety. Plaintiffs have filed a notice of appeal.

4. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010

Note 14 Provisions and contingent liabilities (continued)

against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011, the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit Court of Appeals rejected the BMIS Trustee's appeal against that ruling and upheld the District Court's decision. The BMIS Trustee has sought leave to appeal to the US Supreme Court, which has invited the Solicitor General of the United States to file a brief expressing the views of the United States as to whether review should be granted. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

5. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In Milan, in 2012, civil claims brought by the City of Milan against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007 were settled without admission of liability. In 2012, the criminal court in Milan issued a judgment convicting two current UBS employees and one former employee, together with employees from the three other banks, of fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. In the same proceedings, the Milan criminal court also found UBS Limited and three other banks liable for the administrative offense of failing to have in place a business organizational model capable of preventing the criminal offenses of which its employees were convicted. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and payment of legal fees. Our balance sheet at 31 March 2014 reflected a provision in the amount of EUR 17.7 million for this potential exposure. UBS Limited and the individuals appealed that judgment, and in March 2014, the Milan Court of Appeal handed down its judgment in short form. It overturned all findings of liability against UBS Limited and the convictions of the UBS individuals and acquitted them, stating that the conduct did not occur. The court indicated that it would issue a full judgment including the reasons for its rulings within 90 days. The appellate prosecutor has until July 21, 2014 to decide whether to pursue a further appeal to the Court of Cassation in Rome.

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy, Lazio and Campania, and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2012, UBS AG and UBS Limited settled all civil disputes with the Regions of Tuscany, Lombardy and Lazio without any admission of liability. In 2013, a settlement of all civil and administrative disputes was reached with the City of Florence. An oral agreement in principle was reached with the Region of Calabria subject to conditions which have not yet occurred. Our balance sheet at 31 March 2014 reflected a provision in connection with that oral agreement.

6. Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of Credit Default Swap (CDS) transactions with bank swap counterparties, including UBS. UBS also entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (Depfa) and Landesbank Baden-Württemberg (LBBW), in relation to their respective swaps with KWL. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS is owed a total amount of approximately USD 319.8 million, plus interest, which remains unpaid. Specifically, under the CDS contracts between KWL and UBS , the last of which were terminated by UBS in 2010, a net sum of approximately USD 137.6 million, plus interest, has fallen due from KWL but not been paid.

In 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transactions between KWL and UBS are valid, binding and enforceable as against KWL and in respect of UBS's role as portfolio manager. UBS issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW are defending against the claims and have also issued counterclaims. Additionally, Depfa added a claim against KWL to the proceedings against it and KWL served a defense. The English court ruled in 2010 that it had jurisdiction and would hear the proceedings. UBS issued a further claim in the English proceeding seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL and later added a monetary claim. Also, in 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW. The Leipzig court has also ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

In the English proceedings, KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS AG's

Note 14 Provisions and contingent liabilities (continued)

termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS AG pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited. Both KWL and Depfa have mutually exclusive claims for payment of USD 32.6 million which has previously been paid by Depfa to UBS. Trial in the English proceedings began in April 2014 and is expected to run through July 2014.

In the proceedings brought by KWL against LBBW in Leipzig, in June 2013, the court ruled in LBBW's favor. KWL appealed against that ruling and the court is expected to make its first decision on the appeal by 30 May 2014.

Our balance sheet at 31 March 2014 reflected provisions with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

In 2011, the former managing director of KWL and two financial advisers were convicted in Leipzig, Germany, on criminal charges related to certain KWL transactions, including swap transactions with UBS and other banks. Following further criminal proceedings brought against them in Dresden, Germany, relating to the same transactions, they were each convicted of embezzlement in 2013 and given longer sentences. All three have lodged appeals.

Since 2011, the SEC has been conducting an investigation focused on, among other things, the suitability of the KWL transactions, and information provided by UBS to KWL. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC.

7. Puerto Rico

Declines in Puerto Rico municipal bond and closed-end fund prices since August 2013 have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages exceeding USD 300 million filed by clients in Puerto Rico who own those securities. A shareholder derivative action also was filed in February 2014 against various UBS entities and current and certain former directors of the closed-end funds, alleging hundreds of millions in losses in the funds. An internal review also disclosed that certain clients, many of whom acted at the recommendation of one financial advisor, invested proceeds of non-purpose loans in closed-end fund securities in contravention of their loan agreements.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico (UBS PR) and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim. That dismissal was subsequently overturned by the Puerto Rico Court of Appeals. In February 2014, UBS's petition for appeal was denied by the Supreme Court of Puerto Rico, and UBS filed motions for reconsideration. Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012.

Our balance sheet at 31 March 2014 reflected provisions with respect to matters described in this item 7 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that we have recognized.

8. Foreign exchange, LIBOR, and benchmark rates

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes our precious metals business. Since then, various authorities reportedly have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission (WEKO), the US Department of Justice (DOJ), the US Commodity Futures Trading Commission (CFTC), the UK Financial Conduct Authority (FCA) (to which certain responsibilities of the UK Financial Services Authority (FSA) have passed) and the Hong Kong Monetary Authority (HKMA). WEKO stated in March 2014 that it had reason to believe that certain banks may have colluded to manipulate foreign exchange rates. A number of authorities also reportedly are investigating potential manipulation of precious metals prices. UBS and other financial institutions have received requests from various authorities relating to their foreign exchange businesses, and UBS is cooperating with the authorities. UBS has taken and will take appropriate action with respect to certain personnel as a result of its ongoing review.

Foreign exchange-related civil litigation: Several putative class actions have been filed since November 2013 in US federal courts against UBS and other banks. These actions are on behalf of puta-

Note 14 Provisions and contingent liabilities (continued)

tive classes of persons who engaged in foreign currency transactions. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. The defendants (including UBS) have not yet filed responsive pleadings.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the UK Serious Fraud Office (SFO), the Monetary Authority of Singapore (MAS), the HKMA, FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to British Bankers' Association LIBOR (London Interbank Offered Rate) and other benchmark rates, including HIBOR (Hong Kong Interbank Offered Rate) and ISDAFIX. These investigations focus on whether there were improper attempts by UBS (among others), either acting on our own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, and CHF 59 million in disgorgement to FINMA. Under a non-prosecution agreement (NPA) that UBS entered into with the DOJ, UBS agreed to pay a fine of USD 500 million. Pursuant to a separate plea agreement between the DOJ and UBS Securities Japan Co. Ltd. (UBSSJ), UBSSJ entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. The NPA, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency / immunity grants described below, required UBS to pay the USD 500 million fine to DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. At the sentencing hearing held in 2013, the court approved the proposed plea agreement and imposed a USD 100 million fine against UBSSJ, as agreed to by the DOJ and UBSSJ under the plea agreement. Since the sentencing, UBS has paid a fine of USD 400 million to the DOJ, and UBSSJ has paid the USD 100 million fine imposed by the sentencing court. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by one or more of these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). We have ongoing obligations to cooperate with authorities with which we have reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. In addition, under the NPA, we have agreed, among other things, that for two years from 18 December 2012 UBS will not commit any US crime, and we will advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities or commodities markets. Any failure to comply with these obligations could result in termination of the NPA and potential criminal prosecution in relation to the matters covered by the NPA. Investigations by the CFTC and other government authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ, and the Swiss Competition Commission (WEKO), in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for Swiss franc LIBOR and certain transactions related to Swiss franc LIBOR. The Canadian Competition Bureau (Bureau) had granted UBS conditional immunity in connection with potential competition law violations related to submissions for Yen LIBOR, but in January 2014, the Bureau announced the discontinuation of its investigation into Yen LIBOR for lack of sufficient evidence to justify prosecution under applicable laws. As a result of these conditional grants, we will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where we have conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to our continuing cooperation. However, the conditional leniency and conditional immunity grants we have received do not bar government agencies from asserting other claims and imposing sanctions against us, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, we are eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to our satisfying the DOJ and the court presiding over the civil litigation of our cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against us.

In 2013, the European Commission (EC) announced a decision adopted in the Commission's Yen Interest Rate Derivatives (YIRD) investigation, under which UBS has received full immunity from fines for disclosing to the Commission the existence of infringements relating to YIRD.

Note 14 Provisions and contingent liabilities (continued)

In 2013, the MAS announced the results of its investigation of benchmark submissions by 20 banks, including UBS. The investigation related to various benchmark submissions, including the Singapore Interbank Offered Rates and the Swap Offered Rates, and covered the period from 2007 to 2011. The MAS found deficiencies in the governance, risk management, internal controls and surveillance systems for the banks' benchmark submission processes and directed the banks to correct the deficiencies and set aside additional statutory reserves with MAS at zero interest for one year. The MAS also announced proposed changes to its regulatory framework for financial benchmarks that are designed to enhance the integrity of the process for setting benchmarks.

In 2013, UBS entered into an enforceable undertaking in relation to an investigation by the Australian Securities and Investments Commission (ASIC) into conduct relating to Australian Bank Bill Swap Rate (BBSW) submissions. An independent expert engaged by UBS at ASIC's request concluded that, to the extent there may have been any impact of such conduct on the market as a whole, it would have been insignificant. The enforceable undertaking requires UBS to ensure that its participation in relation to the setting of Australian interest rate benchmarks upholds the integrity and reliability of those benchmarks and is in accordance with its obligations under the CFTC order. UBS also agreed to make a voluntary contribution of AUD 1 million to fund independent financial literacy projects in Australia. ASIC has the power to investigate, conduct further surveillance or pursue criminal prosecution of UBS or its representatives in relation to any contravention. ASIC acknowledged UBS's cooperation and the fact that it was the first bank to report this conduct to it. ASIC's inquiries in relation to the BBSW rate set are ongoing.

In March 2014, the HKMA announced the conclusion of its investigations into the fixing of HIBOR. The HKMA found that some UBS traders made change requests to the UBS HIBOR submitter between September 2006 and June 2009, but said they had "negligible impact" on the actual outcome of the HIBOR fixing. The HKMA found no evidence of collusion among the banks to rig the rate. The HKMA also found that UBS failed to report to the HKMA the misconduct of its staff in relation to HIBOR submissions and further found material weaknesses in UBS's internal controls and governance in managing the HIBOR submission process and in other areas. UBS ceased to be a HIBOR panel bank in 2010. The HKMA has required that UBS make improvements in its processes.

In 2011, the Japan Financial Services Agency (JFSA) commenced administrative actions and issued orders against UBS Securities Japan Ltd (UBS Securities Japan) and UBS AG, Tokyo Branch in connection with their investigation of Yen LIBOR and Euroyen TIBOR. These actions were based on findings by the Japan Securities and Exchange Surveillance Commission (SESC), and, in the case of UBS AG, Tokyo Branch, the JFSA, that a former UBS Securities Japan trader engaged in inappropriate conduct relating to Euroyen TIBOR and Yen LIBOR, including approaching UBS AG, Tokyo Branch, and other banks to ask them to submit TIBOR rates taking into account requests from the trader for the purpose of benefiting trading positions.

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR and EURIBOR. Also pending are actions asserting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR or EURIBOR rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act, the federal racketeering statute, federal and state antitrust and securities laws and other state laws. In 2013, a federal court in New York dismissed the federal antitrust and racketeering claims of certain US dollar LIBOR plaintiffs and a portion of their claims brought under the Commodity Exchange Act (CEA) and state common law. The same court subsequently denied the parties' requests for reconsideration and plaintiffs' motion for interlocutory appeal and to amend the complaints to include additional antitrust and CEA allegations. It granted certain plaintiffs permission to assert claims for unjust enrichment and breach of contract. Motions to dismiss these unjust enrichment and breach of contract claims are pending, as is a renewed motion to dismiss by UBS and other defendants that seeks dismissal of further CEA claims. Certain plaintiffs have also appealed the dismissal of their antitrust claims, but the appellate court denied these appeals as premature, without prejudice to bringing the appeals again after final disposition of the LIBOR actions. UBS and other defendants in other lawsuits including the one related to Euroyen TIBOR have filed motions to dismiss. In March 2014, the court in the Euroyen TIBOR lawsuit dismissed the plaintiff's federal antitrust and state unfair enrichment claims, and dismissed a portion of the plaintiff's CEA claims.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 31 March 2014 reflected a provision of an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

Note 14 Provisions and contingent liabilities (continued)

9. Swiss retrocessions

The Swiss Supreme Court ruled in 2012, in a test case against UBS, that distribution fees paid to a bank for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the bank, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients.

It is expected that the Supreme Court decision will result in a significant number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are being assessed on a case-by-case basis. Considerations to be taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

Our balance sheet at 31 March 2014 reflected a provision with respect to matters described in this item 9 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence as in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

10. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being or will be challenged in administrative proceedings. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts. In 2013, approximately BRL 128 million in tax claims relating to the period for which UBS has indemnification obligations were submitted for settlement through amnesty programs announced by the Brazilian government in 2013.

Our balance sheet at 31 March 2014 reflected a provision with respect to matters described in this item 10 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

11. Matters relating to the CDS market

In 2013, the EC issued a Statement of Objections against thirteen credit default swap (CDS) dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association (ISDA). The Statement of Objections broadly alleges that the dealers infringed EU antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. We have submitted our response to the Statement of Objections. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In January and April 2014, putative class action plaintiffs filed consolidated amended complaints in the Southern District of New York against twelve dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in and/or monopolize the market for CDS trading in the US in order to protect the dealers' profits from trading CDS in the over-the-counter market. Plaintiffs assert claims on behalf of all purchasers and sellers of CDS that transacted directly with any of the dealer defendants since 1 January 2008, and seek unspecified trebled compensatory damages and other relief.

Note 15 Financial instruments not recognized on the balance sheet

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

	31.3.14			31.12.13		
CHF million	Gross	Sub-participations	Net	Gross	Sub-participations	Net
Guarantees						
Credit guarantees and similar instruments	7,518	(626)	6,892	7,731	(670)	7,061
Performance guarantees and similar instruments	3,378	(712)	2,666	3,423	(706)	2,717
Documentary credits	7,321	(1,590)	5,731	7,644	(1,599)	6,044
Total guarantees	18,217	(2,928)	15,289	18,798	(2,975)	15,823
Commitments						
Loan commitments	56,856	(1,246)	55,610	54,913	(1,227)	53,686
Underwriting commitments	1,701	(316)	1,385	760	(225)	535
Total commitments	58,557	(1,562)	56,995	55,673	(1,452)	54,221
Forward starting transactions[1]						
Reverse repurchase agreements	20,882			9,376		
Securities borrowing agreements	251			46		
Repurchase agreements	12,263			8,191		

1 Cash to be paid in the future by either UBS or the counterparty.

Note 16 Changes in organization

Restructuring charges arise from programs that materially change either the scope of business undertaken by the Group or the manner in which such business is conducted. Restructuring charges are non-recurring, temporary costs that are necessary to effect such programs and include items such as severance and other personnel-related charges, duplicate headcount costs, impairment and accelerated depreciation of assets, contract termination costs, consulting fees, and related infrastructure and system costs. These costs are presented in the income statement according to the underlying nature of the expense. As the costs associated with restructuring programs are temporary in nature, and in order to provide a more thorough understanding of business performance, such costs are separately presented below.

Net restructuring charges by business division and Corporate Center

	For the quarter ended		
CHF million	31.3.14	31.12.13	31.3.13
Wealth Management	40	41	26
Wealth Management Americas	10	26	10
Retail & Corporate	15	12	15
Global Asset Management	4	13	4
Investment Bank	124	89	6
Corporate Center	11	17	186
of which: Core Functions	*2*	*(7)*	*(3)*
of which: Non-core and Legacy Portfolio	*9*	*24*	*188*
Total net restructuring charges	204	198	246
of which: personnel expenses	*133*	*40*	*(14)*
of which: general and administrative expenses	*63*	*136*	*225*
of which: depreciation and impairment of property and equipment	*7*	*22*	*35*
of which: amortization and impairment of intangible assets	*1*	*0*	*0*

Note 16 Changes in organization (continued)

Net restructuring charges by personnel expense category

	For the quarter ended		
CHF million	**31.3.14**	31.12.13	31.3.13
Salaries and variable compensation	**131**	32	(17)
Contractors	**1**	2	0
Social security	**0**	1	2
Pension and other post-employment benefit plans	**(1)**	6	1
Other personnel expenses	**0**	(1)	1
Total net restructuring charges: personnel expenses	**133**	40	(14)

Net restructuring charges by general and administrative expense category

	For the quarter ended		
CHF million	**31.3.14**	31.12.13	31.3.13
Occupancy	**11**	9	0
Rent and maintenance of IT and other equipment	**1**	5	0
Administration	**1**	2	0
Travel and entertainment	**2**	2	0
Professional fees	**19**	30	0
Outsourcing of IT and other services	**12**	22	0
Other[1]	**17**	66	224
Total net restructuring charges: general and administrative expenses	**63**	136	225

1 Mainly comprised of onerous real estate lease contracts.

Note 17 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of our foreign operations into Swiss francs.

	Spot rate			Average rate[1]		
	As of			For the quarter ended		
	31.3.14	31.12.13	31.3.13	**31.3.14**	31.12.13	31.3.13
1 USD	**0.88**	0.89	0.95	**0.89**	0.90	0.93
1 EUR	**1.22**	1.23	1.22	**1.22**	1.23	1.23
1 GBP	**1.47**	1.48	1.44	**1.48**	1.47	1.44
100 JPY	**0.86**	0.85	1.01	**0.87**	0.88	1.00

1 Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a quarter represent an average of three month-end rates, weighted according to the income and expense volumes of all foreign operations of the Group with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for the Group.

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Supplemental information (unaudited) for UBS AG (Parent Bank) and UBS Limited

UBS AG (Parent Bank) financial information

Income statement UBS AG (Parent Bank)

	For the quarter ended			% change from	
CHF million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Net interest income	**1,237**	1,146	1,022	8	21
Net fee and commission income	**1,678**	1,666	1,647	1	2
Net trading income	**1,210**	471	2,116	157	(43)
Other income from ordinary activities	**485**	773	273	(37)	78
of which: dividend income from investments in subsidiaries and other participations	***21***	*315*	*106*	*(93)*	*(80)*
Operating income	**4,610**	4,055	5,058	14	(9)
Personnel expenses	**2,142**	1,583	2,577	35	(17)
General and administrative expenses	**1,249**	1,666	1,104	(25)	13
Operating expenses	**3,391**	3,249	3,681	4	(8)
Operating profit	**1,219**	806	1,377	51	(11)
Impairment of investments in subsidiaries and other participations	**176**	882	175	(80)	1
Depreciation of fixed assets	**147**	143	129	3	14
Allowances, provisions and losses	**15**	(43)	78		(81)
Profit / (loss) before extraordinary items and taxes	**880**	(176)	996		(12)
Extraordinary income	**184**	1,117	474	(84)	(61)
of which: reversal of impairments and provisions of subsidiaries and other participations	***122***	*845*	*473*	*(86)*	*(74)*
Extraordinary expenses	**0**	10	(2)	(100)	(100)
Tax (expense) / benefit	**(34)**	(84)	(91)	(60)	(63)
Net profit for the period	**1,031**	868	1,376	19	(25)

Balance sheet UBS AG (Parent Bank)

			% change from
CHF million	**31.3.14**	31.12.13	31.12.13
Assets			
Liquid assets	**77,786**	69,808	11
Money market paper	**18,172**	22,159	(18)
Due from banks	**112,731**	127,689	(12)
Due from customers	**163,274**	153,326	6
Mortgage loans	**153,638**	152,479	1
Trading balances in securities and precious metals	**100,120**	94,841	6
Financial investments	**30,633**	34,985	(12)
Investments in subsidiaries and other participations	**21,699**	21,758	0
Fixed assets	**5,278**	5,193	2
Accrued income and prepaid expenses	**1,909**	2,025	(6)
Positive replacement values	**24,223**	29,085	(17)
Other assets	**2,931**	2,568	14
Total assets	**712,394**	715,917	0
Liabilities			
Money market paper issued	**17,714**	22,885	(23)
Due to banks	**84,752**	79,207	7
Trading portfolio liabilities	**23,684**	22,165	7
Due to customers on savings and deposit accounts	**107,983**	106,040	2
Other amounts due to customers	**269,578**	271,339	(1)
Medium-term notes	**761**	779	(2)
Bonds issued and loans from central mortgage institutions	**74,783**	75,585	(1)
Financial liabilities designated at fair value	**50,745**	49,620	2
Accruals and deferred income	**5,428**	6,610	(18)
Negative replacement values	**31,256**	37,415	(16)
Other liabilities	**6,487**	6,029	8
Allowances and provisions	**2,737**	2,805	(2)
Total liabilities	**675,909**	680,480	(1)
Equity			
Share capital	**384**	384	0
General statutory reserve	**26,627**	26,611	0
Reserve for own shares	**1,451**	1,020	42
Other reserves	**4,239**	4,669	(9)
Net profit / (loss) first quarter 2014	**1,031**		
Net profit / (loss) full year 2013	**2,753**	2,753	0
Equity attributable to shareholders	**36,485**	35,437	3
Total liabilities and equity	**712,394**	715,917	0

Basis of accounting UBS AG (Parent Bank)

The Parent Bank financial statements are prepared in accordance with Swiss GAAP (FINMA Circular 2008/2 and the Banking Ordinance). The accounting policies are principally the same as the IFRS-based accounting policies for the Group, which are described more fully in "Note 1 Summary of significant accounting policies" to the consolidated financial statements in our Annual Report 2013. Principal differences between the accounting policies for the Group and for the Parent Bank are described in "Note 38 Swiss GAAP requirements" to the consolidated financial statements in our Annual Report 2013. Further information on the accounting policies applied for the statutory accounts of our Parent Bank can be found in "Note 2 Accounting policies" to the Parent Bank financial statements in our Annual Report 2013.

In preparing the interim financial information for the Parent Bank, the same accounting policies and methods of computation have been applied as in the annual financial statements as of 31 December 2013. This interim financial information is unaudited and should be read in conjunction with the audited financial statements included in our Annual Report 2013.

Parent bank capital requirements under Swiss SRB regulations

Pursuant to Swiss SRB regulations, article 125 of the Swiss Capital Ordinance (CAO), under the section "Reliefs for financial groups and individual institutions," stipulates that the Swiss Financial Market Supervisory Authority (FINMA) may grant, under certain conditions, capital reliefs on the level of individual institutions, to ensure that the fulfillment of the capital requirements at the UBS AG (Parent Bank) level does not result in a de facto overcapitalization at Group level. The issue of de facto overcapitalization at Group level as a result of capital requirements at UBS AG (Parent Bank) level is unavoidable even after the implementation of reasonable measures by the bank.

FINMA had previously already granted UBS AG (Parent Bank) a capital relief with regard to intercompany exposures of UBS AG (Parent Bank), which resulted in lower risk-weighted assets (RWA) and lower deductions at UBS AG (Parent Bank) level.

Revised UBS AG (Parent Bank) capital requirements due to FINMA decree, dated 20 December 2013

1. Revised FINMA capital requirement framework at UBS AG (Parent Bank) level

The previous FINMA reliefs relating to certain intercompany exposures were revoked at the end of 2013. This measure has led to an increase in RWA at UBS AG (Parent Bank) level.

2. Reduction of the total capital requirement to 14%, of which 10% must be satisfied with common equity tier 1 (CET1) capital

This represents a relief at UBS AG (Parent Bank) level compared with the capital requirements set by FINMA for UBS Group. However, this capital requirement must be met with immediate effect.

3. Consistent treatment of direct and indirect investments of UBS AG (Parent Bank) in the equity of its subsidiaries

The aggregate amount of direct and indirect investments of UBS AG (Parent Bank) in the equity of its subsidiaries is risk-weighted at 200% up to a threshold determined by FINMA. The total amount exceeding that threshold must be deducted from capital, 50% from CET1 and 50% from other capital. This revised approach may change RWA and/or eligible capital, depending on the FINMA-defined threshold. If all investments are below the threshold, the resulting total capital requirement is 28%. If the threshold is set to zero, all investments would be deducted from capital.

The replacement of the previous FINMA reliefs with this new framework has resulted in a significant reduction of the total capital ratio of UBS AG (Parent Bank) per 1 January 2014.

Reconciliation of Swiss federal banking law equity to Swiss SRB Basel III capital UBS AG (Parent Bank)

CHF billion	31.3.14	31.12.13[1]
Equity – Swiss federal banking law	36.5	35.4
Deferred tax assets[2]	3.8	4.9
Defined benefit pension plans[3]	3.6	4.0
Investments in the finance sector	(5.8)	(8.2)
Own shares, commitments related to own shares and compensation items	(0.4)	(0.8)
Goodwill and intangible assets	(0.4)	(0.4)
Other adjustments[4]	(1.6)	(1.4)
Common equity tier 1 capital (phase-in)	35.7	33.5
Tier 2 capital	7.3	3.5
Total capital (phase-in)	43.1	37.1

1 Effective 1 January 2014, the presentation of reconciling line items was revised. Numbers presented as of 31 December 2013 were restated. 2 Includes a 20% phase-in effect as of 1 January 2014 of CHF 0.8 billion. 3 Includes a 20% phase-in effect as of 1 January 2014 of CHF 0.8 billion. 4 Includes an accrual for the proposed distribution of capital contribution reserves and other items.

Swiss SRB Basel III available capital versus capital requirements UBS AG (Parent Bank)

			Phase-in			
	Requirements		Actual information			
	Capital ratio (%)	Capital	Capital ratio (%)		Capital	
CHF million, except where indicated		31.3.14	31.3.14	31.12.13	31.3.14	31.12.13
Tier 1 capital	10.0	30,154	11.8	14.2	35,720	33,515
Common equity tier 1 capital / high-trigger loss-absorbing capital	11.3	34,074	12.2	14.6	36,671	34,470
Total capital	14.0	42,216	14.3	15.7	43,051	37,063

Swiss SRB Basel III capital information UBS AG (Parent Bank)

CHF million, except where indicated	Phase-in	
	31.3.14	31.12.13
Tier 1 capital	35,720	33,515
of which: common equity tier 1 capital	*35,720*	*33,515*
Tier 2 capital	7,331	3,549
of which: high-trigger loss-absorbing capital	*951*	*955*
of which: low-trigger loss-absorbing capital	*7,127*	*4,710*
of which: deductions	*(747)*	*(2,116)*
Total capital	43,051	37,063
Common equity tier 1 capital ratio (%)	11.8	14.2
Tier 1 capital ratio (%)	11.8	14.2
Total capital ratio (%)	14.3	15.7
Risk-weighted assets	301,542	236,570

Swiss SRB leverage ratio requirements

			Phase-in			
	Requirements		Actual information			
	Swiss SRB leverage ratio (%)[1]	Swiss SRB leverage ratio capital	Swiss SRB leverage ratio (%)		Available Swiss SRB Basel III capital	
CHF million, except where indicated		**31.3.14**	**31.3.14**	31.12.13	**31.3.14**	31.12.13
Common equity tier 1 capital	2.4	**22,011**	**3.9**	4.1	**35,720**	33,515
Common equity tier 1 capital / high-trigger loss absorbing capital	2.7	**24,872**	**4.0**	4.2	**36,671**	34,470
Total capital	3.4	**30,815**	**4.7**	4.5	**43,051**	37,063

1 Requirements for common equity tier 1 capital (24% of 10%), common equity tier 1 capital / high-trigger loss absorbing capital (24% of 11.3%) and total capital (24% of 14%).

Swiss SRB leverage ratio UBS AG (Parent Bank)

CHF million, except where indicated	**Average 1Q14**	Average 4Q13
Total on-balance sheet assets[1]	**932,051[2]**	822,493
Netting of securities financing transactions	**(21,702)**	(2,131)
Netting of derivative exposures	**(181,429)**	(174,513)
Current exposure method (CEM) add-on for derivative exposures	**86,595**	92,978
Off-balance sheet items	**108,961**	89,180
of which: commitments and guarantees – unconditionally cancellable (10%)	***9,964***	*10,837*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	***98,996***	*78,344*
Items deducted from tier 1 capital, phase-in (at period end)	**(7,354)**	(10,254)
Total adjusted exposure ("leverage ratio denominator")[3]	**917,121**	817,754
	As of	
	31.3.14	31.12.13
Common equity tier 1 capital (phase-in)	**35,720**	33,515
Tier 2 capital	**7,331**	3,549
Total capital	**43,051**	37,063
Swiss SRB leverage ratio phase-in (%)	**4.7**	4.5

1 Represent assets recognized on the UBS AG (Parent Bank) balance sheet in accordance with IFRS measurement principles. 2 The revocation of the previous FINMA capital relief related to certain intercompany exposures described in "Parent Bank capital requirements under Swiss SRB regulations" led to an increase of total on-balance sheet assets. 3 In accordance with current Swiss SRB leverage ratio requirements, the leverage ratio denominator excludes forward starting repos, securities lending indemnifications and CEM add-ons for exchange-traded derivatives (both proprietary and agency transactions), and for OTC derivatives with a qualifying central counterparty.

UBS Limited financial information

Income statement UBS Limited

	For the quarter ended			% change from	
GBP million	**31.3.14**	31.12.13	31.3.13	4Q13	1Q13
Interest income	**67**	66	91	2	(26)
Interest expense	**(67)**	(66)	(92)	2	(27)
Net interest income	**0**	0	(2)		(100)
Net fee and commission income	**(2)**	(2)	(2)	0	0
Net trading income	**3**	3	3	0	0
Other income	**49**	50	52	(2)	(6)
Total operating income	**50**	51	52	(2)	(4)
Total operating expenses	**(45)**	(45)	(46)	0	(2)
Operating profit before tax	**6**	5	6	20	0
Tax expense / (benefit)	**1**	1	1	0	0
Net profit	**4**	4	5	0	(20)

Statement of comprehensive income UBS Limited

	For the quarter ended		
GBP million	**31.3.14**	31.12.13	31.3.13
Net profit	**5**	4	5
Other comprehensive income			
Other comprehensive income that may be reclassified to the income statement			
Financial investments available-for-sale			
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	**1**	0	0
Total other comprehensive income that may be reclassified to the income statement	**1**	0	0
Total comprehensive income	**5**	4	5

Balance sheet UBS Limited

			% change from
GBP million	**31.3.14**	31.12.13[1]	31.12.13
Assets			
Due from banks	**4,886**	5,407	(10)
Cash collateral on securities borrowed and reverse repurchase agreements	**11,942**	21,331	(44)
Trading portfolio assets	**839**	1,021	(18)
Positive replacement values	**34,525**	38,208	(10)
Cash collateral receivables on derivative instruments	**11,321**	11,603	(2)
Loans	**887**	820	8
Other assets	**4,398**	4,476	(2)
Total assets	**68,799**	82,866	(17)
Liabilities			
Due to banks	**1,414**	2,127	(34)
Cash collateral on securities lent and repurchase agreements	**11,772**	21,146	(44)
Trading portfolio liabilities	**531**	543	(2)
Negative replacement values	**34,527**	38,231	(10)
Cash collateral payables on derivative instruments	**15,520**	15,426	1
Due to customers	**593**	897	(34)
Other liabilities	**1,006**	1,066	(6)
Total liabilities	**65,364**	79,435	(18)
Equity			
Share capital	**227**	227	0
Share premium	**3,123**	3,123	0
Retained earnings	**85**	81	5
Cumulative net income recognized directly in equity, net of tax	**1**	0	
Total equity	**3,435**	3,431	0
Total liabilities and equity	**68,799**	82,866	(17)

1 Compared with the figures presented in the Fourth Quarter 2013 Report, total assets, primarily cash collateral on securities borrowed and reverse repurchase agreements, and total liabilities, primarily cash collateral on securities lent and repurchase agreements, as of 31 December 2013 were both restated downwards by GBP 404 million.

Basis of accounting UBS Limited

The financial statements of UBS Limited are prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU), and are stated in British pounds (GBP), the functional currency of the entity. The ultimate parent of UBS Limited is UBS AG (Switzerland).

In preparing this interim financial information, the same accounting policies and methods of computation have been applied as in the audited financial statements included in the Report and Financial Statements for the year ended 31 December 2013 of UBS Limited, except for the changes set out below. Copies of the Report and Financial Statements of UBS Limited can be obtained from UBS AG, Investor Relations. This interim financial information is unaudited and should be read in conjunction with the audited financial statements of UBS Limited.

This interim financial information does not comply with IAS 34, *Interim Financial Reporting*, as it includes only the Income statement, the Statement of comprehensive income and the Balance sheet of UBS Limited.

International Financial Reporting Standards and Interpretations adopted in the first quarter of 2014

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32, *Financial Instruments: Presentation)*

On 1 January 2014, UBS Limited adopted *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32, *Financial Instruments: Presentation).* Adoption of the amendments did not have a material impact on the financial statements of UBS Limited.

IFRIC Interpretation 21, *Levies*

On 1 January 2014, UBS Limited adopted IFRIC Interpretation 21, *Levies.* Adoption of the interpretation had no impact on the financial statements of UBS Limited.

Basel III capital information UBS Limited[1]

GBP million, except where indicated	31.3.14
Core tier 1 capital	3,409
Tier 1 capital	3,409
Total capital	3,409
Risk-weighted assets	6,157
Common equity tier 1 capital ratio (%)	55.4
Tier 1 capital ratio (%)	55.4
Total capital ratio (%)	55.4

1 Basel III-based requirements for UBS Limited came into effect on 1 January 2014.

Abbreviations frequently used in our financial reports

A

ABS asset-backed securities
AGM annual general meeting of shareholders
AMA advanced measurement approach
AoA articles of association
APAC Asia Pacific
ARS auction rate securities

B

BCBS Basel Committee on Banking Supervision
BIS Bank for International Settlements
bps basis points

C

CC Corporate Center
CCF credit conversion factors
CCP central counterparty
CDO collateralized debt obligations
CDR constant default rate
CDS credit default swaps
CET1 common equity tier 1
CHF Swiss franc
CLN credit-linked notes
CLO collateralized loan obligations
CMBS commercial mortgage-backed securities
CVA credit valuation adjustments

D

DBO defined benefit obligation
DCCP deferred contingent capital plan
DVA debit valuation adjustments

E

EAD exposure at default
ECB European Central Bank
EEA European Economic Area
EMEA Europe, Middle East and Africa
EPS earnings per share
ETD exchange-traded derivatives
ETF exchange-traded funds
EU European Union
EUR euro
EURIBOR Euro Interbank Offered Rate

F

FCA UK Financial Conduct Authority
FINMA Swiss Financial Market Supervisory Authority
FRA forward rate agreements
FTD first to default swaps
FTP funds transfer price
FX foreign exchange

G

GAAP generally accepted accounting principles
GBP British pound
GIIPS Greece, Italy, Ireland, Portugal and Spain
G-SIB global systemically important banks

H

HQLA high-quality liquid assets

I

IASB International Accounting Standards Board
IFRS International Financial Reporting Standards
IRB internal ratings-based
IRC incremental risk charge

K

KPI key performance indicator

L

LAC loss-absorbing capital
LAS liquidity adjusted stress
LCR Liquidity Coverage Ratio
LGD loss given default
LIBOR London Interbank Offered Rate
LRD leverage ratio denominator
LTV loan-to-value

M

MTN medium-term notes

N

NAV net asset value
NRV negative replacement values
NSFR Net Stable Funding Ratio

O

OECD Organization for Economic Cooperation and Development
OCI other comprehensive income
OTC over-the-counter

P

PD probability of default
PRA UK Prudential Regulation Authority
PRV positive replacement values

R

RBC risk-based capital
RLN reference-linked notes
RMBS residential mortgage-backed securities
RoAE return on attributed equity
RoE return on equity
RV replacement values
RWA risk-weighted assets

S

SE structured entity
SEC US Securities and Exchange Commission
SNB Swiss National Bank
SRB systemically relevant banks

U

UK United Kingdom
US United States of America
USD US dollar

V

VaR value-at-risk

Information sources

Reporting publications

Annual publications: *Annual report (SAP no. 80531):* Published in both English and German, this single volume report provides a description of our Group strategy and performance, the strategy and performance of the business divisions and the Corporate Center, risk, treasury and capital management, corporate governance, responsibility and senior management compensation, including compensation to the Board of Directors and the Group Executive Board members, and financial information, including the financial statements. *Review (SAP no. 80530):* The booklet contains key information on our strategy and financials. It is published in English, German, French and Italian. *Compensation Report (SAP no. 82307):* The report discusses our compensation framework and provides information on compensation to the Board of Directors and the Group Executive Board members. It is published in English and German.

Quarterly publications: *Letter to shareholders:* The letter provides a quarterly update from executive management on our strategy and performance. The letter is published in English, German, French and Italian. *Financial report (SAP no. 80834):* The quarterly financial report provides an update on our strategy and performance for the respective quarter. It is published in English.

How to order reports: The annual and quarterly publications are available in PDF format on the internet at *www.ubs.com/investors* in the "Financial information" section. Printed copies can be ordered from the same website in the "Investor services" section, which can be accessed via the link on the left-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference where applicable, from UBS AG, F4UK–AUL, P.O. Box, CH-8098 Zurich, Switzerland.

Other information

Website: The "Investor Relations" website at *www.ubs.com/investors* provides the following information on UBS: news releases, financial information, including results-related filings with the US Securities and Exchange Commission, corporate information, including UBS share price charts and data and dividend information, the UBS corporate calendar and presentations by management for investors and financial analysts. Information on the internet is available in English and German.

Result presentations: Our quarterly results presentations are webcast live. A playback of most presentations is downloadable at *www.ubs.com/presentations*.

Messaging service / UBS news alert: On the *www.ubs.com/newsalerts* website, it is possible to subscribe to receive news alerts about UBS via SMS or e-mail. Messages are sent in English, German, French or Italian and it is possible to state theme preferences for the alerts received.

Form 20-F and other submissions to the US Securities and Exchange Commission: We file periodic reports and submit other information about UBS to the US Securities and Exchange Commission (SEC). Principal among these filings is the annual report on Form 20-F, filed pursuant to the US Securities Exchange Act of 1934. The filing of Form 20-F is structured as a "wrap-around" document. Most sections of the filing can be satisfied by referring to parts of the annual report. However, there is a small amount of additional information in Form 20-F which is not presented elsewhere, and is particularly targeted at readers in the US. Readers are encouraged to refer to this additional disclosure. Any document that we file with the SEC is available to read and copy on the SEC's website, *www.sec.gov,* or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Please call the SEC by dialing +1-800-SEC-0330 for further information on the operation of its public reference room. Please visit *www.ubs.com/investors* for more information.

Cautionary Statement Regarding Forward-Looking Statements | This report contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, 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: (i) the degree to which UBS is successful in executing its announced strategic plans, including its efficiency initiatives and its planned further reduction in its Basel III risk-weighted assets (RWA) and leverage ratio denominator; (ii) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS's clients and counterparties; (iii) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings, or arising from requirements for bail-in debt or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose more stringent capital (including leverage ratio), liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve reductions to the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA effective 31 December 2013, or will approve a limited reduction of capital requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in executing the announced creation of a new Swiss banking subsidiary, a holding company for the UBS Group, a US intermediate holding company, changes in the operating model of UBS Limited and other changes which UBS may make in its legal entity structure and operating model, including the possible consequences of such changes, and the potential need to make other changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, including capital requirements, resolvability requirements and the pending Swiss parliamentary proposals and proposals in other countries for mandatory structural reform of banks; (vii) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (viii) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations; (ix) the effects on UBS's cross-border banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (x) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xi) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xii) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiii) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xiv) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (xv) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth 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 2013. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Rounding | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Percentages, percent changes and absolute variances are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages, percent changes and absolute variances that would be derived based on figures that are not rounded.

Tables | Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Zero values generally indicate that the respective figure is zero on an actual or rounded basis.

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Appendix G

Annual Report 2013 of UBS AG as at 31 December 2013

Our *performance* in 2013

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Dear shareholders,

2013 was the first full year of execution following our announcement of the accelerated implementation of our strategy. We made excellent progress thanks to the dedication of our employees, the trust and confidence of our clients, and the support of our shareholders. We accomplished our goals of further adapting our business to better serve clients, reducing risk, delivering more sustainable performance and enhancing shareholder returns. All our businesses were profitable in every quarter, demonstrating that the firm's model has the flexibility to adapt and perform well in a variety of market conditions. This enabled us to finish a transformational year ahead of the majority of our strategic and financial targets.

The financial strength we have created as a firm is the foundation of our success as it gives us the flexibility to execute our strategy effectively in the new operating environment. Additionally, it reinforces client confidence while allowing us to address the challenges of the past and to absorb unexpected events. During the year, we increased adjusted[1] profit before tax 44% to CHF 4.1 billion. Most importantly, our progress was recognized by our clients, who again entrusted us with more of their assets and business than in the prior year, with our wealth management businesses attracting a combined CHF 54 billion of net new money in 2013 alone, 14% more than in the prior year.

We operate in an environment still characterized by increased and shifting regulation and with markets affected by the turbulence of macroeconomic, geopolitical and unresolved fiscal issues. As a Swiss bank, we are subject to some of the most stringent regulatory requirements in the world. We acted early and decisively to prepare our business for the future with a clear strategy that focused on building and maintaining our industry-leading capital position. During 2013, we enhanced this position, exceeding our own ambitious year-end capital targets. Since we announced our strategy in the second half of 2011, we have more than doubled our fully applied Basel III common equity tier 1 (CET1) ratio from around 6% to 12.8%. We achieved this improvement primarily through steady reductions in fully applied risk-weighted assets (RWA) from around CHF 400 billion to CHF 225 billion at the end of 2013, already meeting our 2015 target. We set a target of a fully applied Basel III CET1 ratio of 13% by the end of 2014, comfortably above the regulatory minimum of 10% by 2019.

We finished 2013 well ahead of our plan to manage down RWA in our Non-core and Legacy Portfolio in Corporate Center, and achieved this in a manner that protected shareholder value. Most of the decline in Group RWA resulted from disposals and other exposure reduction measures in these units. We also continued to successfully deleverage our balance sheet, reducing total assets by over CHF 400 billion since we announced our strategy. Our Basel III funding and liquidity ratios and our Swiss SRB leverage ratio remain comfortably above our regulatory requirements. We implemented firm-wide programs to enhance operational excellence and efficiency, taking gross cost savings measured against the first half of 2011 to CHF 2.2 billion.

Our success enables us to continue delivering on our stated objective of progressive capital returns to shareholders with a recommendation for a 67% increase in dividend to CHF 0.25 per share for 2013. We are confident that we will achieve our target of a fully applied Basel III CET1 ratio of 13% in 2014. After reaching this, we aim for a total payout ratio of at least 50% of our profits.

Our wealth management businesses generated CHF 3.3 billion in adjusted[1] profit before tax in 2013, 25% higher than in the prior year. As the largest and fastest growing large-scale wealth manager in the world[2], we are well positioned to gain from improving macroeconomic conditions, a gradual recovery in interest rates and any consequent improvement in client risk appetite. We were awarded "Best Global Wealth Manager" by Euromoney for the second consecutive year and Private Banker International named us "Outstanding Global Private Bank 2013." In **Wealth Management,** growth and profitability were led by Asia Pacific, where, in particular, the partnership between Wealth Management and the Investment Bank is a key competitive advantage for us, delivering holistic solutions and attracting new clients. Europe also recorded positive net new money despite cross-border outflows. **Wealth Management Americas** concluded a record year with the achievement of our ambition of USD 1 billion in adjusted[1] profit before tax for the year. With financial advisors who generate on average USD 1 million in annual revenue, our Wealth Management Americas team has built a business with USD 1 trillion in invested assets. Our **Retail & Corporate** business in Switzerland delivered stable adjusted[1] profit before tax despite ongoing pressure on net interest margins. The business maintained its mar-

1 Please refer to "Group performance" in the "Financial and operating performance" section for more information on adjusted results. 2 Scorpio Partnership Global Private Banking Benchmark 2013, based on 2012 data for banks with assets under management of over USD 500 billion.

Axel A. Weber Chairman of the Board of Directors **Sergio P. Ermotti** Group Chief Executive Officer

ket-leading position as average client deposits grew faster than the Swiss economy. Retail & Corporate remains an important source of new business for Wealth Management, Global Asset Management and the Investment Bank. The strong performance of our Retail & Corporate business in our home market was a key factor in Euromoney naming UBS "Best Bank in Switzerland" for the second consecutive year. **Global Asset Management** delivered an 8% increase in adjusted[1] profit before tax and an adjusted[1] return on attributed equity of 33%, despite negative net new money. We transformed our **Investment Bank,** enabling it to deliver an excellent performance while operating efficiently with reduced RWA and funded assets. In 2013, the business significantly outperformed its target of an adjusted[1] pre-tax return on attributed equity of greater than 15%. We maintained strong positions globally in the key areas where we have decided to compete and serve our clients with best-in-class capabilities. In addition to being recognized as number one in cash equity globally in a leading private survey, our Investment Bank was awarded numerous accolades including Derivatives Intelligence's "Structured Products House of the Year" and Euroweek's "ECM Bank of the Year." In **Corporate Center – Core Functions,** we reduced total operating expenses before cost allocations despite recording net restructuring charges that were considerably higher than in 2012 as we pushed ahead with measures to reduce costs for the longer term. In **Corporate Center – Non-core and Legacy Portfolio,** fully applied RWA decreased by CHF 39 billion to CHF 64 billion, significantly better than our year-end 2013 target of CHF 85 billion.

Our clients increasingly want to use their wealth to drive positive change in society. For a long time, we have been helping them to invest according to sustainable and responsible criteria. Building on this capability, in 2013 we made a significant commitment to maximize these efforts through a dedicated, industry-leading platform. This will deliver comprehensive research, advisory and product capabilities in the areas of sustainable investments and philanthropy. We also initiated and co-launched the Thun Group of Banks' discussion paper on banking and human rights based on the United Nations' Guiding Principles on Business and Human Rights in the financial industry. In addition, UBS was named in the Dow Jones Sustainability Indices, which track leading sustainability-driven companies worldwide. As a firm, we remained focused on educational and entrepreneurship projects globally, including through our employee and community affairs programs. Our clients and employees mobilized to contribute to the Typhoon Haiyan relief efforts in the Philippines. We also maintained our support of the arts through culturally enriching programs for our clients, employees and the public. Highlights included becoming the global partner of Art Basel and the inaugural exhibition in New York of the Guggenheim UBS MAP project, which showcases art from emerging markets. In Switzerland's capital, UBS spon-

1 Please refer to "Group performance" in the "Financial and operating performance" section for more information on adjusted results.

sored the Bernisches Historisches Museum's most-visited exhibition ever, featuring the well-known terracotta army of Qin, the first Chinese emperor.

The firm's success ultimately rests on the achievements of all our employees and the trust placed in us by our clients and shareholders. We would like to thank them for their continued support. We will continue to execute our strategy in a disciplined manner in order to ensure the firm's long-term success and deliver sustainable returns to our shareholders.

14 March 2014

Yours sincerely,

UBS

Axel A. Weber
Chairman of the
Board of Directors

Sergio P. Ermotti
Group Chief Executive Officer

UBS key figures

	As of or for the year ended		
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11
Group results			
Operating income	**27,732**	25,423	27,788
Operating expenses	**24,461**	27,216	22,482
Operating profit / (loss) before tax	**3,272**	(1,794)	5,307
Net profit / (loss) attributable to UBS shareholders	**3,172**	(2,480)	4,138
Diluted earnings per share (CHF)[1]	**0.83**	(0.66)	1.08
Key performance indicators[2], balance sheet and capital management, and additional information			
Performance			
Return on equity (RoE) (%)	**6.7**	(5.1)	9.1
Return on tangible equity (%)[3]	**8.0**	1.6	11.9
Return on risk-weighted assets, gross (%)[4]	**11.4**	12.0	13.7
Return on assets, gross (%)	**2.5**	1.9	2.1
Growth			
Net profit growth (%)[5]			(44.5)
Net new money growth (%)[6]	**1.4**	1.6	1.9
Efficiency			
Cost / income ratio (%)	**88.0**	106.6	80.7
Capital strength			
Common equity tier 1 capital ratio (%, phase-in)[7]	**18.5**	15.3	
Common equity tier 1 capital ratio (%, fully applied)[7]	**12.8**	9.8	
Swiss SRB leverage ratio (%, phase-in)[8]	**4.7**	3.6	
Balance sheet and capital management			
Total assets	**1,009,860**	1,259,797	1,416,962
Equity attributable to UBS shareholders	**48,002**	45,949	48,530
Total book value per share (CHF)[9]	**12.74**	12.26	12.95
Tangible book value per share (CHF)[9]	**11.07**	10.54	10.36
Common equity tier 1 capital (phase-in)[7]	**42,179**	40,032	
Common equity tier 1 capital (fully applied)[7]	**28,908**	25,182	
Risk-weighted assets (phase-in)[7]	**228,557**	261,800	
Risk-weighted assets (fully applied)[7]	**225,153**	258,113	
Total capital ratio (%, phase-in)[7]	**22.2**	18.9	
Total capital ratio (%, fully applied)[7]	**15.4**	11.4	
Additional information			
Invested assets (CHF billion)[10]	**2,390**	2,230	2,088
Personnel (full-time equivalents)	**60,205**	62,628	64,820
Market capitalization[9]	**65,007**	54,729	42,843

1 Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of this report for more information. 2 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 3 Net profit / loss attributable to UBS shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS shareholders less average goodwill and intangible assets. 4 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011. 5 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 6 Group net new money includes net new money for Retail & Corporate and excludes interest and dividend income. 7 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 8 Refer to the "Capital management" section of this report for more information. 9 Refer to "UBS shares" in the "Capital management" section of this report for more information. 10 Group invested assets includes invested assets for Retail & Corporate.

Corporate information

The legal and commercial name of the company is UBS AG. The company was formed on 29 June 1998, when Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872) merged to form UBS AG.

UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

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UBS AG shares are currently listed on the SIX Swiss Exchange and the New York Stock Exchange.

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Corporate calendar

Publication of the first quarter 2014 report
Tuesday, 6 May 2014

Annual General Meeting of Shareholders
Wednesday, 7 May 2014

Publication of the second quarter 2014 report
Tuesday, 29 July 2014

Publication of the third quarter 2014 report
Tuesday, 28 October 2014

Imprint

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UBS and its businesses

We draw on our over 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. Our business strategy is centered on our pre-eminent global wealth management businesses and our leading universal bank in Switzerland, complemented by our Global Asset Management business and our Investment Bank, with a focus on capital efficiency and businesses that offer a superior structural growth and profitability outlook. Headquartered in Zurich and Basel, Switzerland, we have offices in more than 50 countries, including all major financial centers, and approximately 60,000 employees. UBS AG is the parent company of the UBS Group (Group). Under Swiss company law, UBS AG is organized as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors. The operational structure of the Group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Retail & Corporate, Global Asset Management and the Investment Bank.

Wealth Management provides comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services.

Wealth Management Americas provides advice-based solutions and banking services through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US business, the domestic Canadian business and international business booked in the US.

Retail & Corporate maintains a leading position across retail, corporate and institutional client segments in Switzerland and constitutes a central building block of UBS Switzerland's pre-eminent universal bank model. It provides comprehensive financial products and services embedded in a true multi-channel experience, offering clients convenient access. It continues to enhance the range of life-cycle products and services offered to clients, while pursuing additional growth in advisory and execution services.

Global Asset Management is a large-scale asset manager with diversified businesses across investment capabilities, regions and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services including fund set-up, accounting and reporting for both traditional investment funds and alternative funds.

The *Investment Bank* provides corporate, institutional and wealth management clients with expert advice, innovative financial solutions, outstanding execution and comprehensive access to the world's capital markets. It offers financial advisory and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through its two business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

The *Corporate Center* comprises Corporate Center – Core Functions and Corporate Center – Non-core and Legacy Portfolio. Corporate Center – Core Functions provides Group-wide control functions including finance, risk control (including compliance) and legal. In addition, it provides all logistics and support functions, including operations, information technology, human resources, corporate development, regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical security, information security, offshoring and treasury services such as funding, balance sheet and capital management. Corporate Center – Core Functions allocates most of its treasury income, operating expenses and personnel associated with the abovementioned activities to the businesses based on capital and service consumption levels. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions previously part of the Investment Bank.

Our Board of Directors

The Board of Directors (BoD), under the leadership of the Chairman, decides on the strategy of the UBS Group upon recommendation of the Group Chief Executive Officer (Group CEO), exercises ultimate supervision over senior management, and appoints Group Executive Board (GEB) members. The BoD also approves all financial statements for issue. Shareholders elect each member of the BoD, which in turn appoints its Chairman, Vice Chairmen, Senior Independent Director, members of BoD committees, their respective Chairpersons and the Company Secretary. In 2013, our BoD met the standards of the Organization Regulations for the percentage of directors that are considered independent.

1	2	3	4
5	6	7	8
9	10	11	12

1 **Axel A. Weber** Chairman of the Board of Directors/Chairperson of the Corporate Responsibility Committee/Chairperson of the Governance and Nominating Committee 2 **William G. Parrett** Chairperson of the Audit Committee/member of the Corporate Responsibility Committee 3 **Reto Francioni** Member of the Corporate Responsibility Committee 4 **Isabelle Romy** Member of the Audit Committee/member of the Governance and Nominating Committee 5 **Ann F. Godbehere** Chairperson of the Human Resources and Compensation Committee/member of the Audit Committee 6 **Beatrice Weder di Mauro** Member of the Audit Committee/member of the Risk Committee 7 **Rainer-Marc Frey** Member of the Human Resources and Compensation Committee/member of the Risk Committee 8 **Joseph Yam** Member of the Corporate Responsibility Committee/member of the Risk Committee 9 **Axel P. Lehmann** Member of the Risk Committee 10 **Helmut Panke** Member of the Human Resources and Compensation Committee/member of the Risk Committee 11 **David Sidwell** Senior Independent Director/Chairperson of the Risk Committee/member of the Governance and Nominating Committee 12 **Michel Demaré** Independent Vice Chairman/member of the Audit Committee/member of the Governance and Nominating Committee/member of the Human Resources and Compensation Committee

Our Group Executive Board

The management of the business is delegated by the Board of Directors to the Group Executive Board. Under the leadership of the Group Chief Executive Officer, the Group Executive Board has executive management responsibility for the UBS Group and its businesses. It assumes overall responsibility for the development of the Group and business division strategies and the implementation of approved strategies.

1	2	3	4
5	6	7	8
9	10		

➔ **To read the full biographies of our Board members, visit www.ubs.com/geb or refer to "Group Executive Board" in the "Corporate governance" section of this report**

1 **Sergio P. Ermotti** Group Chief Executive Officer 2 **Lukas Gähwiler** CEO UBS Switzerland and CEO Retail & Corporate 3 **Markus U. Diethelm** Group General Counsel 4 **Philip J. Lofts** Group Chief Risk Officer 5 **Tom Naratil** Group CFO and Group Chief Operating Officer 6 **Andrea Orcel** CEO Investment Bank 7 **Robert J. McCann** CEO Wealth Management Americas and CEO UBS Group Americas 8 **Chi-Won Yoon** CEO UBS Group Asia Pacific 9 **Jürg Zeltner** CEO UBS Wealth Management 10 **Ulrich Körner** CEO Global Asset Management and CEO UBS Group Europe, Middle East and Africa

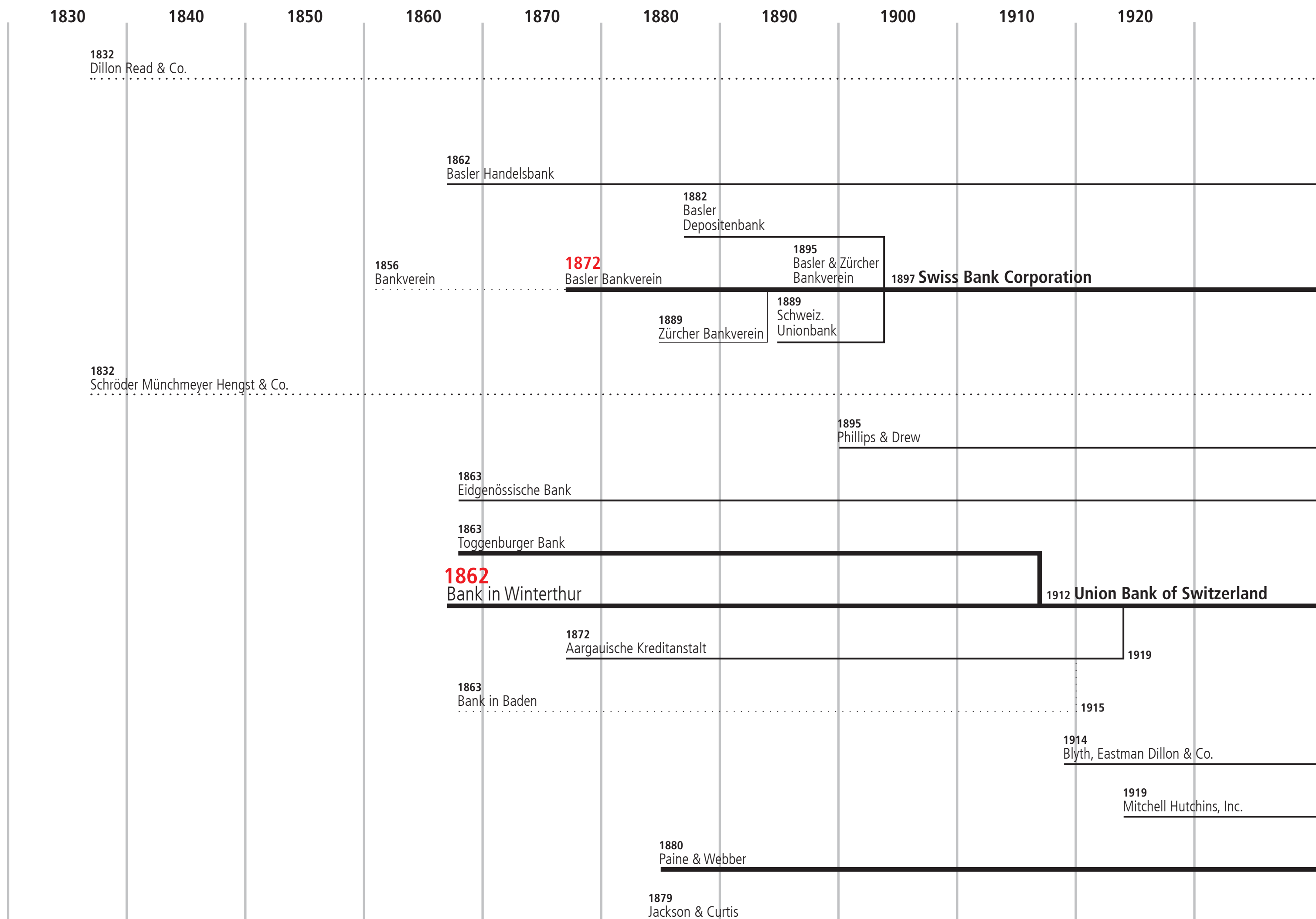
All titles presented are as of 1 January 2014.

The making of UBS

UBS has played a pivotal role in the development and growth of Switzerland's banking tradition since the firm's origins in the mid-19th century. In 2012, the year of our 150th anniversary, we accelerated our strategic transformation of the firm to create a business model that is better adapted to the new regulatory and market circumstances and that we believe will result in more consistent and high-quality returns. In 2013, we made substantial progress in transforming our firm, further reinforcing its foundations while focusing on our traditional strengths.

The origins of the banking industry in Switzerland can be traced back to medieval times. This long history may help explain the widespread impression, reinforced in popular fiction, that Switzerland has always possessed a strong financial sector. In reality, the size and international reach of the Swiss banking sector we know today is largely a product of the second half of the 20th century, strongly influenced by two banks: Union Bank of Switzerland and Swiss Bank Corporation (SBC), which merged to form UBS in 1998.

At the time of the merger, both banks were already well-established and successful in their own right. Union Bank of Switzerland celebrated its 100th anniversary in 1962, tracing its origins back to the Bank in Winterthur. SBC marked its centenary in 1972 with celebrations in honor of its founding forebear, the Basler Bankverein. The historical roots of PaineWebber, acquired by UBS in



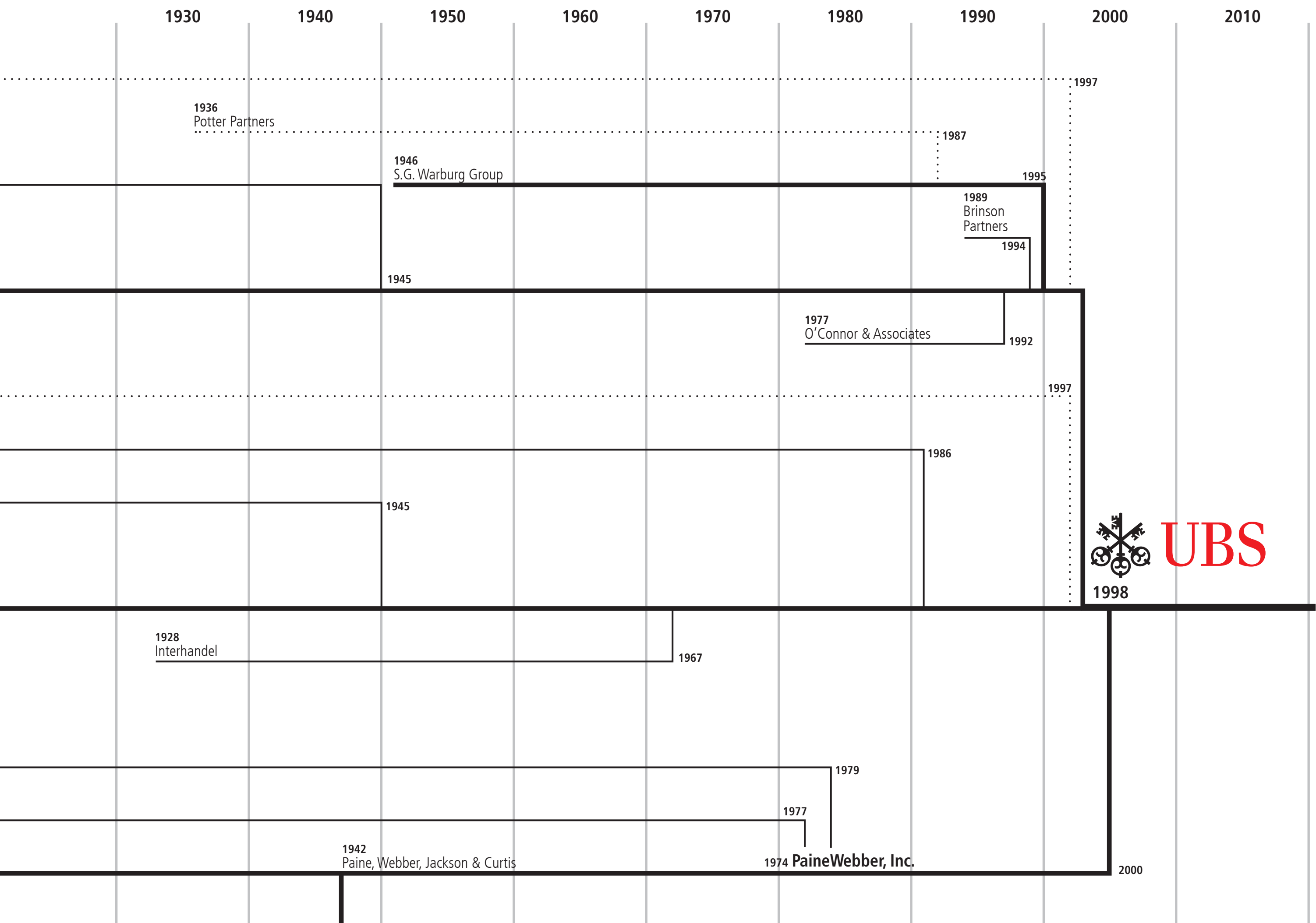
2000, go back to 1879, while S.G. Warburg, the central pillar upon which UBS's Investment Bank was built, commenced operations in 1946.

In the early 1990s, SBC and Union Bank of Switzerland were both commercial banks operating mainly out of Switzerland. The banks shared a similar vision: to become a world leader in wealth management, a successful global investment bank and a top-tier global asset manager, while remaining an important commercial and retail bank in their home market of Switzerland.

Union Bank of Switzerland, the largest and best-capitalized Swiss bank of its time, pursued these goals primarily through a strategy of organic growth. In contrast, SBC, then the third-largest Swiss bank, grew through a combination of partnership and acquisition. In 1989, SBC started a joint venture with O'Connor, a leading US derivatives firm noted for its dynamic and innovative culture, its meritocracy and its team-oriented approach. O'Connor brought state-of-the-art risk management and derivatives technology to SBC, and in 1992 SBC moved to fully acquire O'Connor. In 1994, SBC added to its capabilities when it acquired Brinson Partners, a leading US-based institutional asset management firm.

The next major milestone was in 1995, when SBC acquired S.G. Warburg, the British merchant bank. The deal helped SBC fill a strategic gap in its corporate finance, brokerage, and research capabilities and, most importantly, brought with it an institutional client franchise that remains crucial to our equities business to this day.

The 1998 merger of SBC and Union Bank of Switzerland into the firm we know today created a world-class wealth manager and the largest universal bank in Switzerland, complemented by a strong investment bank and a leading global institutional asset manager. In 2000, UBS grew further with the acquisition of PaineWebber, establishing the firm as a significant player in the US. UBS has established a strong footprint in the Asia Pacific



region and emerging markets based on a presence in many of these countries going back decades.

In 2007, the effects of the global financial crisis started to be felt across the financial industry. This crisis had its origins in the securitized financial product business linked to the US residential real estate market. Between the third quarter of 2007 and the fourth quarter of 2009, we incurred significant losses on these assets. We responded with decisive action designed to reduce risk exposures and stabilize our businesses, including raising capital on multiple occasions.

More recently, we continued to improve the firm's capital strength to meet new and enhanced industry-wide regulatory requirements. Our position as one of the world's best-capitalized banks, together with our stable funding and sound liquidity positions, provides us with a solid foundation for our success. In 2012, we announced a significant acceleration in the implementation of our strategy communicated a year earlier. In 2013, we continued to focus our activities on a set of highly synergistic, less capital- and balance sheet-intensive businesses dedicated to serving clients and well-positioned to maximize value for shareholders.

➔ Refer to www.ubs.com/history for more information on UBS's more than 150 years of history

Operating environment and strategy

Current market climate and industry drivers

While the overall global economic climate improved in 2013, the operating environment for the financial services industry remained difficult. Profitability was affected by continued regulatory pressure, the ongoing low interest rate environment and muted client activity levels.

Global economic and market climate

The global economic climate improved in 2013, although the pace of recovery diverged across regions. Of the major economies, recovery was most advanced in the US. Growth momentum in the euro area remained lackluster, despite the region's exit from recession in the second quarter of 2013. In Japan, significant monetary policy stimulus and the government's so-called "three-arrow" strategy boosted confidence in the country's economic prospects. The gradual improvement in advanced economies was, however, counterbalanced by a slowdown in emerging economies.

Central banks in advanced countries kept monetary policy conditions highly accommodative as their economies continued to struggle with headwinds from fiscal consolidation and fragile financial sectors. However, concerns about the timing and speed of the exit by the Federal Reserve System (Fed) from its highly accommodative monetary policy led to a sharp rise in US bond yields and heightened market volatility during the summer months. Against the backdrop of strong correlations between European and US bond yields, European long-term interest rates also moved higher. Increases in long-term rates prompted the European Central Bank (ECB) and the Bank of England to announce "forward guidance" as an additional means of maintaining accommodative policy stances. Improving fundamentals in the US and expectations of the Fed "tapering" its quantitative easing led to financial outflows and currency depreciation in various emerging economies. Market concerns were further exacerbated by worries about a potential slowdown in China. Global markets subsequently stabilized after the Fed postponed its "taper" decision in September. Even so, currencies and fixed income markets in emerging countries with weak fundamentals remained under pressure.

The US economic recovery, supported by the Fed's accommodative policy, became more broad-based, reflected by better data on the housing market, credit standards, labor markets and consumer confidence. Improved market sentiment resulted in a rebalancing of portfolios towards riskier assets. US equity market indices recorded substantial gains during the year, spreads between corporate bonds and government bonds narrowed, and corporate debt issuance reached record levels. Disruptions related to another fiscal policy impasse in the autumn were a cause of market volatility, but the bi-partisan budget agreed in December reduced fiscal uncertainty for 2014. Based on broadly improving fundamentals, in December the Fed announced a "tapering" of quantitative easing starting in January 2014.

Euro area financial stress continued to recede during 2013 against the backdrop of the ECB's Outright Monetary Transactions (OMT) program and the establishment of the European Stability Mechanism. Debt markets in vulnerable euro area countries continued their post-OMT improvements despite a temporary disruption during the summer. Ireland successfully exited the adjustment program of the Troika (made up of the European Commission (EC), the ECB and the International Monetary Fund) as of year-end and re-established full market access. Portugal appeared more vulnerable throughout the year, but its situation stabilized towards year-end. The economic environment in Greece, while still much more challenging than elsewhere, also showed tentative signs of improvement during the year.

Although the euro area exited recession in the second quarter of 2013, recovery remained lackluster. Unemployment levels in distressed countries remained close to record highs, albeit with lower unit labor costs leading to improvements in competitiveness. Fiscal targets became more flexible as the EC agreed to extend the deadlines for correcting excessive deficits in some countries. A subdued inflation outlook led the ECB to announce historically unprecedented "forward guidance" and to reduce key ECB interest rates to all-time lows. Housing market conditions varied significantly between countries, and prices continued to decline in some distressed economies. However, the ongoing low interest rate environment and rising disposable income provided a boost to property prices in Germany. The Swiss economy continued to outperform most European peers, but highly accommodative monetary policy caused concerns about the country's ongoing property boom.

Growth in emerging economies disappointed throughout the year as credit-led expansions slowed and capital inflows receded or reversed. China recorded its slowest pace of growth since the turn of the millennium as authorities attempted to rein in rapid credit growth and rebalance the country's economic growth model. A spike in interbank lending rates in June led to fears of a sharper slowdown in growth, although intervention from the People's Bank of China ensured major financial distress was avoided. Among the other major emerging market economies, Brazil, India, Indonesia, South Africa and Turkey were all beset by currency weakness following capital outflows stemming from expectations of tighter Fed policy. The associated higher funding costs

and uncertainty impeded growth in more vulnerable emerging economies.

Economic and market outlook for 2014

Our economists currently expect global economic growth to accelerate to 3.4% in 2014 from 2.5% in 2013. The pick-up in growth during 2014 is expected to be driven by acceleration in advanced economies, supported by still-accommodative monetary policy and reduced fiscal drag. The US economy is expected to grow more strongly at about 3%, while the euro area should recover at a moderate pace, with growth forecasted at 1.1%. The Swiss economy will benefit from the recovery in the euro area and is expected to grow at about 2.1%.

For emerging economies, improved global growth should support external demand, but domestic demand is expected to be restrained by the lack of fresh reforms, credit overhangs and ongoing structural rebalancing. Emerging economies with weaker fundamentals, including a heavy reliance on short-term foreign capital inflows, remain vulnerable to changing Fed policy and rising global interest rates.

Potential sources of economic or market risks include a normalization of the Fed's monetary policy, geopolitical risks in the Ukraine, the Middle East and Far East, and a deceleration of growth in China. While sovereign financial pressures in the eurozone have receded, a slowing of reform momentum, political opposition to euro area integration and uncertainty over the ECB's comprehensive bank assessment remain further potential sources of risk.

Industry drivers

Despite strong stock market performance throughout the year, the operating environment for the financial services industry remained difficult, reflecting a combination of regulatory framework adjustments requiring further structural changes, and a challenging market environment putting pressure on revenues.

Regulatory developments remain a key driver of structural change in the industry

Regulators and legislators continued to exert pressure on the financial services industry to become simpler, more transparent and more resilient. In this context, regulators and legislators in Europe further advanced far-reaching reform proposals – for example, agreements were reached on the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive – while in the US the Commodity Futures Trading Commission approved cross-border guidance, defining the extraterritorial application of its swaps regulations, and the five US financial regulators approved the Volcker Rule.

The year was also characterized by regulatory authorities' focus on reforming banks' structures. In Germany, France, the UK and the US, progress was made on legislation requiring, under certain conditions, a structural separation or prohibition of certain trading or wholesale activities from certain deposit-taking operations. While it is unclear how these individual measures in the European Union (EU) would ultimately interact with the recent EC proposed regulation on "Structural measures improving the resilience of EU credit institutions," these national regulatory initiatives highlight the lack of international coordination with regard to structural developments in the banking sector.

Last but not least, reflecting their concerns about the adequacy of banks' risk-based exposures, regulatory authorities weighed the introduction of more stringent leverage ratio requirements as a credible supplementary measure to risk-based capital requirements.

As a consequence of the evolving regulatory environment, some facets of which have been outlined above, financial institutions are expected to (i) rethink their strategies and focus even more on their core business and markets, in which they are able to leverage their competitive advantages on a sustainable basis, on both a local and to a certain extent a global level, (ii) focus even more on fee-generating businesses that require less capital and funding and (iii) reduce their "buy-and-hold" activities, leading to a further increase in assets held outside the banking system, in turn giving rise to a call to further strengthen regulatory oversight of these sectors.

Bank capital and balance sheets stay in the spotlight

In the course of 2013, the financial services industry succeeded in further improving its capital position with a view to complying with capital requirements defined by regulators and policy makers. For example, the EU-wide Transparency Exercise led by the European Banking Authority showed a continued improvement of the capital position within the EU banking sector in 2013. Similar trends were also observable in Switzerland for the largest banks, as well as in the US. Despite such positive developments, banks' capitalization levels remained a key concern for the public as well as regulators, as evidenced by the intense debate about leverage ratios as a supplementary measure to risk-based capital requirements.

As a step to further increase trust in the European banking sector, the ECB initiated a comprehensive review of European banks' balance sheets and risk profiles. The assessment will consist of three elements: (i) a supervisory risk assessment which reviews on a quantitative and qualitative basis key risks, including liquidity, leverage and funding, (ii) an asset quality review to enhance transparency of banks' exposures by reviewing their asset quality, including the adequacy of asset and collateral valuation and related provisions and (iii) a stress test to examine the resilience of banks' balance sheets to stress scenarios. In such a review, banks will be judged against a capital threshold of 8% based on Capital Requirements Directive IV definitions as of 1 January 2014. If results are unsatisfactory, corrective measures, such as recapitalization, deleveraging or improving funding resilience, may be taken.

Increased focus on costs to compensate for subdued revenues

2013 remained a challenging year for the financial services industry to grow its income levels. Aside from growth constraints due to stricter regulatory requirements – especially related to capital and liquidity standards – the macroeconomic environment, characterized by the ongoing low interest rate environment and a flat yield curve as well as muted client activity levels in the face of continued macroeconomic uncertainty (in particular around monetary stimulus reduction in the US), put pressure on net interest margins and revenues.

As a result of this subdued revenue environment, banks intensified their efforts to increase operational efficiency, either by enhancing targets of existing cost reduction programs or by launching new initiatives in order to realign cost structures with subdued revenue levels.

Technological innovation opening new opportunities

While new technologies have already significantly affected various sectors, pressure on the financial services industry to adapt to a new digital reality continued to increase, reflecting inter alia evolving client expectations, the need for increased efficiencies, accelerating technological innovation and the emergence of new competitors.

Changing client expectations (in particular related to personalization, convenience and transparency), based on levels of service and flexibility experienced in other sectors, presented a significant challenge to the traditional business model of the financial services industry. Although investments will be required to fully address these expectations, technology is also expected to be a key enabler in offering new, innovative banking services, satisfying new customer expectations on one hand and supporting branches and client advisors on the other. Digital capabilities are therefore expected not only to deepen individual customer relationships, but also to facilitate a reduction of operating expenses and complexity through automating systems and processes.

Regulatory and legal developments

In 2013 and early 2014, several important international regulatory and legal initiatives advanced, with key developments including political agreement in the European Union on the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive, as well as the publication of final regulations implementing the Volcker Rule and enhanced prudential standards for banking organizations in the US.

Developments in Switzerland

During the fourth quarter of 2013 and January of 2014, UBS and the Swiss Financial Market Supervisory Authority (FINMA) reviewed the temporary operational risk-related risk-weighted assets (RWA) add-on that became effective on 1 October 2013. Following a review of the advanced measurement approach (AMA) model, the litigation exposures and contingent liabilities of UBS, provisioning movements and methodologies, and progress on managing other operational risks, UBS and FINMA mutually agreed that, effective on 31 December 2013, a supplemental analysis will be used to calculate the incremental operational risk capital required to be held for litigation, regulatory and similar matters and other contingent liabilities. The incremental RWA calculated based upon this supplemental analysis has replaced the temporary operational RWA add-on discussed in our report for the third quarter of 2013, and is reflected in the 31 December 2013 RWA and capital ratio information in this report. The incremental RWA calculated based upon this supplemental analysis as of 31 December 2013 was CHF 22.5 billion.

On 20 December 2013, FINMA issued a decree primarily concerning the regulatory capital requirements of UBS AG (Parent Bank) on a standalone basis. The decree makes changes effective 1 January 2014 to parent bank capital requirements designed to ensure that the capital underpinning of the parent's investments in subsidiaries does not cause a de facto increase in the total capital requirements of UBS Group. The decree also requires certain additional disclosures concerning parent bank capital standards that will be included in our report for the first quarter of 2014.

On 22 January 2014, following a proposal by the Swiss National Bank (SNB), the Swiss Federal Council decided to increase the countercyclical capital buffer in the form of common equity tier 1 (CET1) capital from 1% to 2% of risk-weighted positions secured by residential property located in Switzerland. Banks are obliged to comply as of 30 June 2014. Other loans, in particular those provided to corporates, are not affected by this measure. The effect of the increase of the countercyclical buffer on our capital requirements is not material.

In a referendum in March 2013, the Swiss cantons and voters accepted an initiative to give shareholders of Swiss listed companies more influence over board and management compensation (Minder Initiative). In November 2013, the Swiss Federal Council issued the final transitional ordinance implementing the constitutional amendments of this initiative, which came into force on 1 January 2014. The ordinance requires public companies to specify in their articles of association (AoA) the mechanism of a "say-on-pay" vote, setting out three requirements: (i) the vote on compensation must be held annually, (ii) the vote on compensation must be binding rather than advisory and (iii) the vote on compensation must be held separately for the board of directors and members of the executive board. In addition, shareholders will need to determine the details of the "say-on-pay" vote in the AoA, in particular the nature of the vote, timing aspects and the consequences of a "no" vote. Each company affected by the Minder Initiative must undertake a first binding vote on management compensation and remuneration of the board of directors at its 2015 annual general meeting (AGM), in accordance with the "say-on-pay" regime provided for in the AoA. In addition, the first compensation report pursuant to the ordinance must be prepared for financial year 2014 and made available to shareholders at the 2015 AGM. UBS is currently in the process of implementing these requirements.

The Federal Department of Finance took further steps towards establishing a new Financial Services Act (FIDLEG). FIDLEG's main objectives include improving client protection, establishing a level playing field and eliminating competitive distortions between service providers. In this context, FIDLEG is expected to address a number of regulations such as information obligations, requirements regarding conduct and organization of financial service providers and the expansion of supervision, for example, to independent asset managers. In addition, FIDLEG also seeks to harmonize Swiss financial market law with the applicable international standards, such as the Markets in Financial Instruments Directive (MiFID) II, in order to facilitate European Union (EU) market access for Swiss financial institutions. The proposed financial services regulation will affect almost all financial market participants, including UBS. However, given the early stages of the discussion, a definite assessment is currently not possible.

The Financial Market Infrastructure Act, which was published for consultation in December 2013 by the Swiss Federal Government, governs the organization and operation of financial market infrastructure, including implementation of over-the-counter derivatives regulation in Switzerland and additional regulation of multilateral trading facilities and other non-regulated exchange trading venues. Another important development was the implementation of the Foreign Account Tax Compliance Act (FATCA) in Switzerland. FATCA was introduced by the US government in

2010 in order to increase the transparency of investments by US taxpayers outside the US, and requires financial institutions worldwide to report US tax persons' account information to the US Internal Revenue Service (IRS). Switzerland and the US signed an intergovernmental agreement in February 2013 concerning the implementation of FATCA in Switzerland. This agreement and the implementation of the corresponding FATCA law were subsequently approved by the two chambers of the Swiss Parliament in June and September 2013, respectively. Both the FATCA agreement and the implementing act are scheduled to come into force in the first half of 2014. As the FATCA legislation adopted in the US strongly affects UBS, we are closely monitoring any further refinements made by the IRS as well as developments relating to FATCA in the jurisdictions relevant to UBS and making the necessary preparations for possible implementation.

Further, in Switzerland, the political discussion continued on the structural reform of banks and leverage ratio requirements. In September 2013, the Swiss National Council approved two motions from the year 2011 asking for a mandatory structural reform of banks. After a hearing in January 2014, the Committee for Economic Affairs and Taxation of the Swiss Council of States recommended that these motions be rejected. On 12 March 2014, the Council of States rejected the two motions. Subsequently, they were automatically discarded. Also in September 2013, two new motions were put forward that not only require structural measures but also suggest increasing leverage ratio requirements in Switzerland to 6% and 10%, respectively. However, it is currently unclear if and when the two motions are to be submitted to the parliamentary committee in charge.

Swiss "too-big-to-fail" (TBTF) requirements require systemically important banks, including UBS, to put in place viable emergency plans to continue providing systemically important functions despite a failure, to the extent that such activities are not sufficiently separated in advance. The Swiss TBTF law provides for the possibility of a limited reduction of capital requirements for systemically important institutions that adopt measures to reduce resolvability risk beyond what is legally required. In view of these factors, UBS intends to establish a new banking subsidiary of UBS AG in Switzerland. The scope of this potential future subsidiary's business is still being determined, but we would currently expect it to include our Retail & Corporate business division and likely the Swiss-booked business within our Wealth Management business division. We expect to implement this change in a phased approach starting in mid-2015. This structural change is being discussed on an ongoing basis with FINMA, and remains subject to a number of uncertainties that may affect its feasibility, scope or timing.

Finally, the Swiss-UK tax agreement, which came into effect on 1 January 2013, included a clause stipulating that, should gross tax receipts under the agreement be lower than CHF 1.3 billion, Swiss banks would cover the difference up to a maximum of CHF 500 million. Based on monitoring by the Swiss Bankers Association, it is considered unlikely that CHF 1.3 billion in tax receipts will be received. As a result, we expect to be required to pay CHF 110 million, and have established a provision in that amount in 2013, which has been allocated predominantly to Wealth Management.

Developments in a number of key initiatives in the European Union

In the course of 2013 and early 2014, agreement was reached on a number of far-reaching regulatory reform initiatives in the EU. One of the most important developments was the agreement on the review of the Markets in Financial Instruments Directive and Regulation package (MiFID II/MiFIR). This package introduces a wide set of reforms, including in respect of third-country access to European Economic Area (EEA) markets, new rules regarding market infrastructure and a sharpened set of investor protection rules.

A further political compromise reached by the European Parliament and the Council of the EU related to the Bank Recovery and Resolution Directive (BRRD). This Directive seeks to achieve a harmonized approach to the recovery and resolution of banks in the EU and broadly covers measures relating to recovery and resolution planning, early intervention powers for authorities and resolution tools should a bank fail or be deemed likely to fail. Final approval of the BRRD is expected in the first quarter of 2014, with the majority of the Directive expected to become applicable from 1 January 2015. UBS's EU subsidiaries will be subject to the requirements of the Directive, while EU member states have the right to apply the provisions of the Directive to UBS's EU-based branches in certain circumstances. The overall impact is difficult to assess at this stage, as the EU resolution authorities have a material degree of discretion in setting some of the key requirements of the Directive.

In response to regulatory developments, the business and operating model of UBS Limited, our UK bank subsidiary, and its relationship with UBS AG, are currently being reviewed. Once this review has been finalized, we expect to commence implementation of a revised business and operating model, including changes to its risk profile, which will involve the subsidiary retaining credit risk, and some market risk which currently is transferred to UBS AG under the existing model.

Eleven member states of the EU committed to the implementation of the financial transaction tax via an "enhanced cooperation" procedure. In February 2013, the European Commission (EC) issued a proposal, which is currently being discussed in the EU Council of Ministers. While only the participating countries – namely France, Germany, Austria, Belgium, Greece, Portugal, Slovenia, Italy, Spain, Slovakia and Estonia – are entitled to vote on and would themselves adopt the tax, its extraterritorial scope would affect financial institutions and transactions in all 27 EU member states and beyond. Under the initial EC proposal, the tax would apply to a wide range of financial transactions and minimum rates of 0.1% (securities) and 0.01% (derivatives) would be applicable to both parties of a transaction. The final rates implemented in each of the participating countries could, however, differ. Based on the initial proposal, UBS would be affected by the

tax when transacting with, or on behalf of, clients from participating countries or when performing transactions in financial instruments issued in such countries. The proposal requires operational implementation on a global level and could negatively affect the profitability of certain products. However, ongoing negotiations may alter the territorial application, scope and collection mechanism of the tax and it remains unclear when a political agreement can be expected.

Progress was also made in 2013 towards establishing automatic information exchange in taxation as a new standard, both at European level and internationally. Most notably, global automatic information exchange was endorsed as a global standard by the G20 Summit in September 2013. At EU level, the EC proposed in June 2013 to extend the automatic information exchange within the EU to cover all forms of financial income and account balances. Under the proposal, dividends, capital gains, all other forms of financial income and account balances would be added to the list of categories which are subject to automatic information exchange within the EU from 1 January 2015. However, member states reached no agreement in 2013 on the final text of the second piece of EU legislation on automatic information exchange, the revised EU Savings Tax Directive. In parallel, negotiations started with third countries and the EC on the revision of the existing taxation agreements (including Switzerland).

With regard to the establishment of the Banking Union, agreement was reached on the Single Supervisory Mechanism (SSM), which sets out the supervisory arrangements for affected banks and the respective responsibilities of the European Central Bank (ECB) and competent national authorities. Under the SSM, banks deemed systemically important will from November 2014 be subject to direct ECB supervision in relation to capital and liquidity, while less significant banks will continue to be supervised by their current national supervisors. A further element of the Banking Union is the Single Resolution Mechanism (SRM), which will apply the substantive provisions of the BRRD to banks within the Banking Union. Both the European Parliament and the Council of the EU have agreed their negotiating positions and discussions between them are ongoing.

Separately, additional EU-wide remuneration rules became effective at the beginning of 2014 under the Capital Requirements Directive IV (CRD IV). The rules include provisions on the amount and form of variable remuneration that can be paid to employees identified as material risk takers, as defined by the European Banking Authority. A key element of the rules is the introduction of a maximum ratio of 1:1 for variable to fixed remuneration ("bonus cap"). The cap may be increased to 2:1 with shareholders' consent. These restrictions apply to material risk takers at all banks active in the EU, including UBS. However, as a non-EU headquartered firm, UBS need only apply these restrictions to material risk takers employed by EU subsidiaries or branches. We continue to closely assess EU developments and industry-wide best practices.

In January 2014, the EC issued a proposed regulation on "Structural measures improving the resilience of EU credit institutions," which is its response to the recommendations of its High-level Expert Group on reforming the structure of the EU banking sector ("Liikanen report"). The proposals include two main measures: (i) a ban on proprietary trading and investments in hedge funds and (ii) an additional potential separation of certain trading activities (including market-making, risky securitization and complex derivatives) which will not be mandatory, but rather based on supervisory discretion. The proposal will now enter the EU political process and will likely be subject to changes. Political agreement is not expected until 2015 at the earliest.

In the US, significant steps were taken in implementing the Dodd-Frank Act

Developments in US regulatory initiatives in 2013 related primarily to rulemaking stemming from the Dodd-Frank Act passed in July 2010.

In July 2013, the Commodity Futures Trading Commission (CFTC) approved final cross-border guidance that defines the extraterritorial application of its swaps regulations. This guidance may allow non-US swap dealers, such as UBS AG, "substituted compliance," under which they may comply with home country legal requirements that are determined by the CFTC to be "comprehensive and comparable" instead of the corresponding CFTC requirements. In December 2013, the CFTC issued comparability determinations for Switzerland (and the home countries of other non-US swap dealers) that will allow UBS to comply with relevant Swiss regulations instead of CFTC requirements for many, but not all, of the CFTC regulations for which substituted compliance is available. While the CFTC deferred a comparability determination on swap data reporting requirements, as it continues to review the issue, it granted reporting no-action relief that allows UBS AG (and other non-US swap dealers) to delay reporting transactions with non-US persons for several months. In January 2014, the CFTC delayed the applicability of US regulations to swaps between non-US persons and non-US swap dealers when US personnel are involved until 15 September 2014, giving additional time for foreign swap dealers to comply with US requirements regarding transactions with non-US persons conducted from the US.

Separately, in December 2013, three financial services industry associations filed a lawsuit challenging the CFTC's interpretive guidance and policy statement regarding compliance with certain swap regulations. Relief sought includes invalidating the cross-border guidance and preventing the CFTC from bringing an enforcement action for not complying with US rules extraterritorially. If the guidance is struck down, portions of it that call for substituted compliance and limit the application of transaction regulation to non-US swap dealers would likely also be struck down and may create more uncertainty for non-US swap dealers such as UBS.

In May 2013, the US Securities and Exchange Commission (SEC) proposed rules for the extraterritorial application of its regulation of securities-based swap dealers in the US. The SEC pro-

posal contemplates application of regulations similar to the CFTC rules to non-US swap dealers, including swap transaction reporting requirements and information and inspection requirements that present potential conflicts with non-US law or necessitate privacy waivers from clients. Like the CFTC, the SEC envisions a substituted compliance regime that would allow foreign swap dealers to comply with comparable home country regulation rather than SEC rules under certain circumstances.

US regulators published final regulations implementing the Volcker Rule in December 2013 and generally extended the time to conform to this rule and regulations until July 2015. In general, the Volcker Rule prohibits any banking entity from engaging in proprietary trading and from owning an interest in hedge funds and other private fund vehicles. Our earlier strategy decision to exit our equity proprietary trading businesses, together with certain business lines, will assist us in complying with the regulatory requirements. In addition, the Volcker Rule permits UBS and other non-US banking entities to engage in certain activities that would otherwise be prohibited, to the extent that they are conducted outside the US and certain other conditions are met. We continue to evaluate the final rules and their impact on our activities. One impact will be the need to establish an extensive global compliance framework designed to ensure compliance with the Volcker Rule and the terms of the available exemptions. Moreover, the Volcker Rule could have an impact on the way in which we organize and conduct certain business lines.

In February 2014, the Federal Reserve Board issued final rules for foreign banking organizations (FBO) operating in the US (under section 165 of the Dodd-Frank Act) that include the following: (i) a requirement for FBO with more than USD 50 billion of US non-branch assets to establish an intermediate holding company (IHC) to hold all US subsidiary operations, (ii) risk-based capital and leverage requirements for the IHC, (iii) liquidity requirements, including a 30-day onshore liquidity requirement for the IHC, (iv) risk management requirements including the establishment of a risk committee and the appointment of a US chief risk officer, (v) stress test and capital planning requirements and (vi) a debt-to-equity limit for institutions that pose "a grave threat" to US financial stability. Requirements differ based on the overall size of the foreign banking organization and the amount of its US-based assets. We expect that we will be subject to the most stringent requirements based on our current operations. We will have until 1 July 2016 to establish an IHC and meet many of the new requirements. We must submit an implementation plan by 1 January 2015 and the IHC will not need to comply with the US leverage ratio until 1 January 2018.

Basel Committee on Banking Supervision provided further Basel III guidance

Following the start of Basel III implementation on 1 January 2013, according to the Basel Committee on Banking Supervision's (BCBS) timeline, a number of regulatory discussions over the last year focused on further enhancing and simplifying the capital framework, for example by potentially increasing the role of standardized approaches or of leverage ratios, as well as on achieving better comparability of risk-weighted assets (RWA).

In July 2013, the BCBS issued a discussion paper on "The regulatory framework: balancing risk sensitivity, simplicity and comparability," which proposed a number of reforms to the Basel framework with the objective of evaluating whether the balance between risk sensitivity, simplicity and comparability was still appropriate. The proposals, part of a longer-term discussion, covered a wide range of possibilities, including a stronger role for the standardized approach in calculating RWA, tightening the leverage ratio, and utilizing added floors and benchmarks for model-based calculations.

With regard to the leverage ratio specifically, the BCBS issued a consultation on "Revised Basel III leverage ratio framework and disclosure requirements" in June 2013, followed by final rules in January 2014. The changes to the Basel III leverage ratio framework relate mostly to the leverage ratio's exposure measure and include the following: (i) specifications of the scope of consolidation for the inclusion of exposures, (ii) changes to the general treatment of derivatives and related collateral, (iii) specifications of the treatment of written credit derivatives and (iv) specifications of the treatment of securities financing transactions. The tier 1 capital requirement under the revised Basel III leverage ratio remains at 3% of the exposure measure. However, the BCBS will continue to monitor banks' leverage ratio data on a semi-annual basis in order to assess whether the design and calibration of a minimum tier 1 leverage ratio of 3% is appropriate over a full credit cycle and for different types of business models. The final calibration, and any final adjustments to the definition, will be completed by 2017. Based on an initial review of the proposals, we expect a slight increase in our leverage ratio denominator. The ratio is expected to be incorporated within Pillar 1 minimum capital requirements on 1 January 2018. According to the BCBS's timetable, the disclosure requirements are effective 1 January 2015 subject to implementation by national regulators.

Discussions about the leverage ratio also took place in Switzerland, with a review report on the Swiss TBTF law expected to be published by the Federal Council in early 2015.

In addition, there were further developments regarding liquidity requirements under Basel III. Following the publication on 12 January 2014 by the BCBS of additional guidance on the Liquidity Coverage Ratio (LCR), on 17 January 2014, the Swiss Federal Department of Finance opened a consultation on the revision of the Liquidity Ordinance and at the same time FINMA issued the revised Circular "Liquidity Banks" in Switzerland for comment. Both consultations end on 28 March 2014. Based on an initial review of the proposals, we do not expect a material impact on our pro-forma LCR.

Also on 12 January 2014, the BCBS issued a consultative paper on the proposed revision of the Basel III framework's Net Stable Funding Ratio (NSFR). The consultation period ends on 11 April 2014. The main changes proposed are increased deposit stability, a reduction of cliff effects within the measurement of funding stability and larger stable funding requirements for certain trading assets. Based on an initial review of the proposals, we expect a positive net effect on our pro-forma NSFR. Final NSFR rules are expected to be released by 2016, after which they will undergo a period of consultation and review by Swiss authorities, potentially leading to further changes before implementation.

Our strategy

We are committed to providing our clients with superior financial advice and solutions while generating attractive and sustainable returns for shareholders. Our strategy centers on our Wealth Management and Wealth Management Americas businesses and our leading universal bank in Switzerland, complemented by our Global Asset Management business and our Investment Bank. These businesses share three key characteristics: they benefit from a strong competitive position in their targeted markets, are capital-efficient, and offer a superior structural growth and profitability outlook. Our strategy therefore builds on the strengths of all of our businesses and focuses our efforts on areas in which we excel, while seeking to capitalize on the compelling growth prospects in the businesses and regions in which we operate. Capital strength is the foundation of our success.

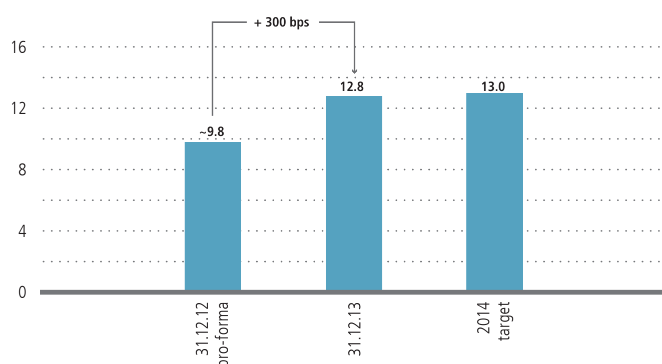
Successfully executing our strategic transformation

In October 2012, we announced a significant acceleration in the implementation of our strategy communicated a year earlier. This announcement underlined our commitment to focus our activities on a set of highly synergistic, less capital- and balance sheet-intensive businesses dedicated to serving clients and well-positioned to maximize value for shareholders. Since then, demonstrating the strength of our business model, we have made substantial progress in improving our already strong capital position and reducing risk-weighted assets (RWA) and costs, while simultaneously growing our business and enhancing our competitive positioning. We have also successfully transformed our Investment Bank, focusing it on its traditional strengths in advisory, research, equities, foreign exchange and precious metals.

Our fully applied common equity tier 1 (CET1) capital ratio increased 300 basis points in 2013 to 12.8%, the highest in our peer group. This increase was driven by a reduction of fully applied RWA to CHF 225 billion, ahead of our 2013 target of CHF 250 billion and CHF 33 billion below year-end 2012 RWA. We achieved this by further active reduction of RWA, mainly through the disposal of positions or other risk reductions in our Non-core and Legacy Portfolio, and despite incremental RWA of CHF 22.5 billion resulting from the supplemental operational risk capital analysis mutually agreed with FINMA and effective 31 December 2013. Future developments in, and the ultimate elimination of, the incremental RWA attributable to the supplemental analysis will depend on provisions charged to earnings for litigation, regulatory and similar matters and other contingent liabilities and on developments in these matters. Our ability to absorb this event while simultaneously increasing our capital ratios and reducing RWA is a testament to our early decision to maintain and build on our strong capital position and to focus on sustainable, more capital-efficient business activities. We continue to target a fully applied CET1 ratio of 13% in 2014, and intend to build further Basel III-compliant capital.

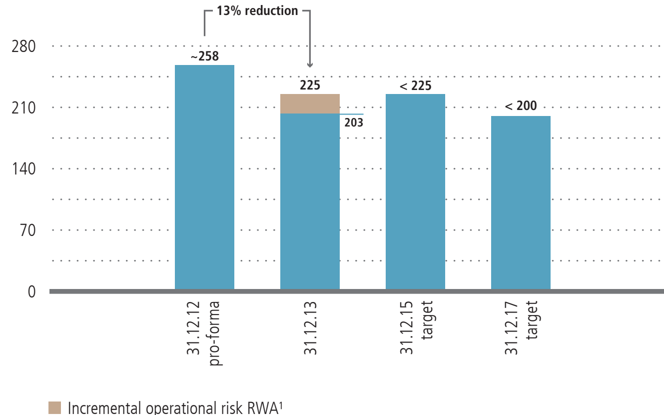
Basel III – Common equity tier 1 capital ratio

fully applied, %



Basel III – Risk-weighted assets

fully applied, CHF billion



1 Represents incremental RWA arising from the supplemental analysis mutually agreed with FINMA that will be used to calculate the incremental operational risk capital required to be held for litigation, regulatory and similar matters and other contingent liabilities, effective on 31 December 2013.

As part of the transformation of the Investment Bank, we transferred certain of its businesses to the Corporate Center in the first quarter of 2013. These were primarily fixed income businesses rendered less attractive by changes in regulation and market developments. As a result, our Investment Bank retains only very focused credit and rates activities, along with structured financing capabilities, in order to support its solutions-focused businesses. Our leading equities and foreign exchange businesses remain cornerstones of our Investment Bank. We did not significantly alter our advisory and capital markets businesses, but reorganized our existing business functions to better leverage our capabilities and therefore better serve our clients. Our Investment Bank has achieved its target of an adjusted pre-tax return on attributed equity of greater than 15% throughout 2013, demonstrating its success in a variety of market conditions. Non-core assets, previously part of the Investment Bank, are reported within our Non-core and Legacy Portfolio unit in the Corporate Center, which is tasked with managing and exiting these assets in a manner that protects shareholder value. RWA associated with these positions were reduced by close to 40% in 2013 to CHF 64 billion, significantly ahead of our target.

➔ **Refer to the "Capital management" section of this report for more information**

Maintaining cost discipline is critical to our long-term success. In 2013, we achieved our CHF 2 billion gross cost reduction plan announced in July 2011. We also made further progress in the implementation of the additional cost reduction program we announced in 2012, targeting incremental annual gross cost savings of CHF 3.4 billion, which we expect to yield tangible results through 2016. These targeted reductions include the benefits from the abovementioned transformation of our Investment Bank, reducing complexity and size, as well as improving organizational effectiveness, primarily in our Corporate Center, and introducing lean front-to-back processes across our Group. Our investment in these initiatives is reflected in restructuring charges of CHF 0.8 billion in 2013 and expectations of further incremental charges of CHF 0.9 billion and CHF 0.8 billion in 2014 and 2015, respectively. Our efficiency programs will free up resources to make investments over the next two years to support growth across our businesses and enable us to service our clients with greater agility and effectiveness, improving quality and speed.

2014 will be another key year of transition for the Group as we continue to work through our plans to further enhance our businesses, reduce our cost base and further improve collaboration across our various businesses. For 2014, we do not expect our unadjusted return on equity to deviate significantly from 2013, primarily due to anticipated charges associated with litigation, regulatory and other matters, restructuring charges, and the impact of Non-core and Legacy Portfolio exits and capital requirements. While we continue to target an adjusted Group return on equity of greater than 15% in 2015, given elevated operational risk RWA, we may not achieve that until 2016. We continue to target an adjusted Group cost/income ratio of 60% to 70% from 2015 onwards.

Delivering attractive shareholder returns

We have a clear strategy and a solid financial foundation, which we believe prepares us well for the future. We are firmly committed to returning capital to our shareholders, and plan to continue our program of progressive returns to shareholders with a proposed 67% increase in dividend to CHF 0.25 per share for the financial year 2013. In this context, we reaffirm our commitment to a total payout ratio of at least 50%, consisting of a

baseline dividend and supplementary returns, after reaching our capital ratio targets of a fully applied CET1 ratio of 13% and a 10% post-stress CET1 ratio, based on our internal stress tests. We intend to set a baseline dividend at a sustainable level, taking into account normal economic fluctuations. The supplementary capital returns will be balanced with our need for investment and any buffer we choose to maintain for a more challenging economic environment or other stress scenarios. Through the further successful implementation of our strategy, we believe we can sustain and grow our business and maintain a prudent capital position.

Our annual performance targets

The table on the right provides our annual performance targets on a Group and business division level as well as for Non-core and Legacy Portfolio. These performance targets exclude, where applicable, items considered non-recurring and certain other items that management believes are not representative of the underlying performance of our businesses, such as own credit gains and losses, restructuring-related charges and gains and losses on sales of businesses and real estate. The performance targets assume constant foreign currency translation rates.

Annual performance targets

Group targets:

Target	Value
Basel III CET1 ratio fully applied	13.0% in 2014
Cost / income ratio	60–70% from 2015
Return on equity[1]	> 15% from 2015

Business division targets:

Division	Target	Value
Wealth Management	Net new money growth rate	3–5%
	Gross margin	95–105 bps
	Cost / income ratio	60–70%
Wealth Management Americas	Net new money growth rate	2–4%
	Gross margin	75–85 bps
	Cost / income ratio	80–90%
Retail & Corporate	Net new business volume growth	1–4%
	Net interest margin	140–180 bps
	Cost / income ratio	50–60%
Global Asset Management	Net new money growth rate	3–5%
	Gross margin	32–38 bps
	Cost / income ratio	60–70%
Investment Bank	Pre-tax RoAE[2]	> 15%
	Basel III RWA	< CHF 70 billion
	Cost / income ratio	65–85%

Non-core and Legacy Portfolio targets:

Target	Date	Value
Basel III RWA	31.12.15	~CHF 55 billion
	31.12.17	~CHF 25 billion

1 While we continue to target a Group return on equity of greater than 15% in 2015, given elevated operational risk RWA, we may not achieve that until 2016. 2 RoAE = return on attributed equity.

UBS Switzerland

UBS is the pre-eminent universal bank in Switzerland, the only country where we operate and maintain leading positions in all five of our business areas of retail, wealth management, corporate and institutional banking, asset management and investment banking. We are fully committed to our home market as our leading position in Switzerland is crucial in terms of profit stability, sustaining our global brand and growing our global core business. Drawing on our network of around 300 branches and our 4,700 client-facing staff, complemented by modern digital banking services and customer service centers open to our clients around the clock seven days a week, we are able to reach approximately 80% of Swiss wealth and service one in three households, one in three high net worth individuals, over 40% of Swiss companies, one in three pension funds and 85% of banks domiciled in Switzerland. In July, Euromoney acknowledged our pre-eminent position in Switzerland with its prestigious "Best Bank in Switzerland" award for the second consecutive year.

Our unique universal bank model is central to our success. Our dedicated Swiss management team includes representatives from all five business areas and ensures we apply a consistent approach to the market when offering our full range of banking products, expertise and services. Our cross-divisional management approach allows us to utilize our existing resources efficiently, promotes cross-divisional thinking and enables seamless collaboration across all business areas. As a result, we are in a unique position to serve our clients efficiently with a comprehensive range of banking products and services to fit their needs. We are able to differentiate ourselves by leveraging our strengths across all segments while ensuring stability and continuity throughout each client's life cycle. Our universal bank model has proven itself to be highly effective in Switzerland and consistently provides a substantial part of the Group's revenues.

Our distribution is based on a clear multi-channel strategy as we strive to offer a unique client experience, giving clients the full flexibility to choose by which channel to interact with us – be it through our branches, customer service centers or digital channels. Our continuous expansion of our electronic and mobile banking proposition is very well-regarded by our clients and translates into a steadily rising number of users and client interactions. With the launch of the new version of our mobile banking application, downloads have increased 77% year on year and client feedback has been excellent, with 88% of Apple App Store ratings awarding the maximum five stars. Premium functionality was recognized externally, among others with the international "Best Bank Mobile Application" award at the MobileWebAwards 2013 and the national Best Swiss Apps 2013 Bronze Award. Our e-banking service currently has around 1.3 million clients, a 7% increase in each of the past two years, and now includes a market-leading personal financial management tool. Around 50 million electronic and mobile banking touch points per year provide a distinctive brand experience, helping us to strengthen client loyalty and attract new clients. We will continue to build on our long tradition as a leader and innovator in digital services to capture market share and increase efficiency.

Given the strength of the economy and the stable political environment in Switzerland, the country remains an attractive financial market. This inherent stability and growth has been the basis for UBS Switzerland's success and its contribution to the Group's financial performance. Thanks to our universal bank model, broad client base and seamless multi-channel offering, we are well-positioned to capture future market growth and to strengthen our leading position in our home market.

Measurement of performance

Performance measures

Key performance indicators

Our key performance indicators (KPI) framework focuses on key drivers of total shareholder return, measured by the dividend yield and price appreciation of a UBS share. Our senior management reviews the KPI framework on a regular basis by considering prevailing strategy, business conditions and the environment in which we operate. The KPI are disclosed consistently in our quarterly and annual reporting to facilitate comparison of our performance over the reporting periods.

The Group and business divisions are managed based on this KPI framework, which emphasizes risk awareness, effective risk and capital management, sustainable profitability and client focus. Both Group and business division KPI are taken into account in determining variable compensation of executives and personnel.

➔ Refer to the "Compensation" section of this report for more information on performance criteria for compensation

In addition to the KPI, we disclose performance targets. These performance targets include certain of the KPI as well as additional balance sheet and capital management performance measures to track the achievement of our strategic plan.

➔ Refer to the "Our strategy" section of this report for more information on performance targets

The Group and business division KPI are explained in the "Group/business division key performance indicators" table.

We made the following key changes to our KPI framework in 2013 to align it to the new Basel III requirements which became effective at the beginning of the year:

- We replaced "BIS tier 1 ratio (%)" with "Swiss systemically relevant banks (SRB) Basel III common equity tier 1 capital ratio (%)."
- We replaced "FINMA leverage ratio (%)" with "Swiss SRB leverage ratio (%)" (formerly also referred to as "FINMA Basel III leverage ratio (%)").

We show our "Swiss SRB Basel III common equity tier 1 capital ratio (%)" on a phase-in and a fully applied basis. The information provided on a fully applied basis entirely reflects the effects of the new capital deductions and the phase-out of ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects during the transition period, which runs from 2014 to 2018 for the new capital deductions, and from 2013 to 2019 for the phase-out of ineligible capital instruments. "Swiss SRB leverage ratio (%)" considers Swiss SRB Basel III common equity tier 1 (CET1) capital and loss-absorbing capital, divided by total adjusted exposure, which is equal to IFRS assets, based on a capital adequacy scope of consolidation, adjusted for replacement value netting and other adjustments, including off-balance sheet items. Our KPI for "Swiss SRB leverage ratio (%)" is calculated on a phase-in basis.

➔ Refer to the "Capital management" section of this report for more information

In addition, we changed the definition of our Wealth Management Americas KPI "Recurring income as a percentage of total operating income (%)" to "Recurring income as a percentage of income (%)" to exclude credit loss (expense) or recovery. The change of the denominator to "income" from "total operating income" makes this KPI more consistent with the KPI "Gross margin on invested assets (bps)," "Return on assets, gross (%)," "Return on risk-weighted assets, gross (%)" and "Cost/income ratio (%)" which are already based on "income" as opposed to "operating income," thereby also excluding credit loss (expense) or recovery. The effect on our figures of this new basis of calculation was immaterial, but prior periods were restated to reflect the change in definition. In addition, we now also include both "Recurring income" and "Recurring income as a percentage of total income (%)" in our Wealth Management disclosure. However, for Wealth Management these metrics are considered "Additional information" and not KPI.

Client/invested assets reporting

We report two distinct metrics for client funds:

- The measure "client assets" encompasses all client assets managed by or deposited with us, including custody-only assets.
- The measure "invested assets" is more restrictive and includes only client assets managed by or deposited with us for investment purposes.

Of the two, invested assets is our more central measure and includes, for example, discretionary and advisory wealth management portfolios, managed institutional assets, managed fund assets and wealth management securities or brokerage accounts. It excludes all assets held for custody-only purposes, as we only administer the assets and do not offer advice on how these assets should be invested. Non-bankable assets (for example, art collections) and deposits from third-party banks for funding or trading purposes are excluded from both measures.

Net new money in a reported period is the amount of invested assets that are entrusted to us by new or existing clients less those withdrawn by existing clients or clients who terminated their relationship with us. Negative net new money means that there are more outflows than inflows. Interest and dividend income from invested assets is not counted as net new money inflow. However, in Wealth Management Americas we also show net new money

Group / business division key performance indicators

Key performance indicators	Definition	Group	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank
Net profit growth (%)	Change in net profit attributable to UBS shareholders from continuing operations between current and comparison periods / net profit attributable to UBS shareholders from continuing operations of comparison period	●					
Pre-tax profit growth (%)	Change in business division performance before tax between current and comparison periods / business division performance before tax of comparison period		●	●	●	●	●
Cost / income ratio (%)	Operating expenses / operating income before credit loss (expense) or recovery	●	●	●	●	●	●
Return on equity (RoE) (%)	Net profit attributable to UBS shareholders (annualized as applicable) / average equity attributable to UBS shareholders	●					
Return on attributed equity (RoAE) (%)	Business division performance before tax (annualized as applicable) / average attributed equity						●
Return on assets, gross (%)	Operating income before credit loss (expense) or recovery (annualized as applicable) / average total assets	●					●
Return on risk-weighted assets, gross (%)	Operating income before credit loss (expense) or recovery (annualized as applicable) / average risk-weighted assets	●					
Swiss SRB leverage ratio (%) (phase-in)	Swiss SRB Basel III common equity tier 1 capital and loss-absorbing capital / total adjusted exposure (leverage ratio denominator)	●					
Swiss SRB Basel III common equity tier 1 capital ratio (%)	Swiss SRB Basel III common equity tier 1 capital / Swiss SRB Basel III risk-weighted assets	●					
Net new money growth (%)	Net new money for the period (annualized as applicable) / invested assets at the beginning of the period	●	●	●		●	
Gross margin on invested assets (bps)	Operating income before credit loss (expense) or recovery (annualized as applicable) / average invested assets		●	●		●	
Net new business volume growth (%)	Net new business volume (i.e., total net inflows and outflows of client assets and loans) for the period (annualized as applicable) / business volume (i.e., total of client assets and loans) at the beginning of the period				●		
Net interest margin (%)	Net interest income (annualized as applicable) / average loans				●		
Recurring income as a % of income (%)	Total recurring fees and net interest income / income			●			
Impaired loans portfolio as a % of total loans portfolio, gross (%)	Impaired loans portfolio, gross / total loans portfolio, gross				●		
Average VaR (1-day, 95% confidence, 5 years of historical data)	Value-at-risk (VaR) expresses maximum potential loss measured to a 95% confidence level, over a one-day time horizon and based on five years of historical data						●

including interest and dividend income in line with historical reporting practice in the US market. Market and currency movements, as well as fees, commissions and interest on loans charged, are excluded from net new money, as are the effects of any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and custody-only assets as a result of a change in the service level delivered are generally treated as net new money flows. However, where such a change in service level directly results from a new, externally imposed regulation, the one-time net effect of the implementation is reported as an asset reclassification without net new money impact. The Investment Bank does not track invested assets or net new money. Accordingly, when a client is transferred from the Investment Bank to another business division, this produces net new money even though the client assets were already with UBS.

When products are managed in one business division and sold by another, they are counted in both the investment management unit and the distribution unit. This results in double-counting within our total invested assets, as both units provide an independent service to their client, add value and generate revenues. Most double-counting arises when mutual funds are managed by Global Asset Management and sold by Wealth Management and Wealth Management Americas. The business divisions involved count these funds as invested assets. This approach is in line with both finance industry practices and our open architecture strategy, and allows us to accurately reflect the performance of each individual business. Overall, CHF 156 billion of invested assets were double-counted as of 31 December 2013 (CHF 172 billion as of 31 December 2012).

➔ **Refer to "Note 35 Invested assets and net new money" in the "Financial information" section of this report for more information**

Seasonal characteristics

Our main businesses may show seasonal patterns. The Investment Bank's revenues have been affected in some years by the seasonal characteristics of general financial market activity and deal flows in investment banking. Other business divisions may also be impacted by seasonal components, such as lower client activity levels related to the summer and end-of-year holiday seasons, annual income tax payments, for example, which are concentrated in the second quarter in the US, and asset withdrawals that tend to occur in the fourth quarter.

Changes to key performance indicators in 2014

From the beginning of 2014, we will make the following changes to our KPI framework to further enhance its relevance by reclassifying certain KPI to "Additional information," or defining certain KPI to focus on our specific wealth management or retail businesses.

Changes to key performance indicators in 2014

Existing key performance indicators	Changes in 2014	Group	Wealth Management Americas	Retail & Corporate
Return on risk-weighted assets, gross (%)	This metric will no longer be a KPI, but will instead be reported as "Additional information," as it is considered to be less meaningful and relevant compared with the other existing KPI to measure the performance of the Group.	●		
Swiss SRB Basel III common equity tier 1 capital ratio (%) (phase-in)	This metric will no longer be a KPI, but will instead be reported as "Additional information." The Swiss SRB Basel III CET1 capital ratio on a fully applied basis will continue to be a KPI.	●		
Net new money growth (%)	This KPI will be renamed to "Net new money growth for combined wealth management businesses (%)" and focus on net new money generated by our wealth management businesses only by excluding net new money from Global Asset Management and Retail & Corporate from this measure.	●		
Recurring income as a % of income (%)	This metric will no longer be a KPI, but will instead be reported as "Additional information," to be consistent with the way this metric is reported in Wealth Management.		●	
Net new business volume growth (%)	This KPI will be renamed "Net new business volume growth for retail business (%)" and focus on net new business volume from our retail business only by excluding our corporate business from this measure.			●
Impaired loans portfolio as a % of total loans portfolio, gross (%)	This measure will no longer be a KPI, as it is considered to be less meaningful and relevant compared with the other existing KPI to measure the performance of our Retail & Corporate business.			●

Wealth Management

Wealth Management provides wealthy private clients with investment advice and solutions tailored to their individual needs. At the end of 2013, we had a presence in over 40 countries and invested assets of more than CHF 880 billion.

Business

We provide comprehensive financial services to wealthy private clients around the world, with the exception of those served by our colleagues in Wealth Management Americas. UBS is a global firm with global capabilities, and our clients benefit from a full spectrum of resources, ranging from investment management solutions to wealth planning and corporate finance advice, as well as the specific offerings outlined below. Our guided architecture model gives clients access to a wide range of products from third-party providers that complement our own product lines.

Strategy and clients

We are one of the pre-eminent wealth managers globally and aim to provide our clients with superior investment advice and solutions.

We are building on our leading position by focusing on our clients' individual goals. We provide them with access to the infrastructure we offer to our institutional clients: for example, direct access to the Investment Bank's trading platforms, the offering of our Institutional Solutions Group and professional portfolio management capabilities, including strategic asset allocation and holistic portfolio monitoring to ensure clients' portfolios remain aligned with their investment strategy. In addition, through our Global Family Office Group, clients benefit from tailored institutional coverage and global execution provided by dedicated specialist teams from both Wealth Management and the Investment Bank. We also provide solutions, products and services to financial intermediaries.

The global wealth management business has attractive long-term growth prospects and we expect its growth to outpace that of gross domestic product in all regions. From a client segment perspective, the global ultra high net worth market, including family offices, has the highest growth potential, followed by the high net worth market. Our broad client base and strong global footprint put us in an excellent position to capture the opportunities this presents.

Our integrated client service model enables us to bundle capabilities from across the Group to identify investment opportunities in all market conditions and tailor solutions to meet individual client needs. Our booking centers across the globe give us a strong local presence which allows us to book client assets in multiple locations. The strength and scope of our franchise also enable us to adapt to the changing legal and regulatory environment.

Collaboration is also crucial to our continued expansion in key onshore locations, and we continue to benefit from the established business relationships of our local Investment Bank and Global Asset Management teams.

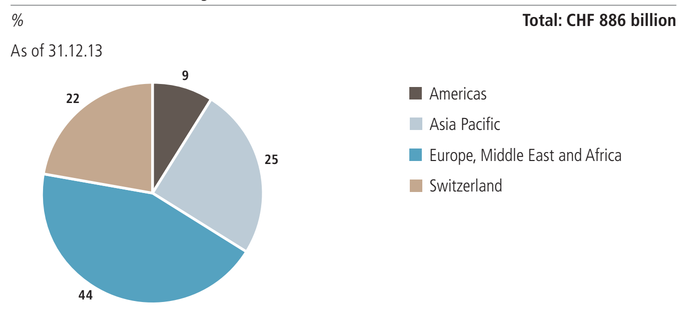
In Asia Pacific, we are accelerating our growth with a focus on Hong Kong and Singapore, the leading financial centers in the region. We are also developing a targeted presence in major onshore markets such as Japan and Taiwan and investing in our local presence in China to help capture long-term growth opportunities.

In the emerging markets, we are focused on key growth markets such as Brazil, Mexico, Israel, Turkey, Russia and Saudi Arabia. We continually enhance our market-specific products and services

Invested assets by client domicile

% Total: CHF 886 billion

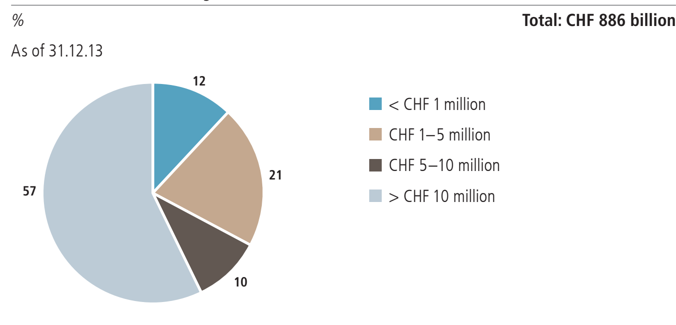
As of 31.12.13



Invested assets by client wealth

% Total: CHF 886 billion

As of 31.12.13



to ensure we meet the needs of our clients. Many emerging market clients prefer to book their assets in established financial centers and, to that end, we are strengthening our coverage for such clients through our booking centers in the US, the UK and Switzerland.

In Europe, our long-established footprint in all major booking centers underpins our growth ambition. We recognized early the converging needs of clients and combined our offshore and onshore businesses. This gives clients across the region access to our extensive Swiss product offering, creates economies of scale and enables us to deal more efficiently with increased regulatory and fiscal requirements.

In Switzerland, we collaborate closely with our colleagues in retail, corporate, asset management and investment banking. This generates opportunities to expand our business and gives our clients access to our investment insight and research, advisory and portfolio management capabilities, products and capital markets, as well as execution know-how. We generate significant referrals from Swiss corporate and retail clients through UBS's extensive branch network, which includes over 100 wealth management offices. As their wealth increases, retail clients can progress seamlessly to our wealth management operations.

Our Global Financial Intermediaries business acts as a strategic business partner for more than 2,400 financial intermediaries in all major financial centers. It offers them professional investment advisory services, a global banking infrastructure and tailored solutions, helping financial intermediaries to advise their end-clients more effectively.

Organizational structure

Headquartered in Switzerland, we have a presence in over 40 countries with approximately 200 wealth management and representative offices, half of which are outside Switzerland. As of the end of 2013, we employed approximately 16,400 people worldwide. Of these, approximately 4,100 were client advisors. We are governed by executive, operating and risk committees and are primarily organized along regional lines with our business areas being Asia Pacific, Europe, Global Emerging Markets, Switzerland and Global Ultra High Net Worth. Our business is supported by the Chief Investment Office and a global Investment Products and Services unit, as well as central functions.

Competitors

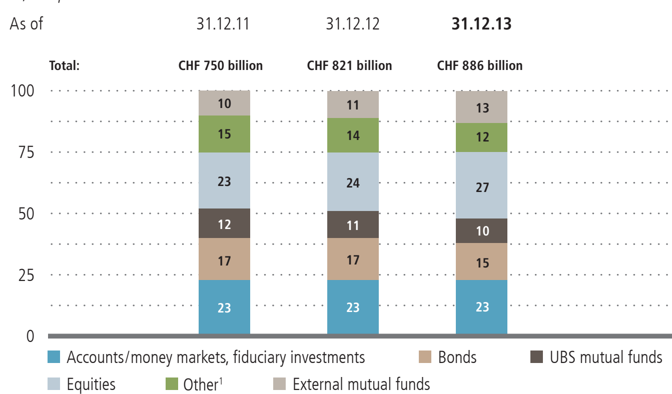
Our major global competitors include the private banking operations of Credit Suisse, Julius Bär, HSBC, Deutsche Bank, BNP Paribas, JP Morgan and Citigroup, along with leading investment managers such as PIMCO. In the European domestic markets, we primarily compete with the private banking operations of large local banks such as Barclays in the UK, Deutsche Bank in Germany and Unicredit in Italy. In Asia Pacific, the private banking franchises of HSBC, Citigroup and Credit Suisse are our main competitors.

Investment advice and solutions

As part of a global, integrated firm, we are a dynamic wealth manager with investment management capabilities at our core.

Invested assets by asset class

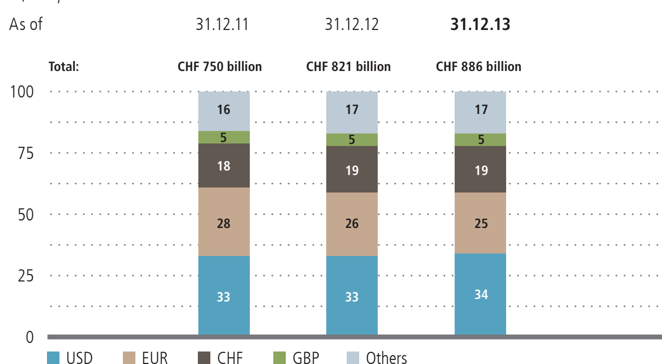
%, except where indicated



1 Including structured products and alternative investments.

Invested assets by currency

%, except where indicated



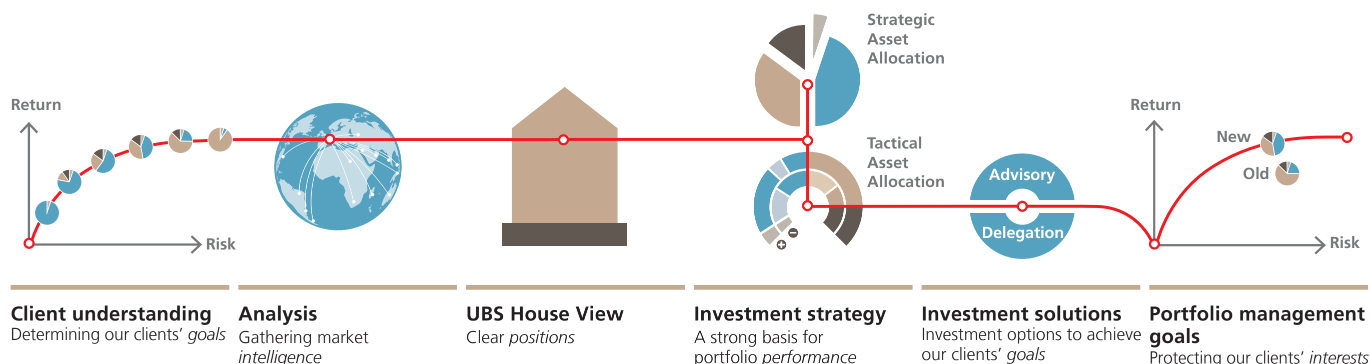
Our client advisors are proactive in their relationships with clients, and we have a systematic process for developing a thorough understanding of our clients' financial objectives and risk appetite. In addition, our wealth planners – part of our specialist product team – often support client advisors as they guide their clients in making financial decisions based on their life-cycle needs. With this comprehensive overview, we offer them wealth planning advice and products, and we ascertain their investment strategy, which serves as the foundation for the investment solutions we offer them. Client advisors regularly review their clients' investor profiles to make sure they correspond to their evolving priorities and changing tolerance for risk. Our bespoke training programs and the ongoing support the firm provides to our client advisors enable them to deliver superior advice and solutions to our clients. For example, we require all of our client advisors to obtain the Wealth Management Diploma, a program accredited by Switzerland's State Secretariat For Economic Affairs (SECO) that ensures a high level of knowledge and expertise. For our most senior client advisors, we offer extensive training through the Wealth Management Master program.

Our global Chief Investment Office synthesizes the research and expertise of our global network of economists, strategists, analysts and investment specialists from across all business divisions. These specialists are present in all major markets around the globe, closely monitoring financial developments. This allows us to deliver real-time insights and to embed local knowledge into our global investment process. Using these analyses, and in consultation with our external partner network, which includes many of the world's most successful money managers, the Chief Investment Office establishes a clear, concise and consistent investment view – the UBS House View. The UBS House View includes both our strategic and our tactical asset allocation across all relevant asset classes in major markets. The strategic asset allocation represents the long-term asset allocation for a defined risk level and is crucial for investment performance. Our strategic asset allocation is complemented by our tactical asset allocation, which allows us to capitalize on short-term market opportunities.

Our Investment Products and Services unit ensures our solutions are in step with market conditions by aligning our discretionary and advisory offerings with our UBS House View. Clients who opt for an investment mandate delegate the management of their assets to a team of professional portfolio managers. Those who prefer to be actively involved can choose an advisory mandate. Their entire portfolio is monitored and analyzed closely, and they receive tailored proposals to help them make informed investment decisions. They can also invest in the full range of financial instruments from single securities such as equities and bonds, to various investment funds, structured products and alternative investments. Additionally, we offer clients advice on structured lending and corporate finance.

Our products are aimed at achieving performance in various market scenarios. They are developed from a wide range of sources, including Investment Products and Services, Global Asset Management, the Investment Bank and third parties, as we operate within a guided architecture model. By aggregating private investment flows into institutional-size flows, we can offer our clients access to investments normally only available to institutional clients.

Superior investment advice and solutions for our clients' wealth



Wealth Management Americas

Wealth Management Americas develops advice-based relationships through its financial advisors, who deliver a fully integrated set of wealth management solutions designed to address the needs of high net worth and ultra high net worth individuals and families.

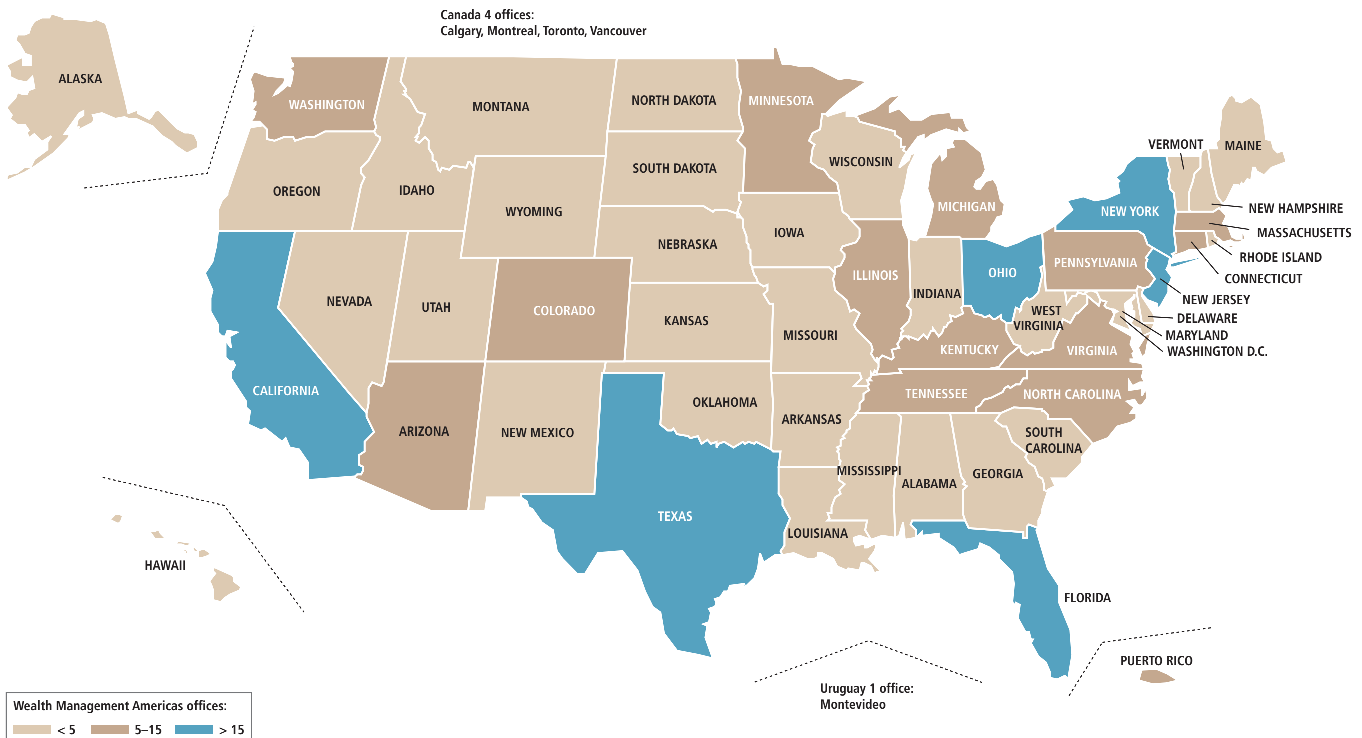
Business

We are one of the leading wealth managers in the Americas in terms of financial advisor productivity and invested assets. Our business includes the domestic US and Canadian business as well as international business booked in the US. We have attractive growth opportunities and a clear strategy focused on serving our target client segments. As of 31 December 2013, invested assets totaled USD 970 billion.

Strategy and clients

Our goal is to be the best wealth management business in the Americas. With our client-focused, advisor-centric strategy, we deliver advice-based wealth management solutions and banking services through our financial advisors in key metropolitan markets, providing a fully integrated set of products and services to meet the needs of our target client segments, high net worth clients and ultra high net worth clients, while also serving the needs of core affluent clients. We define high net worth clients as those with investable assets of between USD 1 million and USD 10 million, and ultra high net worth clients as those with investable assets of more than USD 10 million. Core affluent clients are defined as those with investable assets of between USD 250,000 and USD 1 million. The Global Family Office – Americas, a joint venture between Wealth Management Americas and the Investment Bank, was launched in 2013 with the objective of seamlessly offering the global resources and reach of the entire firm by providing integrated, comprehensive wealth management and institutional-type services to selected Family Office clients. Our Wealth Advice Center serves emerging affluent clients with investable assets of less than USD 250,000. We are committed to providing high-quality advice to our clients across all their financial needs by employing the best professionals in the industry, delivering the

Geographical presence in key markets



highest standard of execution, and running a streamlined and efficient business.

We believe we are uniquely positioned to serve high net worth and ultra high net worth investors in the world's largest wealth market. With a network of over 7,000 financial advisors and USD 970 billion in invested assets, we are large enough to be relevant, but focused enough to be nimble, enabling us to combine the advantages of large and boutique wealth managers. We aim to differentiate ourselves from competitors and be a trusted and leading provider of financial advice and solutions to our clients by enabling our financial advisors to leverage the full resources of UBS, including unique access to wealth management research, a global Chief Investment Office, and solutions from our asset-gathering businesses and the Investment Bank. These resources are augmented by our commitment to an open architecture platform and are supported by our partnerships with many of the world's leading third-party institutions. Moreover, our wealth management offerings are complemented by banking, mortgage and financing solutions that enable us to provide advice on both the asset and liability sides of our clients' financial balance sheets.

We believe the long-term growth prospects of the wealth management business are attractive in the Americas, with high net worth and ultra high net worth expected to be the fastest growing segments in terms of invested assets in the region. In 2013, our strategy and focus led to a continued improvement in financial results, retention of high-quality financial advisors and net new money growth. Building on this progress, we aim for continued growth in our business by developing our financial advisors' focus towards advice-based solutions, leveraging the global capabilities of UBS to clients by continuing to partner with the Investment Bank and Global Asset Management, and delivering banking and lending services that complement our wealth management solutions. We also plan to continue investing in improved platforms and technology, while remaining disciplined on cost. We expect these efforts to enable us to achieve higher levels of client satisfaction, strengthen our client relationships, and lead to greater revenue productivity among our financial advisors.

Organizational structure

Wealth Management Americas consists of branch networks in the US, Puerto Rico, Canada and Uruguay, with 7,137 financial advisors as of 31 December 2013. Most corporate and operational functions are located in the Wealth Management Americas home office in Weehawken, New Jersey.

In the US and Puerto Rico, we operate primarily through direct and indirect subsidiaries of UBS AG. Securities and operations activities are conducted primarily through two registered broker-dealers, UBS Financial Services Inc. and UBS Financial Services Incorporated of Puerto Rico. Our banking services in the US include those conducted through the UBS AG branches and UBS Bank USA, a federally regulated bank in Utah, which provides Federal Deposit Insurance Corporation (FDIC)-insured deposit accounts, collateralized lending services, mortgages and credit cards.

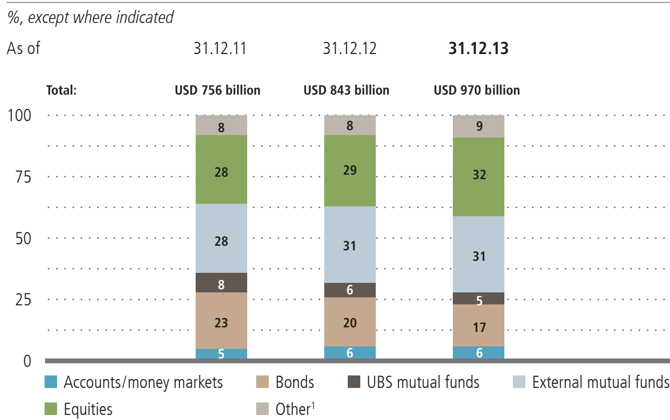
Canadian wealth management and banking operations are conducted through UBS Bank (Canada), and Uruguayan wealth management operations are conducted through UBS Financial Services Montevideo.

Competitors

We compete with national full-service brokerage firms, domestic and global private banks, regional broker-dealers, independent broker-dealers, registered investment advisors, trust companies and other financial services firms offering wealth management services to US and Canadian private clients, as well as foreign non-resident clients seeking wealth management services within the US. Our main competitors include the wealth management businesses of Bank of America, Morgan Stanley and Wells Fargo.

Invested assets by asset class

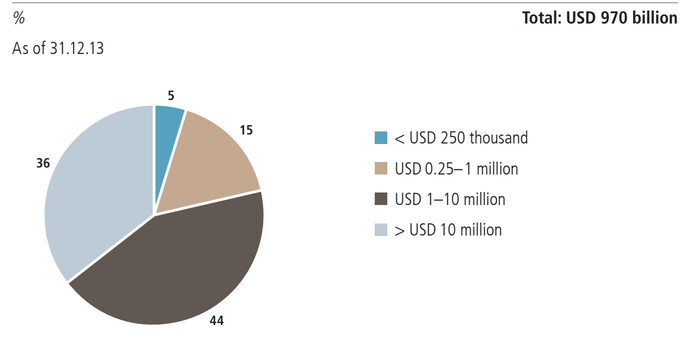
%, except where indicated



1 Including structured products, alternative investments and fiduciary investments.

Invested assets by client wealth

%



Products and services

We offer clients a full array of solutions that focus on their individual financial needs. Comprehensive planning supports clients through the various stages of their lives, including education funding, charitable giving, estate strategies, insurance, retirement and trusts and foundations, with corresponding product offerings for each stage. Our advisors work closely with internal consultants in areas such as wealth planning, portfolio strategy, retirement and annuities, alternative investments, managed accounts, structured products, banking and lending, equities and fixed income. Clients also benefit from our dedicated Wealth Management Research team, which provides research guidance to help support our clients' investment decisions.

Our offerings are designed to meet a wide variety of investment objectives, including wealth accumulation and preservation, income generation and portfolio diversification. To address the full range of our clients' financial needs, we also offer competitive lending and cash management services such as securities-backed lending, resource management accounts, FDIC-insured deposits, mortgages and credit cards.

Additionally, our UBS Equity Plan Advisory Services is a leading provider of equity compensation plan services and advice to more than 130 US corporations, representing one million participants worldwide. For corporate and institutional clients, we offer a robust suite of solutions, including equity compensation, administration, investment consulting, defined benefit and contribution programs and cash management services.

Our clients can choose asset-based pricing, transaction-based pricing or a combination of both. Asset-based accounts have access to both discretionary and non-discretionary investment advisory programs. Non-discretionary advisory programs enable the client to maintain control over all account transactions, while clients with discretionary advisory programs direct investment professionals to manage a portfolio on their behalf. Depending on the type of discretionary program, the client can give investment discretion to a qualified financial advisor, a team of our investment professionals or a third-party investment manager. Separately, we also offer mutual fund advisory programs, whereby a financial advisor works with the client to create a diversified portfolio of mutual funds guided by a research-driven asset allocation framework.

For clients who favor individual securities, we offer a broad range of equity and fixed income instruments. In addition, qualified clients may take advantage of structured products and alternative investment offerings to complement their portfolio strategies.

All of these solutions are supported by a dedicated capital markets group. This group partners with the Investment Bank and Global Asset Management in order to access the resources of the entire firm, as well as third-party investment banks and asset management firms.

Retail & Corporate

As the leading retail and corporate banking business in Switzerland, our goal is to deliver comprehensive financial products and services to our retail, corporate and institutional clients, provide stable and substantial profits for the Group and create revenue opportunities for other businesses within the Group.

Business

We provide comprehensive financial products and services to our retail, corporate and institutional clients in Switzerland, maintaining a leading position in these client segments and embedding our offering in a multi-channel approach. As shown in the "Business mix" chart below, our retail and corporate business generates stable profits which contribute substantially to the overall financial performance of the Group. We are among the leading players in the retail and corporate loan market in Switzerland, with a highly collateralized lending portfolio of CHF 137 billion as of 31 December 2013, as shown in the "Loans, gross" chart below. This portfolio is managed conservatively, focusing on profitability and credit quality rather than market share.

Our retail and corporate business constitutes a central building block of UBS Switzerland's universal bank model, supporting other business divisions by referring clients to them and assisting retail clients to build their wealth to a level at which we can transfer them to our Wealth Management unit. Furthermore, we leverage the cross-selling potential of products and services provided by our asset-gathering and investment banking businesses. In addition, we manage a substantial part of UBS's Swiss infrastructure and Swiss banking products platform, which are both leveraged across the Group.

Strategy and clients

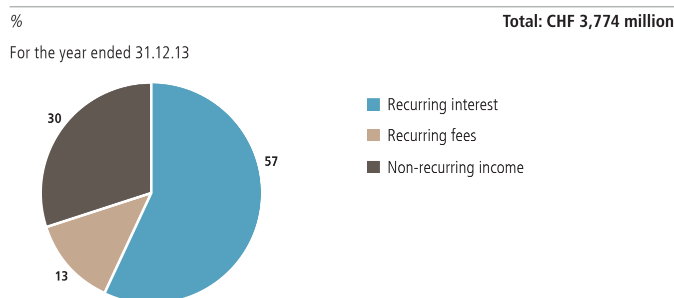
We aspire to be the bank of choice for retail clients in Switzerland by delivering value-added services. Currently, we serve one in three Swiss households. Our distribution network comprises around 300 branches, 1,250 automated teller machines including self-service terminals, and four customer service centers as well as state-of-the-art digital banking services. Technology is fundamentally transforming the way we deliver our products and services. We are therefore continuously expanding and enhancing our multi-channel offering and will continue to build on our long tradition as a leader and innovator in digital services to deliver superior client experience, capture market share and increase efficiency. Moreover, we follow a life-cycle-based product approach to provide our clients with tailored solutions to meet their particular needs in their different stages of life. With regard to execution, we ensure a client-focused and efficient sales process.

Our size in Switzerland and the diversity of businesses we operate put us in an advantageous position to serve all our clients' complex financial needs in an integrated and efficient way. We aim to be the main bank of corporate and institutional clients ranging from small and medium-sized enterprises to multinationals, and from pension funds and commodity traders to banks and insurers. We serve over 40% of Swiss companies, including more

Business mix

% Total: CHF 3,774 million

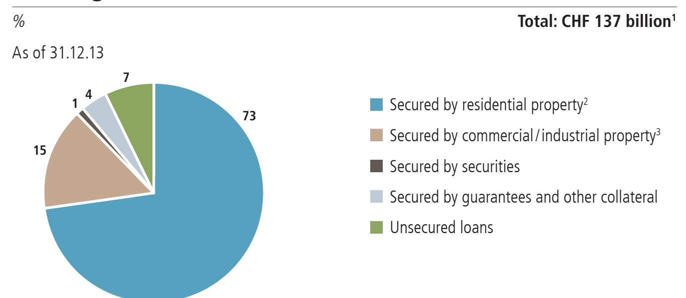
For the year ended 31.12.13



Loans, gross

% Total: CHF 137 billion[1]

As of 31.12.13



1 Total includes less than 1% secured by cash. 2 55% average loan-to-value based on latest credit review. 3 56% average loan-to-value based on latest credit review.

than 85% of the 1,000 largest Swiss corporations, as well as one in three pension funds in Switzerland, including 75 of the largest 100, and 85% of banks domiciled in Switzerland. We strive to further expand and leverage our transaction banking capabilities (for example, payment and cash management services, custody solutions, trade and export finance). In addition, we plan to increase our presence and grow in the commodities trade finance business. Combining the universal bank approach with our local market expertise across all Swiss regions enables us to optimize our client service by providing access to all UBS capabilities.

As the leading retail and corporate banking business in Switzerland, we understand the importance of our role in supporting the needs of our clients. We have successfully implemented structures and processes to simplify our service commitments across the business, including streamlining our processes, reducing the administrative burden on our client advisors and enhancing their long-term productivity without compromising our risk standards.

Continuous development, particularly of our client-facing staff, is a crucial element of our strategy, as this is our key to ensuring superior client service. We are the only bank in Switzerland with a mandatory certification scheme for our client advisors acknowledged by an independent third party.

Organizational structure

We are a core element of UBS Switzerland's universal bank delivery model, which allows us to extend the expertise of the entire bank to our Swiss retail, corporate and institutional clients. Switzerland is the only country where we operate in retail, corporate and institutional banking, wealth and asset management as well as investment banking.

To ensure consistent delivery throughout Switzerland, the Swiss network is organized into 10 geographical regions. Dedicated management teams in the regions and in the branches derived from all business areas are responsible for executing the universal bank model, fostering cross-divisional collaboration and ensuring that the public and clients have a uniform experience based on a single corporate image and shared standards of service.

Competitors

In the Swiss retail banking business, our competitors are Raiffeisen, Credit Suisse, the cantonal banks, Postfinance, and other regional and local Swiss banks.

In the Swiss corporate and institutional business, our main competitors are Credit Suisse, the cantonal banks and foreign banks in Switzerland.

Products and services

Our retail clients have access to a comprehensive life-cycle-based offering, comprising easy-to-understand products including cash accounts, payments, savings and retirement solutions, investment fund products, residential mortgages, a loyalty program and advisory services. We provide financing solutions to our corporate clients, offering access to equity and debt capital markets, syndicated and structured credit, private placements, leasing and traditional financing. Our transaction banking offers solutions for payments and cash management services, trade and export finance, receivable finance, as well as global custody solutions to institutional clients. Close collaboration with our client-centric Investment Bank is a key building block in our universal bank strategy that enables us to offer capital market products, foreign exchange products, hedging strategies (currency, interest rates, and commodities) and trading (equities and fixed income, currencies and commodities), as well as to provide corporate finance advice in fields such as mid-market mergers and acquisitions, corporate succession planning and real estate. We also cater to the asset management needs of institutional clients by offering portfolio management mandates, strategy execution and fund distribution.

Global Asset Management

Global Asset Management is a large-scale asset manager with diversified businesses across investment capabilities, regions and distribution channels. We offer third-party institutional and wholesale clients and clients of UBS's wealth management businesses a broad range of investment capabilities and styles across all major traditional and alternative asset classes.

Business

Our investment capabilities encompass equities, fixed income, currency, hedge funds, real estate, infrastructure and private equity. We also enable clients to invest in a combination of different asset classes through multi-asset strategies. Our fund services unit is a global fund administration business. Invested assets totaled CHF 583 billion and assets under administration were CHF 432 billion as of 31 December 2013. We are a leading fund house in Europe, the largest mutual fund manager in Switzerland and one of the leading fund of hedge funds and real estate investment managers in the world.

Strategy

We work closely with our clients in pursuit of their investment goals with long-term performance as our focus. We seek to expand our strong third-party institutional business and grow third-party wholesale distribution. We also remain committed to delivering distinctive products and solutions to clients of UBS's wealth management businesses.

We offer a broad range of investment capabilities and styles across all major traditional – including indexed – and alternative asset classes.

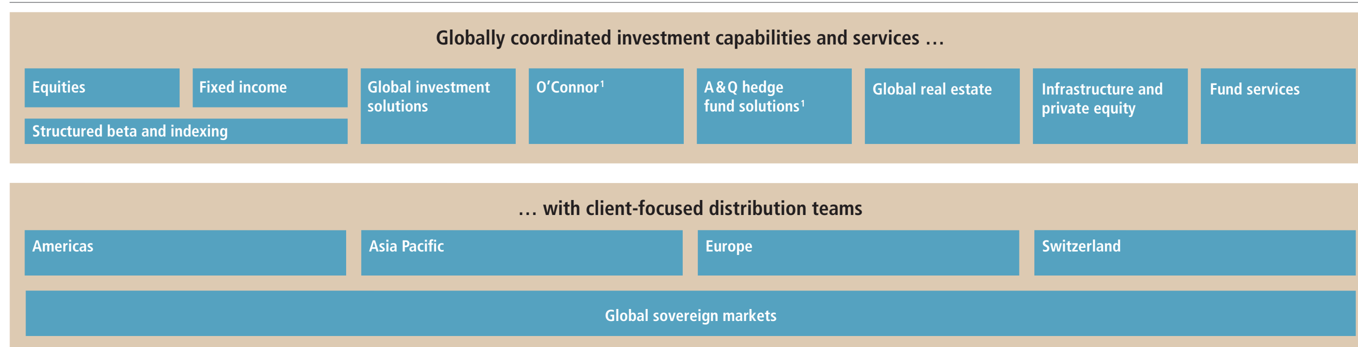
Over the past few years, we have significantly developed our indexed capabilities, including exchange-traded funds (ETF), to meet growing demand for these strategies from both institutional and individual investors. Over a quarter of our invested assets now fall into this category. During 2013, we brought together our indexing capabilities under a unified business structure – structured beta and indexing – to fulfill the beta needs of clients across all asset classes.

We also continue to expand our successful alternatives platform, building on our established positions in real estate and fund of hedge funds. During 2013, we split the management of our former alternative and quantitative investments business line into its two constituent parts: O'Connor, the single-manager hedge funds business, and A&Q hedge fund solutions (A&Q), the multi-manager hedge funds business. This split provides clear and focused leadership to accelerate growth in each business. These two businesses continue to be reported together as O'Connor and A&Q.

Overall, our diversified business model has proven resilient to challenging market conditions, has put us in a good position to benefit from shifting market dynamics and provided a solid foundation to capture industry growth opportunities.

Although the asset management industry has experienced a challenging period, the long-term outlook is positive. Three main drivers indicate asset inflows into the industry: (i) demographic shifts resulting in population aging in developed countries that will increase future savings requirements, (ii) governments are continuing to reduce support for pensions and benefits, leading to a greater need for private pension savings and (iii) emerging markets are becoming an ever more important asset pool.

Business structure



1 O'Connor and A&Q hedge fund solutions were formerly known as alternative and quantitative investments.

Organizational structure

We employ around 3,700 personnel in 24 countries, and have our principal offices in London, Chicago, Frankfurt, Hartford, Hong Kong, New York, Paris, Singapore, Sydney, Tokyo and Zurich. The "Business structure" chart shows our investment and distribution structure.

Significant recent acquisitions, joint ventures and business transfers

- In December 2013, we announced the creation of UBS Grocon, a joint venture with Grocon, Australia's largest private development and construction firm, to provide investment opportunities in Australian real estate.
- In December 2012, we announced the sale of our book of Canadian domestic business to Fiera Capital Corporation. The transaction was completed in January 2013.
- In January 2012, the firm's Jersey fund services business was transferred to Global Asset Management from Wealth Management.
- In October 2011, we completed the acquisition of the ING Investment Management Limited business in Australia. This business initially operated as a subsidiary of UBS Global Asset Management (Australia) Ltd and, following the sale of parts of the business, was fully integrated during 2012.

Competitors

Our competitors include global firms with wide-ranging capabilities and distribution channels, such as JP Morgan Asset Management, BlackRock, Goldman Sachs Asset Management, Morgan Stanley Investment Management, AllianceBernstein Investments and Schroders. Most of our other competitors are regional or local players or firms with a specific asset class focus.

Clients and markets

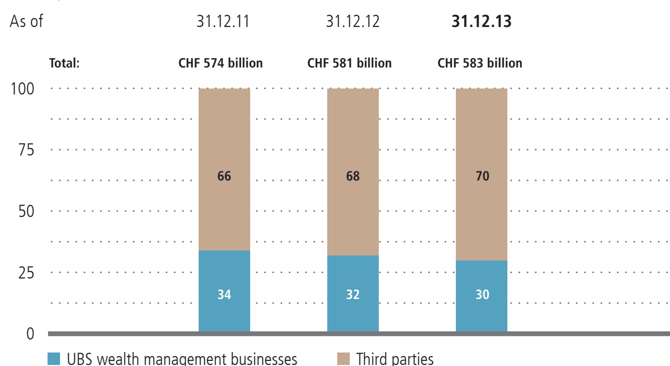
We serve third-party institutional and wholesale clients, and clients of UBS's wealth management businesses. As shown in the "Invested assets by channel" chart, as of 31 December 2013 approximately 70% of invested assets originated from third-party clients. These comprised institutional clients, such as corporate and public pension plans, governments and their central banks, and wholesale clients, such as financial intermediaries and distribution partners. UBS's wealth management businesses represented 30% of invested assets and constituted our largest client relationship.

Products and services

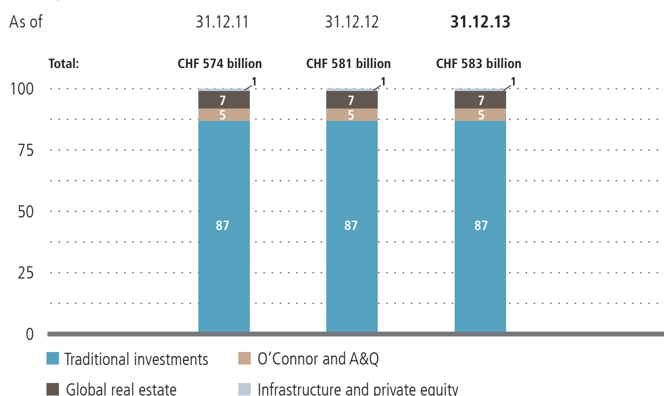
We offer our clients products and services in traditional investments, single- and multi-manager hedge funds, global real estate, infrastructure, private equity, and fund services. The "Investment capabilities and services" chart illustrates the distinct offerings of each investment area. These can be delivered in the form of segregated, pooled and advisory mandates, as well as a broad range of registered investment funds, ETF and other investment vehicles in a wide variety of jurisdictions and across all major asset classes.

- *Equities* offers a wide spectrum of active investment strategies with varying risk and return objectives. These strategies are delivered by distinct investment teams, each with dedicated research and portfolio construction resources. Our teams are organized around regional capabilities and styles: global, US, Europe, Asia Pacific and emerging markets, and growth. Strategies include core, unconstrained, long/short, small cap, sector, thematic, and other specialized strategies.
- *Fixed income* offers a diverse range of active global, regional and local market-based investment strategies. Its capabilities include single-sector strategies such as government and corporate bond portfolios, multi-sector strategies such as core and core

Invested assets by channel



Invested assets by business line



Investment capabilities and services

Equities	Fixed income	Structured beta and indexing	Global investment solutions	Fund services
Core global, regional, country, emerging markets Opportunity, high alpha Small cap, sector, thematic, sustainable Growth style – global, US, emerging markets Long/short, unconstrained, market neutral Quantitative High dividend Multi-strategy	Global Country and regional Money market Short duration Core and core plus Sector specific Emerging markets High yield Unconstrained Customized solutions	Indexed equity, fixed income, commodities, real estate and alternatives Alternative beta Rules-based ETF, pooled funds, mandates Structured funds	Global Country and regional Asset allocation Currency management Return and risk targeted Structured portfolios Risk management Advisory services Multi-manager	Fund/Product set-up Net asset value calculation Front and middle office services Reporting Investor services Private labeling International distribution support Ancillary services for fund of hedge funds
O'Connor[1]	**A&Q hedge fund solutions[1]**	**Global real estate**	**Infrastructure and private equity**	
Single manager hedge funds: Global multi-strategy Regional and sector equity long/short Credit long/short Convertible arbitrage Merger arbitrage	Multi-manager hedge fund products Customized fund of hedge fund solutions Hedge fund advisory programs	Global Country and regional Income, core, value-added and opportunistic strategies Multi-manager funds Listed securities Farmland	Direct infrastructure investment Infrastructure fund of funds Private equity fund of funds Private banking private equity products	

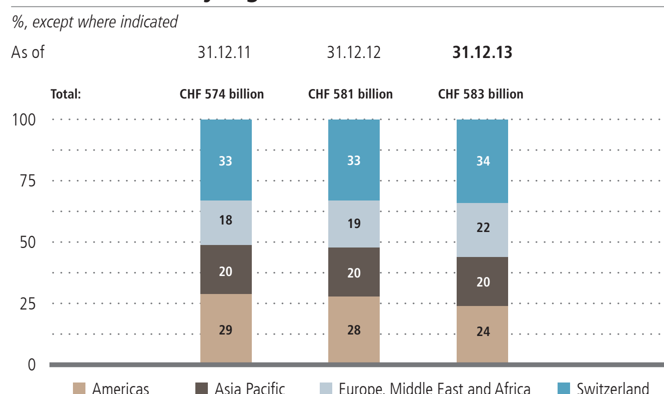
1 O'Connor and A&Q hedge fund solutions were formerly known as alternative and quantitative investments.

plus bond, and extended sector strategies such as high yield and emerging market debt. In addition to this suite of traditional fixed income offerings, the team also manages unconstrained fixed income, currency strategies and customized solutions.

- *Structured beta and indexing* offers indexed, alternative beta and rules-based strategies across all major asset classes on a global and regional basis. Its capabilities include indexed equities, fixed income, commodities, real estate and alternatives with benchmarks ranging from mainstream to highly customized indices and rules-driven solutions. Products are offered in a variety of structures including ETF, pooled funds, structured funds and mandates.
- *Global investment solutions* offers active asset allocation, currency, multi-manager, structured solutions, risk advisory and strategic investment advisory services. It manages a wide array of regional and global multi-asset investment strategies across the full investment universe and risk/return spectrum, structured portfolios, convertible bonds and absolute return strategies. Through its risk management and strategic investment advisory services, it supports clients in a wide range of investment-related functions.
- *O'Connor* is a global, relative value-focused, single-manager hedge fund platform. It is dedicated to providing investors with strong absolute and risk-adjusted returns, differentiated from those available from long-only investment in traditional asset classes.
- *A&Q hedge fund solutions (A&Q)* offers a full spectrum of multi-manager hedge fund solutions and advisory services including a wide range of strategies that provide professionally managed exposure to hedge fund investments with tailored risk and return profiles.
- *Global real estate* actively manages real estate investments globally and regionally within Asia Pacific, Europe and the US across the major real estate sectors. Its capabilities are focused on core and value-added strategies but also include other strategies across the risk/return spectrum. These are offered

through open- and closed-end private funds, REITs, customized investment structures, multi-manager funds, individually managed accounts and real estate securities.
- *Infrastructure and private equity* manages direct infrastructure investment and multi-manager infrastructure and private equity strategies for both institutional and private banking clients. Infrastructure asset management manages direct investments in core infrastructure assets globally. Alternative Funds Advisory (AFA) infrastructure and AFA private equity construct broadly diversified fund of funds portfolios across the infrastructure and private equity asset classes, respectively.
- *Fund services,* our global fund administration business, offers a comprehensive range of flexible solutions, including fund setup, reporting and accounting for traditional investment funds, managed accounts, hedge funds, real estate funds, private equity funds and other alternative structures.

Invested assets by region[1]



1 Assets represented are totals for the Global Asset Management business division worldwide. The regional split is primarily based on the client servicing location.

Distribution

As detailed in the "Business structure" chart, our capabilities and services are distributed through our regional business structure in the Americas, Asia Pacific, Europe and Switzerland. This enables clients to access the full resources of our global investment platforms and functions, while providing them at a local level with the investment management products and services they need. In addition, our dedicated global sovereign markets group delivers an integrated approach to ensure sovereign institutions receive the focused advisory, investment and training solutions they require.

A breakdown of invested assets by client servicing location is shown in the "Invested assets by region" chart.

In Asia Pacific, we have expanded our business through strategic joint ventures. In addition to the abovementioned UBS Grocon joint venture, in Japan, Mitsubishi Corp. – UBS Realty, a real estate investment joint venture with Mitsubishi Corporation, has been in operation since 2001. In China, UBS SDIC Fund Management Co., a joint venture with SDIC Trust & Investment Co., is now in the top third of the onshore asset management market. In South Korea, UBS Hana Asset Management, a joint venture with Hana Bank, is among the top 10 domestic asset management firms.

Investment Bank

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative solutions, outstanding execution and comprehensive access to the world's capital markets. We offer financial advisory and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through our two business units, Corporate Client Solutions and Investor Client Services.

Business

The Investment Bank is organized as two distinct but aligned business units:

Corporate Client Solutions includes all advisory and financing solutions businesses, origination, structuring and execution, including equity and debt capital markets in service of corporate, financial institution, sponsor clients and Wealth Management.

Investor Client Services includes execution, distribution and trading for institutional investors and provides support to Corporate Client Solutions and UBS's wealth management businesses. It comprises our equities businesses, including cash, derivatives and financing services, cross-asset class research capabilities and our foreign exchange franchise, precious metals, rates and credit businesses. The Investor Client Services unit also provides distribution and risk management capabilities required to support all of our businesses.

Strategy

In the first quarter of 2013, we re-shaped our strategy and organizational model to capitalize on our traditional strengths in advisory, capital markets, equities and foreign exchange businesses, while re-focusing our rates and credit platform on areas that offer the most attractive opportunities. Following this, and consistent with our October 2012 announcement to significantly accelerate the implementation of our strategy, we exited products and services which were capital- and balance sheet-intensive, exhibited higher operational complexity and were not required for serving our wealth management or Corporate Client Solutions clients. In addition, foreign exchange, rates and credit businesses were brought under one unit within Investor Client Services to leverage their combined client base, technology, risk and operational control management, as well as expertise in different areas.

We believe the strategic transformation of our business differentiates us by capitalizing on our traditional strengths. Our clients continue to benefit from our expertise, intellectual capital and global execution. Our client-centric business model makes us an ideal partner to our wealth management businesses, Retail & Corporate and Global Asset Management, and positions us to provide our clients with an integrated, solutions-led approach, combined with deep market insight, intellectual capital and global coverage and execution.

Our Corporate Client Solutions business unit is comprised of our advisory and capital markets businesses and financing solutions, which target industries and geographies that offer the best opportunities to meet our long-term strategy. We have a presence in all major financial markets, with coverage based on a comprehensive matrix of country, sector and product banking professionals.

Within our Investor Client Services business unit, our equities business continues to leverage its global distribution platform and product expertise while seeking further operational efficiencies. Foreign exchange and precious metals businesses, underpinned by a world-class platform, continue to be a cornerstone of our services. Consistent with our strategy, our rates and credit platform is focused on client flow and solutions businesses. It serves our capital markets business through an intermediation model, much like in our equities and foreign exchange platforms.

To ensure the successful execution of our strategy, we will continue to invest in technology and selectively recruit talent in key areas across the business. Furthermore, we will remain focused on our ongoing cost reduction programs and on strengthening our operational risk framework. In 2013, we made a number of key strategic hires to strengthen our leadership team further and enhance our ability to execute our strategy in 2014 and beyond. We continued to optimize internal efficiencies through the implementation of a targeted technology plan, which is based on a long-term portfolio

approach across businesses aimed at enhancing the effectiveness of our platform for clients. These structural changes are expected to contribute to the Group-wide effort to increase efficiency. In addition, and on a selective basis, we will continue to undertake specific initiatives to simplify our production processes, achieve leaner front-to-back processes, and operate with a reduced real-estate footprint.

To support our goal of earning attractive returns on allocated capital resources, we operate within a tightly controlled matrix of balance sheet, risk-weighted assets, leverage ratio denominator and other risk metrics (e.g., value-at-risk and liquidity adjusted stress). Consistent with this, we assess both the Investor Client Services and Corporate Client Solutions business units based on the returns they generate.

Organizational structure

As of the end of 2013, we employed approximately 11,615 personnel in over 35 countries. We operate through branches and subsidiaries of UBS AG. Securities activities in the US are conducted through UBS Securities LLC, a registered broker-dealer.

Significant recent acquisitions

In February 2013, after receiving the required regulatory approvals from the Brazilian government, UBS finalized its acquisition of Link Investimentos, a Brazilian financial services firm. UBS had entered into the agreement to acquire Link Investimentos in 2010. The acquisition demonstrates our commitment to the emerging markets and allows us to provide wealth management and investment banking services to private and institutional clients in Brazil, one of the world's fastest growing economies.

Competitors

Our Investment Bank's strategy and scope is unique, but other competing firms are active in many of the businesses and markets in which we still participate. For our leading equities, foreign exchange and corporate advisory businesses, our main competitors remain the major global investment banks, including Bank of America Merrill Lynch, Barclays Capital, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase and Morgan Stanley.

Products and services

Corporate Client Solutions

This includes client coverage, advisory, debt and equity capital market solutions and financing solutions for corporate, financial institution and sponsor clients. Corporate Client Solutions works closely with Investor Client Services in the distribution and risk management of capital markets products and financing solutions. With a presence in all major financial markets, it is managed by region and is organized on a matrix of country, industry sector and product banking professionals. Its main business lines are as follows:

- *Advisory* provides bespoke solutions to our clients' most complex strategic problems. This includes mergers and acquisitions advice and execution, as well as refinancing, spin-offs, exchange offers, leveraged buyouts, joint ventures, takeover defense, corporate broking and other advisory services.
- *Equity capital markets* offers equity capital-raising services, as well as related derivative products and risk management solutions. Its services include managing initial public offerings, follow-ons including rights issues and block trades, equity-linked transactions and other strategic equities solutions.
- *Debt capital markets* helps corporate and financial institution clients in raising debt capital including investment grade and emerging market bonds, high-yield bonds, subordinated debt and hybrid capital. It also provides leveraged capital services, which include event-driven (acquisition, leveraged buy-out) loans, bonds and mezzanine financing. All debt products are provided alongside risk management solutions, including derivatives in close collaboration with our foreign exchange, rates and credit businesses.
- *Financing solutions* serves corporate and investor clients across the globe by providing customized solutions across asset classes via a wide range of financing capabilities including structured financing, real estate finance and special situations.
- *Risk management* includes corporate lending and associated hedging activities.

Investor Client Services

Investor Client Services, which includes our equities business and our foreign exchange, rates and credit business, provides a comprehensive distribution platform with enhanced cross-asset delivery as well as specialist skills to our corporate, institutional and wealth management clients.

Equities

We are one of the world's largest equities houses and a leading participant in the primary and secondary markets for cash equities and equity derivatives. We provide a full front-to-back product suite globally, including financing, execution, clearing and custody services. Our franchise employs a client-centric approach to serve hedge funds, asset managers, wealth management advisors, financial institutions and sponsors, pension funds, sovereign wealth funds and corporations globally. We distribute, structure, execute, finance and clear cash equity and equity derivative products. Our research franchise provides in-depth investment analysis on companies, sectors, regions, macroeconomic trends, public policy and asset-allocation strategies. The main business lines of the equities unit are as follows:

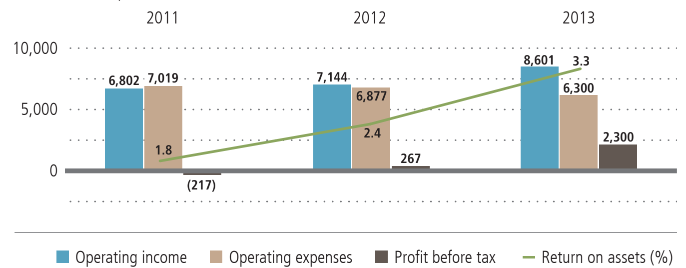
- *Cash* provides clients with liquidity, investment advisory, trade execution and consultancy services, together with comprehensive access to primary and secondary markets, corporate management and subject matter experts. We offer full-service trade execution for single stocks and portfolios, including capital commitment, block trading, small cap execution and commission management services. In addition, we provide clients with a full suite of advanced electronic trading products, direct market access to over 150 venues worldwide, including low-latency exe-

cution, innovative algorithms and pre-, post- and real-time analytical tools. Our broker and intermediary services franchise offers execution and price improvement to retail wholesalers.

– *Derivatives* provides a full range of flow and structured products, convertible bonds and strategic equity solutions with global access to primary and secondary markets. It enables clients to manage risk and meet funding requirements through a wide range of listed, over-the-counter, securitized and fund-wrapped products. We create and distribute structured products and notes for institutional and retail investors with investment returns linked to companies, sectors and indices across multiple asset classes, including commodities.
– *Financing services* provides a fully integrated platform for our hedge fund clients, including prime brokerage, capital introduction, clearing and custody, synthetic financing and securities lending. In addition, we execute and clear exchange-traded derivatives across equities, fixed income and commodities in more than 60 markets globally.

Efficient utilization of resources and improved profitability

CHF million, except where indicated



Foreign exchange, rates and credit

This unit consists of our leading foreign exchange franchise and our market-leading precious metals business, as well as our repositioned rates and credit businesses. These businesses support the execution, distribution and risk management related to corporate and institutional client businesses, and also meet the needs of private wealth management clients via targeted intermediaries. The main business lines are as follows:

– *Foreign exchange* provides a full range of G10 and emerging markets currency and precious metals services globally. We are a leading foreign exchange market-maker in the professional spot, forwards and options markets. We provide clients worldwide with first-class execution facilities (voice, electronic, algorithmic) coupled with premier advisory and structuring capabilities when tailored solutions best fit our clients' positioning, hedging or liquidity management. Our presence in physical and non-physical precious metals markets has endured for almost a century. Our award-winning teams provide quality, security and competitive pricing supported by a client-centric, one-stop-shop approach that offers trading, investing and hedging across the spectrum of gold-, silver-, platinum- and palladium-related offerings.
– *Rates and credit* encompasses sales and trading in a selected number of credit and rates products, such as standardized rates-driven products, interest rate swaps, medium-term notes, government and corporate bonds as well as bank notes and bespoke solutions for clients. Our offering includes market-making capabilities in areas required to support our businesses in foreign exchange and equities, as well as our corporate and investor client base.

Corporate Center

The Corporate Center comprises Corporate Center – Core Functions and Corporate Center – Non-core and Legacy Portfolio. Corporate Center – Core Functions enables the firm to operate cohesively and effectively by providing and managing support and control functions to the Group and business divisions. Corporate Center – Non-core and Legacy Portfolio manages the exit and wind-down of the non-core businesses and legacy positions previously part of the Investment Bank.

Our objectives

Corporate Center – Core Functions provides our business divisions with Group-level control in the areas of finance, risk, legal, compliance and Group-wide shared services functions, comprising support and logistics functions. We strive to maintain effective corporate governance processes, including compliance with relevant regulations and ensuring an appropriate balance between risk and return. The Corporate Center also encompasses our Non-core and Legacy Portfolio unit, which comprises the non-core businesses and legacy positions previously part of the Investment Bank.

At the end of 2013, there were 24,082 employees working across all Corporate Center functions including Non-core and Legacy Portfolio. Corporate Center – Core Functions allocates the majority of its treasury income, operating expenses and personnel associated with control and shared services functions to the businesses for which the respective services are performed based on service consumption and financial resource usage.

Corporate Center – Core Functions provides Group-wide control functions, including finance, risk control (including compliance) and legal, and shared services functions. The shared services and other central functions comprise information technology, operations, human resources, corporate development, regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical security as well as information security, offshoring and treasury services such as funding, balance sheet and capital management.

To further enhance cost discipline and strengthen our efforts to reduce our underlying cost base, starting in 2014 we will refine the way that operating costs for internal services are allocated from Corporate Center – Core Functions to the business divisions and Corporate Center – Non-core and Legacy Portfolio. Under this refinement, each year, as part of the annual business planning cycle, Corporate Center – Core Functions will agree with the business divisions and Non-core and Legacy Portfolio cost allocations for services at fixed amounts or at variable amounts based on formulas, depending on capital and service consumption levels as well as the nature of the services to be performed. Corporate Center – Core Functions will be responsible for any differences between actual costs and the pre-agreed amounts.

➔ Refer to the “Significant accounting and financial reporting changes” section of this report for more information on this refinement to our cost allocation approach

Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions previously part of the Investment Bank, and is overseen by a committee consisting of the Group Chief Executive Officer, the Group Chief Financial Officer and the Group Chief Risk Officer. Its businesses and positions are being managed and exited over time with the objective of maximizing shareholder value, in line with our strategic plan.

We established clear priorities for regions, counterparties and product lines and have developed detailed wind-down plans with the objective of achieving capital benefits at optimized cost. Corporate Center – Non-core and Legacy Portfolio works closely with sales managers and bankers in the Investment Bank as well as with trading market contacts in attempting to execute the most appropriate strategy for each situation, and has built strong management information systems to track the progress of risk-weighted assets (RWA) and leverage ratio denominator reductions and exit costs.

The wind-down and exit strategies include negotiated bilateral settlements with specific counterparties, third-party novations, including transfers to central clearing houses, agreements to net down trades with other dealer counterparties and portfolio sales. Significant simplification of books and trades also contributed to our strong progress, and dynamic risk management and hedging of positions effectively mitigated profit and loss volatility in the portfolio.

During 2013, we exercised our option to acquire the SNB StabFund's equity, which was part of the Legacy Portfolio. This resulted in a CHF 2.1 billion increase in our common equity tier 1 capital as the capital deduction related to the fair value of the option is no longer applicable. Fully applied RWA for Corporate Center – Non-core and Legacy Portfolio of CHF 64 billion as of 31 December 2013 were significantly ahead of our target of CHF 85 billion by year-end 2013. As of 31 December 2013, a total of 1,585 personnel were employed within Corporate Center – Non-core and Legacy Portfolio including the SNB StabFund investment management team, compared with 2,304 as of 31 December 2012.

Structure of Corporate Center – Core Functions

Group Chief Financial Officer

Our Group Chief Financial Officer (Group CFO) is responsible for ensuring transparency in, and the assessment of, the financial performance of our Group and business divisions and for the

Group's financial reporting, forecasting, planning and controlling processes. He also provides advice on financial aspects of strategic projects and transactions. The Group CFO has management responsibility over divisional and Group financial control functions. The Group CFO is responsible for management and control of the Group's tax affairs and for treasury and capital management, including management and control of funding and liquidity risk and UBS's regulatory capital ratios. After consultation with the Audit Committee of the Board of Directors (BoD), our Group CFO makes proposals to the BoD regarding the standards for accounting adopted by UBS and defines the standards for financial reporting and disclosure. Together with the Group Chief Executive Officer (Group CEO), the Group CFO provides external certifications under sections 302 and 404 of the Sarbanes-Oxley Act of 2002, and, in coordination with the Group CEO, manages relations with analysts and investors. Effective January 2014, the Corporate Development function, previously within the Group Chief Operating Officer area, is part of the Group CFO area.

Group Chief Operating Officer

Our Group Chief Operating Officer (Group COO) manages the shared services functions of our Group, which in 2013 included the management and control of Group-wide operations, information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical and information security, and offshoring. In addition, the Group COO supports the Group CEO in developing our strategy and addressing regulatory and strategic issues. Effective January 2014, the Group COO area consists of Group Technology, Group Operations, Group Corporate Services and the Group's Industrialization program. Group Human Resources, Communications & Branding and Group Regulatory Relations & Strategic Initiatives report directly to the Group CEO. Corporate Development is integrated in the Group CFO area.

Group Chief Risk Officer

Our Group Chief Risk Officer (Group CRO) develops and implements principles and appropriate independent control frameworks for credit, market, country and operational risks within the Group. In particular, the Group CRO formulates and implements the frameworks for risk capacity and appetite, risk measurement, portfolio controls and risk reporting, and has management responsibility over the divisional and Group risk control functions. He implements the risk control mechanisms as determined by the BoD, the BoD Risk Committee or the Group CEO. In addition, the Group CRO approves transactions, positions, exposures, portfolio limits and certain provisions in accordance with the delegated risk control authorities, and monitors and challenges the firm's risk-taking activities. In January 2014, the compliance and operational risk organizations were brought together to form a single function focused on the control of our regulatory, conduct and operational risks across all business divisions. This integrated unit reports to the Group CRO. Also effective January 2014, our Group Security Services function became part of the Group CRO area.

Group General Counsel

Our Group General Counsel (Group GC) is responsible for legal matters, policies and processes, and for managing the legal function of our Group. The Group GC is responsible for reporting legal risks and material litigation, and for managing litigation, internal, special and regulatory investigations. The Group GC assumes responsibility for legal oversight in respect of the Group's key regulatory interactions and for maintaining relationships with our key regulators with respect to legal matters. Until the end of 2013, the Group GC was also responsible for compliance matters and for managing the compliance organization. Effective January 2014, the compliance organization is integrated into the Group CRO area.

Regulation and supervision

The Swiss Financial Market Supervisory Authority (FINMA) is UBS's home country regulator and consolidated supervisor. As a financial services provider with a global footprint, we are also regulated and supervised by the relevant authorities in each of the jurisdictions in which we conduct business. The following sections summarize the key regulatory requirements and supervision of our business in Switzerland as well as in the US and the UK, our next two largest areas of operation.

Regulation and supervision in Switzerland

The Swiss Federal Law on Banks and Savings Banks of 8 November 1934, as amended (Banking Act), and the related Swiss Federal Ordinance on Banks and Savings Banks of 17 May 1972, as amended (Banking Ordinance), provide the legal basis for banking in Switzerland. Based on the license obtained under this framework, we may engage in a full range of financial services activities, including retail banking, commercial banking, investment banking and asset management in Switzerland. The Banking Act, Banking Ordinance and the Financial Market Supervision Act of 22 June 2007, as amended, establish a framework for supervision by FINMA, empowering it to issue its own ordinances and circulars, which contribute to shaping the Swiss legal and regulatory framework for banks.

In 2010, the Swiss Federal Council and FINMA incorporated the enhancements to the Basel Capital Accord issued by the Basel Committee on Banking Supervision on 13 July 2009 (so-called Basel 2.5) into the Capital Adequacy Ordinance of 29 September 2006 (and related circulars). The enhanced capital adequacy rules became effective on 1 January 2011. In autumn 2011, the Swiss Parliament amended the legal framework for banks to address the lessons learned from the financial crisis and, in particular, the "too-big-to-fail" issue. The amended sections are applicable to the largest Swiss banks, including UBS, and contain specific capital requirements and provisions to ensure that systemically relevant functions can be maintained in case of insolvency. In addition, and in line with global requirements, we are required to produce and update recovery plans and resolution planning materials aimed at increasing the firm's resilience further in the case of a crisis, and provide FINMA and other regulators with information on how the firm could be resolved in the event of an unsuccessful recovery. These new sections entered into force on 1 March 2012. Switzerland implemented the Basel III Accord by means of a complete review of the Capital Adequacy Ordinance and related FINMA rules. In addition, a number of other amendments have been made to the Banking Ordinance and the Capital Adequacy Ordinance, which came into effect on 1 January 2013.

➔ **Refer to the "Capital management" section of this report for more information on capital requirements**

The Federal Act of 10 October 1997 on the Prevention of Money Laundering in the Financial Sector defines a common standard for due diligence obligations to prevent money laundering for the whole financial sector.

The legal basis for the investment funds business in Switzerland is the Swiss Federal Act on Collective Investment Schemes (Collective Investment Schemes Act) of 23 June 2006, which came into force on 1 January 2007. FINMA, as supervisory authority for investment funds in Switzerland, is responsible for the authorization and supervision of the institutions and investment funds subject to its control.

In our capacity as a securities broker and as an issuer of shares listed in Switzerland, we are governed by the Federal Act on Stock Exchanges and Securities Trading of 24 March 1995. FINMA is the competent supervisory authority with respect to securities broking.

FINMA fulfills its statutory supervisory responsibilities through licensing, regulation, monitoring and enforcement. Generally, prudential supervision in Switzerland is based on a division of tasks between FINMA and authorized audit firms. Under this two-tier supervisory system, FINMA has responsibility for overall supervision and enforcement measures while the authorized audit firms carry out official duties on behalf of FINMA. The responsibilities of external auditors encompass the audit of financial statements, the risk-based assessment of banks' compliance with prudential requirements and on-site audits.

We are classified as a Swiss systemically relevant bank (SRB) due to our size, complexity, organization and business activities, as well as our importance to the financial system. As a Swiss SRB, we are subject to more rigorous supervision than most other banks. We are directly supervised by the FINMA group "Supervision of UBS," which is supported by teams specifically monitoring investment banking activities, risk management and legal matters as well as solvency and capital aspects. FINMA's supervisory tools include meetings with management at group and divisional level, reporting requirements encompassing control and business areas, on-site reviews in Switzerland and abroad, and exchanges with internal audit and host supervisors in other jurisdictions. In recent years, FINMA has implemented the recommendations issued by the Financial Stability Board and the Basel Committee on Banking Supervision, and complemented the Supervisory College with the

UK Financial Services Authority (FSA) and the Federal Reserve Bank of New York (FRBNY), established in 1998 to promote supervisory cooperation and coordination, with a General Supervisory College – including more than a dozen of UBS host regulatory agencies – and a Crisis Management College, which is also attended by representatives from the Swiss National Bank (SNB) and the Bank of England.

The SNB contributes to the stability of the financial system through macro-prudential measures and monetary policy, also providing liquidity to the banking system. It does not exercise any banking supervision authority and is not responsible for enforcing banking legislation, but works together with FINMA in the following areas: (i) assessment of the soundness of Swiss SRB, (ii) regulations that have a major impact on the soundness of banks, including liquidity, capital adequacy and risk distribution provisions, where they are of relevance for financial stability and (iii) contingency planning and crisis management. FINMA and the SNB exchange information and share opinions about the soundness of the banking sector and Swiss SRB, and are authorized to exchange information and documents that are not publicly accessible if they require these in order to fulfill their tasks. With regard to Swiss SRB, the SNB may also carry out its own enquiries and request information directly from the banks. In addition, the SNB has been tasked by Parliament with the designation of Swiss SRB and their systemically relevant functions in Switzerland. Currently, UBS, Credit Suisse and, since 1 November 2013, Zürcher Kantonalbank are required to comply with specific Swiss SRB rules.

➔ Refer to the "Regulatory and legal developments" and "Risk factors" sections of this report for more information

Regulation and supervision in the US

Our operations in the US are subject to a variety of regulatory regimes. UBS maintains branches and representative offices in several states, including Connecticut, Illinois, New York, California and Florida. These branches are licensed either by the Office of the Comptroller of the Currency (OCC) or the state banking authority of the state in which the branch is located. The representative offices are licensed by the OCC. Each US branch and representative office is subject to regulation and supervision, including on-site examination, and to licensing and supervision by the Board of Governors of the Federal Reserve System (FRS). We also maintain state- and federally-chartered trust companies and a Federal Deposit Insurance Corporation (FDIC)-insured depository institution (IDI) subsidiary, which are licensed and regulated by state regulators or the OCC. Only the deposits of our IDI, headquartered in the state of Utah, are insured by the FDIC. The regulation of our US branches and subsidiaries imposes activity and prudential restrictions on the business and operations of those branches and subsidiaries, including limits on extensions of credit to a single borrower and on transactions with affiliates.

The licensing authority of each state-licensed US branch of UBS may, in certain circumstances, take possession of the business and property of UBS located in the state of the UBS offices it licenses. Such circumstances generally include violations of law, unsafe business practices and insolvency. As long as we maintain one or more federal branches licensed by the OCC, the OCC also has the authority to take possession of all the US operations of UBS under broadly similar circumstances, as well as in the event that a judgment against a federally licensed branch remains unsatisfied. This federal power may pre-empt the state insolvency regimes that would otherwise be applicable to our state-licensed branches. As a result, if the OCC exercised its authority over the US branches of UBS pursuant to federal law in the event of a UBS insolvency, all US assets of UBS would generally be applied first to satisfy creditors of these US branches as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

Because we maintain branches in the US, we are subject to oversight regulation and supervision by the FRS under various laws (including the International Banking Act of 1978, the Federal Reserve Act of 1913 and the Bank Holding Company Act of 1956 (BHCA), each as amended, and related regulations). On 10 April 2000, UBS was designated a "financial holding company" under the BHCA, as amended by the Gramm-Leach-Bliley Act of 1999. Financial holding companies may engage in a broader spectrum of activities than holding companies of US banks or foreign banking organizations that are not financial holding companies. These activities include expanded authority to underwrite and deal in securities and commodities and to make merchant banking investments in commercial and real estate entities. To maintain our financial holding company status, (i) the Group, our US subsidiary federally-chartered trust company (Federal Trust Company) and our IDI are required to meet certain capital ratios, (ii) our US branches, our Federal Trust Company, and our IDI are required to maintain certain examination ratings, and (iii) our IDI is required to maintain a rating of at least "satisfactory" under the Community Reinvestment Act of 1977.

A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing. Regulations applicable to UBS and our subsidiaries require the maintenance of effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of our clients. As a result, failure to maintain and implement adequate programs to prevent money laundering and terrorist financing could result in significant legal and reputational risk.

In the US, UBS Securities LLC and UBS Financial Services Inc., as well as our other US-registered broker-dealer subsidiaries, are subject to laws and regulations that cover all aspects of the securities and futures business, including: sales and trading practices, use and safekeeping of clients' funds and securities, capital requirements, record-keeping, financing of clients' purchases of securities and other assets, and the conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). Each entity is also regulated

by some or all of the following: the New York Stock Exchange (NYSE), the Municipal Securities Rulemaking Board, the US Department of the Treasury, the Commodities Futures Trading Commission (CFTC) and other exchanges of which it may be a member, depending on the specific nature of the respective broker-dealer's business. In addition, the US states and territories have local securities commissions that regulate and monitor activities in the interest of investor protection. These regulators have a variety of sanctions available, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

FINRA is dedicated to investor protection and market integrity through effective regulation and complementary compliance and technology-based services. FINRA covers a broad spectrum of securities matters, including: registering and educating industry participants, examining securities firms, writing rules, enforcing those rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering a dispute resolution forum for investors and registered firms. It also performs market regulation under contract for the NASDAQ Stock Market and the NYSE. The SEC's mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds. UBS Global Asset Management (Americas) Inc., and our other US-registered investment adviser entities, are subject to regulations that cover all aspects of the investment advisory business and are regulated primarily by the SEC. Some of these entities are also registered as commodity trading advisers (CTA) and/or commodity pool operators (CPO) and in connection with their activities as CTA and/or CPO are regulated by the CFTC. To the extent these entities manage plan assets of employee benefit plans subject to the Employee Retirement Income Security Act of 1974, their activities are subject to regulation by the US Department of Labor.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) impacts the financial services industry by addressing, among other issues, the following: (i) systemic risk oversight, (ii) bank, bank holding company, and other systemically important financial institution (SIFI) capital and prudential standards, (iii) resolution and liquidation of failing SIFIs, (iv) over-the-counter derivatives, (v) the ability of deposit-taking banks and their affiliates to engage in proprietary trading activities and invest in hedge funds and private equity (the Volcker Rule), (vi) consumer and investor protection, (vii) hedge fund registration, (viii) securitization, (ix) investment advisors, (x) shareholder "say on pay" and (xi) the role of credit-rating agencies. Many of the provisions of the Dodd-Frank Act affect the operation of UBS's US banking and non-banking entities and have extraterritorial reach. The details of the legislation and its impact on UBS's operations will depend on the final regulations being adopted by various agencies and oversight boards.

➔ **Refer to the "Regulatory and legal developments" and "Risk factors" sections of this report for more information**

Regulation and supervision in the UK

With the UK government having separated responsibility for prudential regulation and conduct of business regulation in early 2013, our operations in the UK are mainly regulated by two bodies: the Prudential Regulation Authority (PRA), newly established as an affiliated authority of the Bank of England, and the Financial Conduct Authority (FCA). The PRA's main objective towards the banking sector is to promote the safety and soundness of UK-regulated financial firms. The FCA is responsible for securing an appropriate degree of consumer protection, protecting the integrity of the UK financial system and promoting effective competition in the interest of consumers.

The PRA and FCA operate a risk-based approach to supervision and have a wide variety of supervisory tools available to them, including regular risk assessments, on-site inspections (which may relate to an industry-wide theme or be firm-specific) and the ability to commission reports by skilled persons (who may be the firm's auditors, information technology specialists, lawyers or other consultants as appropriate). The UK regulators also have an extremely wide set of sanctions at their disposal, which may be imposed under the Financial Services and Markets Act (FSMA).

Some of our subsidiaries and affiliates are also regulated by the London Stock Exchange and other UK securities and commodities exchanges of which they are a member. We are also subject to the requirements of the UK Panel on Takeovers and Mergers, where relevant.

Financial services regulation in the UK is conducted in accordance with EU directives which require, among other things, compliance with certain capital adequacy standards, client protection requirements and conduct of business rules (such as the Markets in Financial Instruments Directive I). These directives apply throughout the EU and are reflected in the regulatory regimes of the various member states.

➔ **Refer to the "Regulatory and legal developments" and "Risk factors" sections of this report for more information**

Risk factors

Certain risks, including those described below, may impact our ability to execute our strategy and affect our business activities, financial condition, results of operations and prospects. Because the business of a broad-based international financial services firm such as UBS is inherently exposed to risks that become apparent only with the benefit of hindsight, risks of which we are not presently aware or which we currently do not consider to be material could also impact our ability to execute our strategy and affect our business activities, financial condition, results of operations and prospects. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their consequences.

Regulatory and legislative changes may adversely affect our business and ability to execute our strategic plans

Fundamental changes in the laws and regulations affecting financial institutions can have a material and adverse effect on our business. In the wake of the 2007–2009 financial crisis and the following instability in global financial markets, regulators and legislators have proposed, have adopted, or are actively considering, a wide range of changes to these laws and regulations. These measures are generally designed to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. They include the following:

- significantly higher regulatory capital requirements;
- changes in the definition and calculation of regulatory capital;
- changes in the calculation of risk-weighted assets (RWA);
- the introduction of a more demanding leverage ratio;
- new or significantly enhanced liquidity requirements;
- requirements to maintain liquidity and capital in jurisdictions in which activities are conducted and booked;
- limitations on principal trading and other activities;
- new licensing, registration and compliance regimes;
- limitations on risk concentrations and maximum levels of risk;
- taxes and government levies that would effectively limit balance sheet growth or reduce the profitability of trading and other activities;
- cross-border market access restrictions;
- a variety of measures constraining, taxing or imposing additional requirements relating to compensation;
- adoption of new liquidation regimes intended to prioritize the preservation of systemically significant functions;
- requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to manage, restructure, disassemble or liquidate, including ring-fencing certain activities and operations within separate legal entities; and
- requirements to adopt risk governance structures at a local jurisdiction level.

Many of these measures have been adopted and their implementation had a material effect on our business. Others will be implemented over the next several years; some are subject to legislative action or to further rulemaking by regulatory authorities before final implementation. As a result, there remains a high level of uncertainty regarding a number of the measures referred to above, including whether (or the form in which) they will be adopted, the timing and content of implementing regulations and interpretations and/or the dates of their effectiveness. The implementation of such measures and further, more restrictive changes may materially affect our business and ability to execute our strategic plans.

Notwithstanding attempts by regulators to coordinate their efforts, the measures adopted or proposed differ significantly across the major jurisdictions, making it increasingly difficult to manage a global institution. The absence of a coordinated approach, moreover, disadvantages institutions headquartered in jurisdictions that impose relatively more stringent standards. Switzerland has adopted capital and liquidity requirements for its major international banks that are the strictest among the major financial centers. This could disadvantage Swiss banks such as UBS when they compete with peer financial institutions subject to more lenient regulation or with unregulated non-bank competitors.

Regulatory and legislative changes in Switzerland

In September 2011, the Swiss Parliament adopted the "too-big-to-fail" (TBTF) law to address the issues posed by large banks. The law became effective on 1 March 2012. Accordingly, Swiss regulatory changes have generally proceeded more quickly than those in other major jurisdictions, and the Swiss Financial Market Supervisory Authority (FINMA), the Swiss National Bank (SNB) and the Swiss Federal Council are implementing requirements that are significantly more onerous and restrictive for major Swiss banks, such as UBS, than those adopted or proposed by regulatory authorities in other major global financial centers.

Capital regulation: The provisions of the revised banking ordinance and capital adequacy ordinance implementing the Basel III capital standards and the Swiss TBTF law became effective on 1 January 2013. As a systemically relevant Swiss bank, we are subject to base capital requirements, as well as a "progressive buffer" that scales with our total exposure (a metric that is based on our balance sheet size) and market share in Switzerland. In addition, the Swiss governmental authorities have the authority to impose an additional countercyclical buffer capital requirement of up to 2.5% of RWA. This authority has been exercised to impose an additional capital charge of 1% in respect of RWA arising

from Swiss residential mortgage loans (increasing to 2% effective from the end of June 2014). In addition, UBS and FINMA have mutually agreed to an incremental operational capital requirement to be held against litigation, regulatory and similar matters and other contingent liabilities, which added CHF 22.5 billion to our RWA at 31 December 2013. There can be no assurance that we will not in the future be subject to increases in capital requirements either from the imposition of additional requirements or changes in the calculation of RWA or other components of the existing minimum capital requirement.

Liquidity and funding: We are required to maintain a Liquidity Coverage Ratio (LCR) of high-quality liquid assets to estimated stressed short-term funding outflows and will be required to maintain a Net Stable Funding Ratio (NSFR) intended to ensure that we are not overly reliant on short-term funding and that we have sufficient long-term funding for illiquid assets. We currently calculate these ratios under supervisory guidance from FINMA, as neither the international nor Swiss standards for the calculation of these requirements have been fully implemented. These requirements, together with liquidity requirements imposed by other jurisdictions in which we operate, will likely require us to maintain substantially higher levels of overall liquidity. Increased capital requirements and higher liquidity requirements make certain lines of business less attractive and may reduce our overall ability to generate profits. The LCR and NSFR calculations make assumptions about the relative likelihood and amount of outflows of funding and available sources of additional funding in a market or firm-specific stress situation. There can be no assurance that in an actual stress situation our funding outflows would not exceed the assumed amounts.

Resolution planning and resolvability: The revised banking act and capital adequacy ordinances provide FINMA with additional powers to intervene to prevent a failure or resolve a failing financial institution. These measures may be triggered when certain thresholds are breached and permit the exercise of considerable discretion by FINMA in determining whether, when or in what manner to exercise such powers. In case of a threatened insolvency, FINMA may impose more onerous requirements on us, including restrictions on the payment of dividends and interest. Although the actions that FINMA may take in such circumstances are not yet defined, we could be required directly or indirectly, for example, to alter our legal structure (e.g., to separate lines of business into dedicated entities, with limitations on intra-group funding and certain guarantees), or to further reduce business risk levels in some manner. The banking act also provides FINMA with the ability to extinguish or convert to common equity the liabilities of a bank in connection with its resolution.

Swiss TBTF requirements require systemically important banks, including UBS, to put in place viable emergency plans to preserve the operation of systemically important functions despite a failure of the institution, to the extent that such activities are not sufficiently separated in advance. The Swiss TBTF law provides for the possibility of a limited reduction of capital requirements for systemically important institutions that adopt measures to reduce resolvability risk beyond what is legally required. Such actions would likely include an alteration of the legal structure of a bank group in a manner that would insulate parts of the group to exposure from risks arising from other parts of the group thereby making it easier to dispose of certain parts of the group in a recovery scenario, to liquidate or dispose of certain parts of the group in a resolution scenario or to execute a debt bail-in. In view of these factors, we intend to establish a new banking subsidiary of UBS AG in Switzerland. The scope of this potential future subsidiary's business is still being determined, but we would currently expect it to include our Retail & Corporate business division and likely the Swiss-booked business within our Wealth Management business division. We expect to implement this change in a phased approach starting in mid-2015. This structural change is being discussed on an ongoing basis with FINMA, and remains subject to a number of uncertainties that may affect its feasibility, scope or timing. We may consider further changes to the legal structure of the Group in response to regulatory requirements in Switzerland or in other countries in which we operate, including to improve the resolvability of the UBS Group, to respond to Swiss and other capital requirements (including seeking potential reduction in the progressive buffer requirement as applied to us) and to respond to regulatory required changes in legal structure. Movement of businesses to a new subsidiary ("subsidiarization") will require significant time and resources to implement. "Subsidiarization" in Switzerland and elsewhere may create operational, capital, funding and tax inefficiencies and increase our and counterparties' credit risk. Refer to "Regulatory and legislative changes outside Switzerland" for a description of other regulatory and legislative developments that may affect these decisions and further discussion of these risks.

In September 2013, the Swiss National Council approved two motions for the mandatory structural reform of banks in Switzerland that would, if also adopted by the Council of States, result in the submission to Parliament of a law requiring the separation of certain investment banking activities from systemically relevant activities, such as retail and commercial banking. No date has been set for the debate. It is unclear whether, when and in what form such a law will be adopted.

Market regulation: The Swiss government is working on fundamentally reviewing the rules on market infrastructure and on the relationship between us and our clients. These laws may, if enacted, have a material impact on the market infrastructure that we use, available platforms, collateral management and the way we interact with clients. In addition, these initiatives may cause us to incur material implementation costs.

Regulatory and legislative changes outside Switzerland

Regulatory and legislative changes in other locations in which we operate may subject us to a wide range of new restrictions both in individual jurisdictions and, in some cases, globally.

Banking structure and activity limitations: Some of these regulatory and legislative changes may subject us to requirements to move activities from UBS AG branches into subsidiaries. Such "subsidiarization" can create operational, capital and tax ineffi-

ciencies, increase our aggregate credit exposure to counterparties as they transact with multiple UBS AG affiliates, expose our businesses to higher local capital requirements, and potentially give rise to client and counterparty concerns about the credit quality of individual subsidiaries. Such changes could also negatively impact our funding model and severely limit our booking flexibility.

For example, we have significant operations in the UK and currently use UBS AG's London branch as a global booking center for many types of products. We are being required by the UK Prudential Regulatory Authority and by FINMA to increase very substantially the capitalization of our UK bank subsidiary, UBS Limited, and expect to be required to change our booking practices to reduce or even eliminate our utilization of UBS AG London branch as a global booking center for the ongoing business of the Investment Bank. In addition, the UK Independent Commission on Banking has recommended structural and non-structural reforms of the banking sector, most of which have been endorsed by the UK government and implemented in the Financial Services (Banking Reform) Act. Key measures proposed include the ring-fencing of retail banking activities in the UK (which we do not expect to impact us directly), additional common equity tier 1 capital requirements of up to 3% of RWA for retail banks, and the issuance by UK banks of debt subject to "bail-in" provisions. Furthermore, the European Commission's recent proposals in light of the Liikanen report also advocate a Volcker-style prohibition on proprietary trading together with a separation of trading from banking activities. The applicability and implications of such changes to branches and subsidiaries of foreign banks are not yet entirely clear, but they could have a material effect on our businesses located or booked in the UK.

In February 2014, the Federal Reserve Board issued final rules for foreign banking organizations (FBO) operating in the US (under section 165 of the Dodd-Frank Act) that include the following: (i) a requirement for FBO with more than USD 50 billion of US non-branch assets to establish an intermediate holding company (IHC) to hold all US subsidiary operations, (ii) risk-based capital and leverage requirements for the IHC, (iii) liquidity requirements, including a 30-day onshore liquidity requirement for the IHC, (iv) risk management requirements including the establishment of a risk committee and the appointment of a US chief risk officer, (v) stress test and capital planning requirements and (vi) a debt-to-equity limit for institutions that pose "a grave threat" to US financial stability. Requirements differ based on the overall size of the foreign banking organization and the amount of its US-based assets. We expect that we will be subject to the most stringent requirements based on our current operations. We will have until 1 July 2016 to establish an IHC and meet many of the new requirements. We must submit an implementation plan by 1 January 2015 and the IHC will not need to comply with the US leverage ratio until 1 January 2018.

US regulators published final regulations implementing the Volcker Rule in December 2013 and generally extended until 2015 the time to conform to this rule and the related regulations. In general, the Volcker Rule prohibits any banking entity from engaging in proprietary trading and from owning interests in hedge funds and other private fund vehicles. The Volcker Rule also broadly limits investments and other transactional activities between a bank and funds that the bank has sponsored or with which the bank has certain other relationships. The Volcker Rule permits us and other non-US banking entities to engage in certain activities that would otherwise be prohibited to the extent that they are conducted solely outside the US and certain other conditions are met. One impact will be the need to establish an extensive global compliance framework designed to ensure compliance with the Volcker Rule and the terms of the available exemptions. Moreover, the Volcker Rule could have an impact on the way in which we organize and conduct certain business lines. We continue to evaluate the final rule and its impact on our activities. The Volcker Rule could have a substantial impact on market liquidity and the economics of market-making activities.

OTC derivatives regulation: In 2009, the G20 countries committed to require all standardized over-the-counter (OTC) derivative contracts to be traded on exchanges or trading facilities and cleared through central counterparties by the end of 2012. This commitment is being implemented through the Dodd-Frank Act in the US and corresponding legislation in the European Union, Switzerland and other jurisdictions, and will have a significant impact on our OTC derivatives business, which is conducted primarily in the Investment Bank. For example, we expect that, as a rule, the shift of OTC derivatives trading to a central clearing model will tend to reduce profit margins in these products, although some market participants may be able to offset this effect with higher trading volumes in commoditized products. Although we are preparing for these thematic market changes, they are likely to reduce the revenue potential of certain lines of business for market participants generally, and we may be adversely affected.

UBS AG registered as a swap dealer with the Commodity Futures Trading Commission (CFTC) in the US at the end of 2012, enabling the continuation of swaps business with US persons. We also expect that UBS AG will be required to register as a securities-based swap dealer with the US Securities and Exchange Commission. Regulations issued by the CFTC impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. Certain of the CFTC's regulations, including those relating to swap data reporting, recordkeeping, compliance and supervision, are expected to apply to UBS AG globally. In July 2013, the CFTC approved final cross-border guidance that defines the extraterritorial application of its swaps regulations. This guidance may allow non-US swap dealers, such as UBS AG, to operate on the basis of "substituted compliance," under which they may comply with home country requirements instead of the corresponding CFTC requirements if the CFTC determines the home country requirements to be "comprehensive and comparable." In December 2013, the CFTC issued comparability determinations for Switzerland (as well as the home countries of certain other non-US swap dealers) that will allow us to comply with relevant Swiss regulations instead of CFTC requirements for many, but not

all, of the CFTC regulations for which substituted compliance is available. While the CFTC deferred a comparability determination on swap data reporting requirements as we continue to review the issue, it granted reporting no-action relief that allows UBS AG (and other non-US swap dealers) to delay reporting transactions with non-US persons for several months. The CFTC's regulations will apply to swaps between non-US persons and non-US swap dealers when US personnel are involved, but in January 2014, the CFTC delayed the applicability of US regulations in this context until 15 September 2014, giving additional time for foreign swap dealers to comply with US requirements regarding transactions with non-US persons conducted from the US. Application of these requirements to our swaps business with non-US persons continues to present a substantial implementation burden, will likely duplicate or conflict with legal requirements applicable to us outside of the US and may place us at a competitive disadvantage to firms that are not CFTC-registered swap dealers.

Regulation of cross-border provision of financial services: In many instances, we provide services on a cross-border basis and are therefore sensitive to barriers restricting market access for third-country firms. In particular, efforts in the European Union (EU) to harmonize the regime for third-country firms to access the European market may have the effect of creating new barriers that adversely affect our ability to conduct business in these jurisdictions from Switzerland. In addition, a number of jurisdictions are increasingly regulating cross-border activities on the basis of some notion of comity (e.g., substituted compliance, equivalence determination). While the issuance of such determinations in particular jurisdictions may ensure market access for us to those jurisdictions, a negative determination in other jurisdictions may negatively influence our ability to act as a global firm. In addition, as jurisdictions tend to apply such determinations on a jurisdictional level rather than on an entity level, we will generally need to rely on jurisdictions' willingness to collaborate.

Resolution and recovery; bail-in

We are currently required to produce recovery and resolution plans in the US, UK, Switzerland and Germany and are likely to face similar requirements for our operations in other jurisdictions, including our operations in the EU as a whole, as part of the proposed EU Bank Recovery and Resolution Directive. Resolution plans may increase the pressure on us to make structural changes, such as the creation of separate legal entities, if the resolution plan in any jurisdiction identifies impediments that are not acceptable to the relevant regulators. Such structural changes may negatively impact our ability to benefit from synergies between business units, and if they include the creation of separate legal entities, may have the other negative consequences mentioned above with respect to "subsidiarization" more generally.

In addition, a number of jurisdictions, including Switzerland, the US, the UK and the EU, have implemented or are considering implementing changes that would allow resolution authorities to write down or convert into equity unsecured debt to effectuate a so-called "bail-in." Some jurisdictions are also considering adopting requirements that regulated firms maintain specified amounts of unsecured debt that could increase loss-absorbing capacity. The scope of bail-in authority and the legal mechanisms that would be utilized for the purpose are subject to a great deal of development and interpretation. Depending upon the outcome, bail-in authority may have a significant effect on our funding costs.

Possible consequences of regulatory and legislative developments

The planned and potential regulatory and legislative developments in Switzerland and in other jurisdictions in which we have operations may have a material adverse effect on our ability to execute our strategic plans, on the profitability or viability of certain business lines globally or in particular locations, and in some cases on our ability to compete with other financial institutions. They are likely to be costly to implement and could also have a negative impact on our legal structure or business model, potentially generating capital inefficiencies and resulting in an impact on our profitability. Finally, the uncertainty related to or the implementation of legislative and regulatory changes may have a negative impact on our relationships with clients and our success in attracting client business.

Our capital strength is important in supporting our strategy, client franchise and competitive position

Our capital position, as measured by the fully applied common equity tier 1 and total capital ratios under Basel III requirements, is determined by: (i) RWA (credit, non-counterparty related, market and operational risk positions, measured and risk-weighted according to regulatory criteria); and (ii) eligible capital. Both RWA and eligible capital may fluctuate based on a number of factors. RWA are driven by our business activities and by changes in the risk profile of our exposures, as well as regulatory requirements. For instance, substantial market volatility, a widening of credit spreads (the major driver of our value-at-risk), adverse currency movements, increased counterparty risk, a deterioration in the economic environment, or increased operational risk could result in a rise in RWA. Eligible capital would be reduced if we experience net losses or losses through other comprehensive income, as determined for the purpose of the regulatory capital calculation, which may also render it more difficult or more costly for us to raise new capital. In addition, eligible capital can be reduced for a number of other reasons, including certain reductions in the ratings of securitization exposures, acquisitions and divestments changing the level of goodwill, adverse currency movements affecting the value of equity, prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, and changes in the value of certain pension fund assets and liabilities recognized in other comprehensive income. Any such increase in RWA or reduction in eligible capital could materially reduce our capital ratios.

Risks captured in the operational risk component of RWA have become increasingly significant as a component of our overall

RWA as a result of significant reductions in market and credit risk RWA, as we execute our strategy, and increased operational risk charges arising from operational risk events (including charges arising from litigation, regulatory and similar matters). We have agreed with FINMA on a supplemental analysis that will be used to calculate an incremental operational risk capital charge to be held for litigation, regulatory and similar matters and other contingent liabilities. The incremental RWA calculated based on this supplemental analysis as of 31 December 2013 was CHF 22.5 billion. Future developments in and the ultimate elimination of the incremental RWA attributable to the supplemental analysis will depend on provisions charged to earnings for litigation, regulatory and similar matters and other contingent liabilities and on developments in these matters. There can be no assurance that we will be successful in addressing these matters and reducing or eliminating the incremental operational risk RWA.

The required levels and calculation of our regulatory capital and the calculation of our RWA are also subject to changes in regulatory requirements or their interpretation, as well as the exercise of regulatory discretion. Changes in the calculation of RWA under Basel III and Swiss requirements (such as the revised treatment of certain securitization exposures under the Basel III framework) have significantly increased the level of our RWA and, therefore, have adversely affected our capital ratios. We have achieved substantial reductions in RWA, in part to mitigate the effects of increased capital requirements. However, there is a risk that we will not be successful in pursuing our plans to further reduce RWA, either because we are unable to carry out fully the actions we have planned or because other business or regulatory developments or actions to some degree counteract the benefit of our actions.

In addition to the risk-based capital requirements, we are subject to a minimum leverage ratio requirement for Swiss systemically relevant banks. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain our business activities even if we are able to satisfy other risk-based capital requirements. We have achieved substantial reductions in our balance sheet size and anticipate further reductions as we wind down our Non-core and Legacy Portfolio positions. These reductions would improve our leverage ratio and contribute to our ability to comply with the more stringent leverage ratio requirements scheduled to become effective in future years. There can be no assurance that these plans will be executed successfully. There is also a risk that the minimum leverage ratio requirement will be increased significantly beyond the levels currently scheduled to come into effect, making it more difficult for us to satisfy the requirements without adversely affecting certain of our businesses.

Changes in the Swiss requirements for risk-based capital or leverage ratios, whether pertaining to the minimum levels required for large Swiss banks or to the calculation thereof, could have a material adverse effect on our business and could affect our competitive position internationally compared with institutions that are regulated under different regimes.

We may not be successful in completing our announced strategic plans or in implementing changes in our businesses to meet changing market, regulatory and other conditions

In October 2012, we announced a significant acceleration in the implementation of our strategy. The strategy included transforming our Investment Bank to focus it on its traditional strengths, very significantly reducing Basel III RWA and further strengthening our capital position, and significantly reducing costs and improving efficiency across the Group. We have made significant progress in implementing the strategy and as of the end of 2013 are ahead of the majority of our performance targets. There continues to be a risk that we will not be successful in completing the execution of our plans, or that our plans may be delayed or that the effects of our plans may differ from those intended.

Although we have substantially reduced the RWA and balance sheet usage associated with our Non-core and Legacy Portfolio positions, there can be no assurance that we will be able to exit them as quickly as our plans suggest or that we will not incur significant losses in doing so. The continued illiquidity and complexity of many of the legacy risk positions in particular could make it difficult to sell or otherwise exit these positions and reduce the RWA and the balance sheet usage associated with these exposures. At the same time, our strategy rests heavily on our ability to reduce those RWA and balance sheet usage in order to meet our future capital targets and requirements without incurring unacceptable losses.

As part of our strategy, we have underway a program to achieve significant incremental cost reductions. The success of our strategy and our ability to reach certain of the targets we have announced depends heavily on the effectiveness of the cost reduction and efficiency measures we are able to carry out. As is often the case with major cost reduction and efficiency programs, our plans involve significant risks. Included among these are the risks that restructuring costs may be higher and may be recognized sooner than we have projected and that we may not be able to identify feasible cost reduction opportunities at the level of our objective that are also consistent with our business goals. In addition, when we implement our cost reduction and efficiency programs we may experience unintended consequences such as the loss or degradation of capabilities that we need in order to maintain our competitive position and achieve our targeted returns.

We are exposed to possible outflows of client assets in our asset-gathering businesses and to changes affecting the profitability of our Wealth Management business division, and we may not be successful in implementing the business changes needed to address them. We experienced substantial net outflows of client assets in our wealth management and asset management businesses in 2008 and 2009. The net outflows resulted from a number of different factors, including our substantial losses, the damage to our reputation, the loss of client advisors, difficulty in recruiting qualified client advisors and tax, legal and regulatory developments concerning our cross-border private banking business.

Many of these factors have been successfully addressed. Our Wealth Management and Wealth Management Americas business divisions recorded substantial net new money inflows in 2013. Long-term changes affecting the cross-border private banking business model will, however, continue to affect client flows in the Wealth Management business division for an extended period of time. One of the important drivers behind the longer-term reduction in the amount of cross-border private banking assets, particularly in Europe but increasingly also in other regions, is the heightened focus of fiscal authorities on cross-border investments. Changes in local tax laws or regulations and their enforcement may affect the ability or the willingness of our clients to do business with us or the viability of our strategies and business model. In 2012 and 2013, we experienced net withdrawals in our Swiss booking center from clients domiciled elsewhere in Europe, in many cases related to the negotiation of tax treaties between Switzerland and other countries, including the treaty with Germany that was ultimately not ratified by Germany.

The net new money inflows in recent years in our Wealth Management business division have come predominantly from clients in Asia Pacific and in the ultra high net worth segment globally. Over time, inflows from these lower-margin segments and markets have been replacing outflows from higher-margin segments and markets, in particular cross-border European clients. This dynamic, combined with changes in client product preferences as a result of which low-margin products account for a larger share of our revenues than in the past, put downward pressure on our return on invested assets and adversely affect the profitability of our Wealth Management business division. We have implemented changes in our product offerings and service improvements, and will continue our efforts to adjust to client trends and market dynamics as necessary, in an effort to overcome the effects of these changes in the business mix on our profitability, but there can be no assurance that we will be able to counteract those effects. In addition, we have made changes to our business offerings and pricing practices in line with the Swiss Supreme Court case concerning "retrocessions" and other industry developments. These changes may adversely affect our margins on these products and the current offering may be less attractive to clients than the products it replaces. There can be no assurance that we will be successful in our efforts to offset the adverse impact of these trends and developments.

Global Asset Management experienced net outflows of client assets in 2012 and 2013. Further net outflows of client assets could adversely affect the results of this business division.

Material legal and regulatory risks arise in the conduct of our business

The nature of our business subjects us to significant regulatory oversight and liability risk. As a global financial services firm operating in more than 50 countries, we are subject to many different legal, tax and regulatory regimes. We are involved in a variety of claims, disputes, legal proceedings and government investigations in jurisdictions where we are active. These proceedings expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil penalties, in addition to potential regulatory restrictions on our businesses. The outcome of most of these matters, and their potential effect on our future business or financial results, is extremely difficult to predict.

We are subject to a large number of claims, disputes, legal proceedings and government investigations and expect that our ongoing business activities will continue to give rise to such matters in the future. The extent of our financial exposure to these and other matters could be material and could substantially exceed the level of provisions that we have established for litigation, regulatory and similar matters.

In December 2012, we announced settlements totaling approximately CHF 1.4 billion in fines by and disgorgements to US, UK and Swiss authorities to resolve investigations by those authorities relating to LIBOR and other benchmark interest rates. UBS AG entered into a non-prosecution agreement with the US Department of Justice and UBS Securities Japan Co. Ltd. also pled guilty to one count of wire fraud relating to the manipulation of certain benchmark interest rates. The settlements do not resolve investigations by other authorities or civil claims that have been or may in the future be asserted by private and governmental claimants with respect to submissions for LIBOR or other benchmark interest rates. The extent of our financial exposure to these remaining matters is extremely difficult to estimate and could be material.

These settlements starkly illustrate the much-increased level of financial and reputational risk now associated with regulatory matters in major jurisdictions. Very large fines and disgorgement amounts were assessed against UBS, and the guilty plea of a UBS subsidiary was required, in spite of our full cooperation with the authorities in the investigations relating to LIBOR and other benchmark interest rates, and in spite of our receipt of conditional leniency or conditional immunity from antitrust authorities in a number of jurisdictions, including the US and Switzerland. We understand that, in determining the consequences to us, the authorities considered the fact that we have in the recent past been determined to have engaged in serious misconduct in several other matters. The heightened risk level was further illustrated by the European Commission (EC) announcement in December 2013 of fines against other financial institutions related to its Yen Interest Rate Derivatives (YIRD) investigation. The EC stated that UBS would have been subject to fines of approximately EUR 2.5 billion had UBS not received full immunity for disclosing to the EC the existence of infringements relating to YIRD.

Under the non-prosecution agreement we entered into in connection with the LIBOR matter, we have agreed, among other things, that, for two years from 18 December 2012 UBS will not commit any US crime, and we will advise the Department of Justice of all potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. UBS is also obligated to continue to cooperate fully with the Department of Justice. Failure to comply

with these obligations could result in termination of the non-prosecution agreement and potential criminal prosecution in relation to the matters covered by the non-prosecution agreement. As a result of this history and our ongoing obligations under the non-prosecution agreement, our level of risk with respect to regulatory enforcement may be greater than that of some of our peer institutions.

Considering our overall exposures and the current regulatory and political climate affecting financial institutions, we expect charges associated with legal, regulatory and similar matters to remain at elevated levels through 2014.

Ever since our losses in 2007 and 2008, we have been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain our strategic flexibility. While we believe that we have remediated the deficiencies that led to the material losses during the 2007–2009 financial crisis, the unauthorized trading incident announced in September 2011 and the LIBOR-related settlements of 2012, the effects of these matters on our reputation and relationships with regulatory authorities have proven to be more difficult to overcome. For example, following the unauthorized trading incident FINMA informed us that we would not be permitted to undertake acquisitions in our Investment Bank unit (unless FINMA granted an exception), and that material new business initiatives in that unit would be subject to FINMA oversight. We are determined to address the issues that have arisen in the above and other matters in a thorough and constructive manner. We are in active dialogue with our regulators concerning the actions that we are taking to improve our operational risk management and control framework, but there can be no assurance that our efforts will have the effects desired. Although the special restrictions mentioned above have recently been withdrawn by FINMA, this example illustrates that difficulties associated with our relationships with regulatory authorities have the potential to adversely affect the execution of our business strategy.

➔ **Refer to “Note 22 Provisions and contingent liabilities” in the “Financial information” section of this report for more information on litigation, regulatory and similar matters**

Operational risks may affect our business

All of our businesses are dependent on our ability to process a large number of complex transactions across multiple and diverse markets in different currencies, to comply with requirements of many different legal and regulatory regimes to which we are subject and to prevent, or promptly detect and stop, unauthorized, fictitious or fraudulent transactions. Our operational risk management and control systems and processes are designed to help ensure that the risks associated with our activities, including those arising from process error, failed execution, unauthorized trading, fraud, system failures, cyber-attacks, breaches of information security and failure of security and physical protection, are appropriately controlled.

For example, cyber-crime is a fast growing threat to large organizations that rely on technology to support their business, like us. Cyber-crime can range from internet-based attacks that interfere with the organizations’ internet websites, to more sophisticated crimes that target the organizations, as well as their clients, and seek to gain unauthorized access to technology systems in efforts to disrupt business, steal money or obtain sensitive information.

A major focus of US governmental policy relating to financial institutions in recent years has been fighting money laundering and terrorist financing. Regulations applicable to us and our subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their clients. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences, both in legal terms and in terms of our reputation.

Although we are continuously adapting our capability to detect and respond to the risks described above, if our internal controls fail or prove ineffective in identifying and remedying them we could suffer operational failures that might result in material losses, such as the loss from the unauthorized trading incident announced in September 2011.

Participation in high-volume and high-frequency trading activities, even in the execution of client-driven business, can also expose us to operational risks. Our loss in 2012 relating to the Facebook initial public offering illustrates the exposure participants in these activities have to unexpected results arising not only from their own systems and processes but also from the behavior of exchanges, clearing systems and other third parties and from the performance of third-party systems.

Certain types of operational control weaknesses and failures could also adversely affect our ability to prepare and publish accurate and timely financial reports. We identified control deficiencies following the unauthorized trading incident announced in September 2011, and management determined that we had a material weakness in our internal control over financial reporting as of the end of 2010 and 2011, although this has not affected the reliability of our financial statements for either year.

In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may include a disruption due to natural disasters, pandemics, civil unrest, war or terrorism and involve electrical, communications, transportation or other services used by us or third parties with whom we conduct business.

Our reputation is critical to the success of our business

Our reputation is critical to the success of our strategic plans. Damage to our reputation can have fundamental negative effects on our business and prospects. Reputational damage is difficult to reverse, and improvements tend to be slow and difficult to measure. This was demonstrated in recent years, as our very large losses during the financial crisis, the US cross-border matter and other events seriously damaged our reputation. Reputational damage

was an important factor in our loss of clients and client assets across our asset-gathering businesses, and contributed to our loss of and difficulty in attracting staff, in 2008 and 2009. These developments had short-term and also more lasting adverse effects on our financial performance, and we recognized that restoring our reputation would be essential to maintaining our relationships with clients, investors, regulators and the general public, as well as with our employees. More recently, the unauthorized trading incident announced in September 2011 and our involvement in the LIBOR matter also adversely affected our reputation. Any further reputational damage could have a material adverse effect on our operational results and financial condition and on our ability to achieve our strategic goals and financial targets.

Performance in the financial services industry is affected by market conditions and the macroeconomic climate

The financial services industry prospers in conditions of economic growth; stable geopolitical conditions; transparent, liquid and buoyant capital markets and positive investor sentiment. An economic downturn, continued low interest rates or weak or stagnant economic growth in our core markets, or a severe financial crisis can negatively affect our revenues and ultimately our capital base.

A market downturn and weak macroeconomic conditions can be precipitated by a number of factors, including geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, war or terrorism. Because financial markets are global and highly interconnected, even local and regional events can have widespread impacts well beyond the countries in which they occur. A crisis could develop, regionally or globally, as a result of disruptions in emerging markets as well as developed markets that are susceptible to macroeconomic and political developments, or as a result of the failure of a major market participant. We have material exposures to a number of these markets, both as a wealth manager and as an investment bank. Moreover, our strategic plans depend more heavily upon our ability to generate growth and revenue in emerging markets, causing us to be more exposed to the risks associated with them. The continued absence of sustained and credible improvements to unresolved issues in Europe, continued US fiscal and monetary policy issues, emerging markets fragility and the mixed outlook for global growth demonstrate that macroeconomic and political developments can have unpredictable and destabilizing effects. Adverse developments of these kinds have affected our businesses in a number of ways, and may continue to have further adverse effects on our businesses as follows:

– a general reduction in business activity and market volumes, as we have recently experienced, affects fees, commissions and margins; local or regional economic factors, such as the ongoing European sovereign debt concerns, could also have an effect on us;
– a market downturn is likely to reduce the volume and valuations of assets we manage on behalf of clients, reducing our asset- and performance-based fees;
– the ongoing low interest rate environment will further erode interest margins in several of our businesses;
– reduced market liquidity or volatility limits trading and arbitrage opportunities and impedes our ability to manage risks, impacting both trading income and performance-based fees;
– deteriorating market conditions could cause a decline in the value of assets that we own and account for as investments or trading positions;
– worsening economic conditions and adverse market developments could lead to impairments and defaults on credit exposures and on trading and investment positions, and losses may be exacerbated by declines in the value of collateral we hold; and
– if individual countries impose restrictions on cross-border payments or other exchange or capital controls, or change their currency (for example, if one or more countries should leave the euro), we could suffer losses from enforced default by counterparties, be unable to access our own assets, or be impeded in – or prevented from – managing our risks.

Because we have very substantial exposures to other major financial institutions, the failure of one or more of such institutions could have a material effect on us.

The developments mentioned above have in the past affected and could materially affect the performance of our business units and of UBS as a whole, and ultimately our financial condition. As discussed below, there is also a somewhat related risk that the carrying value of goodwill of a business unit might suffer impairments and deferred tax assets levels may need to be adjusted.

We hold legacy and other risk positions that may be adversely affected by conditions in the financial markets; legacy risk positions may be difficult to liquidate

We, like other financial market participants, were severely affected by the financial crisis that began in 2007. The deterioration of financial markets since the beginning of the crisis was extremely severe by historical standards, and we recorded substantial losses on fixed income trading positions, particularly in 2008 and 2009. Although we have very significantly reduced our risk exposures starting in 2008, and more recently as we progress our strategy and focus on complying with Basel III capital standards, we continue to hold substantial legacy risk positions, primarily in our Non-core and Legacy Portfolio. In many cases these risk positions remain illiquid, and we continue to be exposed to the risk that the remaining positions may again deteriorate in value. In the fourth quarter of 2008 and the first quarter of 2009, certain of these positions were reclassified for accounting purposes from fair value to amortized cost; these assets are subject to possible impairment due to changes in market interest rates and other factors.

Moreover, we hold positions related to real estate in various countries, and could suffer losses on these positions. These positions include a very substantial Swiss mortgage portfolio. Although management believes that this portfolio has been very prudently managed, we could nevertheless be exposed to losses if the con-

cerns expressed by the Swiss National Bank and others about unsustainable price escalation in the Swiss real estate market come to fruition. Other macroeconomic developments, such as the implications on export markets of any return of crisis conditions within the eurozone and the potential implications of the recent decision in Switzerland to reinstate immigration quotas for EU/EEA countries, could also adversely affect the Swiss economy, our business in Switzerland in general and, in particular, our Swiss mortgage and corporate loan portfolios.

In addition, we are exposed to risk in our prime brokerage, reverse repo and Lombard lending activities, as the value or liquidity of the assets against which we provide financing may decline rapidly.

Our global presence subjects us to risk from currency fluctuations

We prepare our consolidated financial statements in Swiss francs. However, a substantial portion of our assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the US dollar, the euro and the British pound. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the US dollar (US dollar revenues account for the largest portion of our non-Swiss franc revenues) have an effect on our reported income and expenses, and on other reported figures such as other comprehensive income, invested assets, balance sheet assets, RWA and tier 1 capital. For example, in 2011 the strengthening of the Swiss franc, especially against the US dollar and euro, had an adverse effect on our revenues and invested assets. Because exchange rates are subject to constant change, sometimes for completely unpredictable reasons, our results are subject to risks associated with changes in the relative values of currencies.

We are dependent upon our risk management and control processes to avoid or limit potential losses in our counterparty credit and trading businesses

Controlled risk-taking is a major part of the business of a financial services firm. Credit risk is an integral part of many of our retail, corporate, wealth management and Investment Bank activities, and our non-core activities transferred to Corporate Center – Non-core and Legacy Portfolio, including lending, underwriting and derivatives activities. Changes in interest rates, credit spreads, securities' prices, market volatility and liquidity, foreign exchange levels and other market fluctuations can adversely affect our earnings. Some losses from risk-taking activities are inevitable, but to be successful over time, we must balance the risks we take against the returns we generate. We must, therefore, diligently identify, assess, manage and control our risks, not only in normal market conditions but also as they might develop under more extreme (stressed) conditions, when concentrations of exposures can lead to severe losses.

As seen during the financial crisis of 2007–2009, we are not always able to prevent serious losses arising from extreme or sudden market events that are not anticipated by our risk measures and systems. Value-at-risk, a statistical measure for market risk, is derived from historical market data, and thus by definition could not have anticipated the losses suffered in the stressed conditions of the financial crisis. Moreover, stress loss and concentration controls and the dimensions in which we aggregate risk to identify potentially highly correlated exposures proved to be inadequate. Notwithstanding the steps we have taken to strengthen our risk management and control framework, we could suffer further losses in the future if, for example:

- we do not fully identify the risks in our portfolio, in particular risk concentrations and correlated risks;
- our assessment of the risks identified or our response to negative trends proves to be untimely, inadequate, insufficient or incorrect;
- markets move in ways that we do not expect – in terms of their speed, direction, severity or correlation – and our ability to manage risks in the resultant environment is, therefore, affected;
- third parties to whom we have credit exposure or whose securities we hold for our own account are severely affected by events not anticipated by our models, and accordingly we suffer defaults and impairments beyond the level implied by our risk assessment; or
- collateral or other security provided by our counterparties proves inadequate to cover their obligations at the time of their default.

We also manage risk on behalf of our clients in our asset and wealth management businesses. The performance of assets we hold for our clients in these activities could be harmed by the same factors. If clients suffer losses or the performance of their assets held with us is not in line with relevant benchmarks against which clients assess investment performance, we may suffer reduced fee income and a decline in assets under management, or withdrawal of mandates.

If we decide to support a fund or another investment that we sponsor in our asset or wealth management businesses, it might, depending on the facts and circumstances, incur charges that could increase to material levels.

Investment positions, such as equity holdings made as a part of strategic initiatives and seed investments made at the inception of funds that we manage, may also be affected by market risk factors. These investments are often not liquid and generally are intended or required to be held beyond a normal trading horizon. They are subject to a distinct control framework. Deteriorations in the fair value of these positions would have a negative impact on our earnings.

➔ **Refer to the "Risk management and control" section of this report for more information**

Valuations of certain positions rely on models; models have inherent limitations and may use inputs which have no observable source

If available, fair values of a financial instrument or non-financial asset or liability are determined using quoted prices in active markets for identical assets or liabilities. Where the market is not active, fair value is established using a valuation technique, including pricing models. Where available, valuation techniques use market observable assumptions and inputs. If such information is not available, inputs may be derived by reference to similar instruments in active markets, from recent prices for comparable transactions or from other observable market data. If market observable data is not available, we select non-market observable inputs to be used in our valuation techniques. We also use internally developed models. Such models have inherent limitations; different assumptions and inputs would generate different results, and these differences could have a significant impact on our financial results. We regularly review and update our valuation models to incorporate all factors that market participants would consider in setting a price, including factoring in current market conditions. Judgment is an important component of this process, and failure to make the changes necessary to reflect evolving market conditions could have a material adverse effect on our financial results. Moreover, evolving market practice may result in changes to valuation techniques that have a material impact on financial results. Changes in model inputs or calibration, changes in the valuation methodology incorporated in models, or failure to make the changes necessary to reflect evolving market conditions could have a material adverse effect on our financial results.

Liquidity and funding management are critical to our ongoing performance

The viability of our business depends upon the availability of funding sources, and our success depends upon our ability to obtain funding at times, in amounts, for tenors and at rates that enable us to efficiently support our asset base in all market conditions. A substantial part of our liquidity and funding requirements is met using short-term unsecured funding sources, including retail and wholesale deposits and the regular issuance of money market securities. The volume of our funding sources has generally been stable, but could change in the future due to, among other things, general market disruptions or widening credit spreads, which could also influence the cost of funding. A change in the availability of short-term funding could occur quickly.

Reductions in our credit ratings can increase our funding costs, in particular with regard to funding from wholesale unsecured sources, and can affect the availability of certain kinds of funding. In addition, as we experienced in connection with Moody's downgrading of our long-term rating in June 2012, ratings downgrades can require us to post additional collateral or make additional cash payments under master trading agreements relating to our derivatives businesses. Our credit ratings, together with our capital strength and reputation, also contribute to maintaining client and counterparty confidence and it is possible that ratings changes could influence the performance of some of our businesses.

More stringent Basel III capital and liquidity requirements will likely lead to increased competition for both secured funding and deposits as a stable source of funding, and to higher funding costs. The addition of loss-absorbing debt as a component of capital requirements and potential future requirements to maintain senior unsecured debt that could be written down in an insolvency or other resolution of UBS, or a subsidiary, may increase our funding costs or limit the availability of funding of the types required.

We might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees

The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. We face competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to us in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. We expect these trends to continue and competition to increase. Our competitive strength and market position could be eroded if we are unable to identify market trends and developments, do not respond to them by devising and implementing adequate business strategies, adequately developing or updating our technology, particularly in trading businesses, or are unable to attract or retain the qualified people needed to carry them out.

The amount and structure of our employee compensation are affected not only by our business results but also by competitive factors and regulatory considerations. Constraints on the amount or structure of employee compensation, higher levels of deferral, performance conditions and other circumstances triggering the forfeiture of unvested awards may adversely affect our ability to retain and attract key employees, and may in turn negatively affect our business performance. We have made changes to the terms of compensation awards to reflect the demands of various stakeholders, including regulatory authorities and shareholders. These terms include the introduction of a deferred contingent capital plan with many of the features of the loss-absorbing capital that we have issued in the market but with a higher capital ratio write-down trigger, increased average deferral periods for stock awards, and expanded forfeiture provisions for certain awards linked to business performance. These changes, while intended to better align the interests of our staff with those of other stakeholders, increase the risk that key employees will be attracted by competitors and decide to leave us, and that we may be less successful than our competitors in attracting qualified employees. The loss of key staff and inability to attract qualified replacements, depending upon which and how many roles are affected, could seriously compromise our ability to execute our strategy and to successfully improve our operating and control environment.

In a referendum in March 2013, the Swiss cantons and voters accepted an initiative to give shareholders of Swiss listed companies more influence over board and management compensation (the Minder Initiative). In November 2013, the Swiss Federal Council issued the final transitional ordinance implementing the constitutional amendments resulting from this initiative, which came into force on 1 January 2014. The ordinance requires public companies to specify in their articles of association (AoA) a mechanism to permit a "say-on-pay" vote, setting out three requirements: (i) the vote on compensation must be held annually, (ii) the vote on compensation must be binding rather than advisory and (iii) the vote on compensation must be held separately for the board of directors and members of the executive board. In addition, shareholders will need to determine the details of the "say-on-pay" vote in the AoA, in particular the nature of the vote, timing aspects and the consequences of a "no" vote. Each company affected by the Minder Initiative must undertake a first binding vote on management compensation and remuneration of the board of directors at its 2015 annual general meeting.

The EU has adopted legislation that caps the amount of variable compensation in proportion to the amount of fixed compensation for employees of a bank active within the EU. This legislation will apply to employees of UBS in the EU. These and other similar initiatives may require us to make further changes to our compensation structure and may increase the risks described above.

➔ **Refer to the "Corporate governance, responsibility and compensation" section of this report for more information on our compensation awards and programs**

Our financial results may be negatively affected by changes to accounting standards

We report our results and financial position in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Changes to IFRS or interpretations thereof may cause our future reported results and financial position to differ from current expectations. Such changes may also affect our regulatory capital and ratios. We monitor potential accounting changes and when these are finalized by the IASB, we determine the potential impact and disclose significant future changes in our financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact our reported results, financial position and regulatory capital in the future.

➔ **Refer to the "Financial information" section of this report for more information on changes in accounting requirements**

Our financial results may be negatively affected by changes to assumptions supporting the value of our goodwill

The goodwill we have recognized on the respective balance sheets of our operating segments is tested for impairment at least annually. Our impairment test in respect of the assets recognized as of 31 December 2013 indicated that the value of our goodwill is not impaired. The impairment test is based on assumptions regarding estimated earnings, discount rates and long-term growth rates impacting the recoverable amount of each segment and on estimates of the carrying amounts of the segments to which the goodwill relates. If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of our goodwill may become impaired in the future, giving rise to losses in the income statement. In the third quarter of 2012, for example, the recognition by the Investment Bank of a full impairment of goodwill and of an impairment of other non-financial assets resulted in a charge of almost CHF 3.1 billion against our operating profit before tax.

The effect of taxes on our financial results is significantly influenced by reassessments of our deferred tax assets

The deferred tax assets we have recognized on our balance sheet as of 31 December 2013 in respect of prior years' tax losses reflect the probable recoverable level based on future taxable profit as informed by our business plans. If the business plan earnings and assumptions in future periods substantially deviate from current forecasts, the amount of recognized deferred tax assets may need to be adjusted in the future. These adjustments may include write-downs of deferred tax assets through the income statement.

Our effective tax rate is highly sensitive both to our performance and to the accuracy of new business plan forecasts. Our results in recent periods have demonstrated that changes in the recognition of deferred tax assets can have a very significant effect on our reported results. If the Group's performance is expected to improve, particularly in the US, UK or Switzerland, we could potentially recognize additional deferred tax assets as a result of that assessment. The effect of doing so would be to significantly reduce the Group's effective tax rate in years in which additional deferred tax assets are recognized. Conversely, if our performance in those countries is expected to produce diminished taxable profit in future years, we may be required to write down all or a portion of the currently recognized deferred tax assets through the income statement. This would have the effect of increasing the Group's effective tax rate in the year in which any write-downs are taken.

In 2014, notwithstanding the effects of any potential reassessment of the level of deferred tax assets, we expect our effective tax rate to be in the range of 20% to 25%. Consistent with past practice, we expect to revalue our overall level of deferred tax assets in the second half of 2014 based on a reassessment of future profitability taking into account updated business plan forecasts. The full year effective tax rate could change significantly on the basis of this reassessment. It could also change if aggregate tax expenses for locations other than Switzerland, the US and UK differ from what is expected. Our effective tax rate is also sensitive to any future reductions in statutory tax rates, particularly in the US and Switzerland. Reductions in the statutory tax rate would cause the expected future tax benefit from items such as tax loss carry-forwards in the affected

locations to diminish in value. This in turn would cause a write-down of the associated deferred tax assets.

In addition, statutory and regulatory changes, as well as changes to the way in which courts and tax authorities interpret tax laws could cause the amount of taxes ultimately paid by us to materially differ from the amount accrued.

This is a potential risk particularly as we consider reorganizations of our legal entity structures in the US, UK and Switzerland in response to regulatory changes. The tax authorities in these countries may prevent the transfer of tax losses incurred in one legal entity to newly organized or reorganized subsidiaries or affiliates that are expected to carry on businesses formerly conducted by the transferor. Were this to occur in situations where there were also limited planning opportunities to utilize the tax losses in the originating entity, the deferred tax assets associated with such tax losses could be written down through the income statement.

In 2011, the UK government introduced a balance sheet based levy payable by banks operating or resident in the UK. A net charge of CHF 124 million was recognized in operating expenses (within operating profit before tax) in 2013. The Group's bank levy expense for future years will depend on both the rate of the levy and the Group's taxable UK liabilities at each year-end; changes to either factor could increase the cost. This expense will likely increase if, for example, we change our booking practices so as to book more liabilities into our UK bank subsidiary, UBS Limited. We expect that the annual bank levy charge will continue to be recognized for IFRS purposes as an expense arising in the final quarter of each financial year, rather than being accrued throughout the year, as it is charged by reference to the year-end balance sheet position.

Financial and operating performance

Critical accounting policies

Basis of preparation and selection of policies

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The application of these accounting standards requires the use of judgment, based upon estimates and assumptions that may involve significant uncertainty at the time they are made. Such judgments, including the underlying estimates and assumptions, which reflect historical experience, expectations of the future and other factors, or some combination thereof, are regularly evaluated to determine their continuing relevance under the circumstances. Using different assumptions could cause the reported results to differ. Changes in assumptions may have a significant impact on the financial statements in the periods when changes occur.

We believe that the assumptions we have made are appropriate under the circumstances, and that our financial statements therefore present fairly the financial position, financial performance and cash flows, in all material respects. Alternative outcomes and sensitivity analyses discussed or referred to in this section are included solely to assist the reader in understanding the uncertainty inherent in the estimates and assumptions used in our financial statements. They are not intended to suggest that other estimates and assumptions would be more appropriate.

This section discusses accounting policies that are deemed critical to our financial position, financial performance and cash flows, because they are material in terms of the items to which they apply, and they involve significant assumptions and estimates. A broader and more detailed description of our significant accounting policies is included in "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report.

Consolidation of structured entities

We sponsor the formation of structured entities (SE) and interact with non-sponsored SE for a variety of reasons, including allowing clients to obtain or be exposed to particular risk profiles, to provide funding or to sell or purchase credit risk. An SE is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Such entities generally have a narrow and well-defined objective and include those historically referred to as special purpose entities and some investment funds. In accordance with IFRS, we do not consolidate SE that we do not control.

With effect from 1 January 2013, UBS adopted IFRS 10 *Consolidated Financial Statements*. IFRS 10 provides a cohesive consolidation framework that applies to all types of entities, both SE and non-SE. That framework is based on the principle that an entity should consolidate all other entities that it controls, with control being defined as a function of three elements: power over the relevant activities of the entity, exposure to variable returns and an investor's ability to use its power to affect its returns. UBS consolidates an entity when all three elements of control are present. Where UBS has an interest in an SE that absorbs variability, we consider whether UBS has power over the SE which allows it to affect the variability of its returns. Consideration is given to all facts and circumstances to determine whether the Group has power over the SE, that is, the current ability to direct the relevant activities of the SE when decisions about those activities need to be made. Determining whether we have power to direct the relevant activities requires a significant degree of judgment in light of all facts and circumstances. In making that determination, we consider a range of factors, including the purpose and design of the SE, any rights held through contractual arrangements such as call rights, put rights or liquidation rights, as well as potential decision-making rights. Where the Group has power over the relevant activities, a further assessment is made to determine whether, through that power, it has the ability to affect its own returns, that is, assessing whether power is held in a principal or agent capacity. Consideration is given to the overall relationship between UBS, the SE and other parties involved in the SE. In particular, we assess the following: (i) the scope of decision-making authority, (ii) rights held by other parties, including removal or other participating rights and (iii) exposure to variability, including remuneration, relative to the total variability of the SE, as well as whether UBS's exposure is different from that of other investors. Appropriate weightings are applied to each of these factors on the basis of the particular facts and circumstances. If, after review of these factors, UBS concludes that it can exercise its power to affect its own returns, the SE is consolidated.

➔ **Refer to "Note 1a) 3) Subsidiaries and structured entities" and "Note 30 Interests in subsidiaries and other entities" in the "Financial information" section of this report for more information**

Fair value of financial instruments

UBS accounts for a significant portion of its assets and liabilities at fair value. Under IFRS, the relative degree of uncertainty associated with the measurement of fair value is reflected by use of a three-level valuation hierarchy. The best evidence of fair value is a quoted price in an actively traded market (Level 1). In the event that the market for a financial instrument is not active, or where quoted prices are not otherwise available, a valuation technique is used. In these cases, fair value is estimated using observable data in respect of similar financial instruments as well as financial models. Level 2 of the hierarchy pertains to instruments for which in-

puts to a valuation technique are principally based on observable market data. Level 3 applies to instruments that are measured by a valuation technique that incorporates one or more significant unobservable inputs. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of judgment to calculate a fair value than those based wholly on observable inputs. Substantially all of UBS's financial assets and financial liabilities are based on observable prices and inputs and hence are classified in Levels 1 and 2 of the hierarchy.

Where valuation techniques, including models, are used to determine fair values, they are periodically reviewed and validated by qualified personnel independent of those who sourced them. Models are calibrated to ensure that outputs reflect actual data and comparable market prices. Also, models prioritize the use of observable inputs, when available, over unobservable inputs. Judgment is required in selecting appropriate models as well as inputs for which observable data is less readily or not available.

The valuation techniques employed may not fully reflect all the factors relevant to the positions we hold. Valuations are therefore adjusted, where appropriate, to allow for additional factors, including model risk, liquidity risk and credit risk. We use different approaches to calculate the credit risk, depending on the nature of the instrument. A credit-valuation-adjustment approach based on an expected exposure profile is used to adjust the fair value of derivative instruments to reflect counterparty credit risk. Correspondingly, a debit-valuation-adjustment approach is applied to incorporate UBS's own credit risk, where applicable, in the fair value of derivative instruments. Own credit risk for financial liabilities designated at fair value is calculated using the funds transfer price curve.

As of 31 December 2013, financial assets and financial liabilities for which valuation techniques are used and whose significant inputs are considered observable (Level 2) amounted to CHF 289 billion and CHF 310 billion, respectively, (68% and 88% of total financial assets measured at fair value and total financial liabilities measured at fair value, respectively). Financial assets and financial liabilities whose valuations include significant unobservable inputs (Level 3) amounted to CHF 15 billion and CHF 17 billion, respectively, (4% and 5% of total financial assets measured at fair value and total financial liabilities measured at fair value, respectively). These amounts reflect the effect of offsetting, wherever such presentation is required under IFRS.

Uncertainty inherent to estimating unobservable market inputs can affect the amount of gain or loss recorded for a particular position. While the Group believes its valuation techniques are appropriate and consistent with those of other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. As of 31 December 2013, the total favorable and unfavorable effects of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for financial instruments classified as Level 3 were CHF 1.2 billion and CHF 1.1 billion, respectively. Further discussion of the Group's use of valuation techniques, the critical estimates and adjustments applied to reflect uncertainties within the fair value measurement process, and its governance over the fair value measurement process can be found in "Note 24 Fair value measurement" in the "Financial information" section of this report.

➔ **Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information**

Allowances for credit losses on loans and receivables measured at amortized cost

Allowances for credit losses represent management's best estimate of credit losses incurred in the lending portfolio at the balance sheet date due to credit deterioration of the issuer or counterparty. The loan portfolio, which is measured at amortized cost less impairment, consists of financial assets presented on the balance sheet lines, *Due from banks* and *Loans,* including reclassified securities. In addition, irrevocable loan commitments are tested for impairment as described below.

Credit loss expense is recognized if there is objective evidence that the Group will be unable to collect all amounts due (or the equivalent thereof) on a claim based on the original contractual terms due to credit deterioration of the issuer or counterparty. Allowances for credit losses are evaluated at both a counterparty-specific level and collectively. Under this incurred loss model, a financial asset or group of financial assets is impaired if there is objective evidence that a credit loss has occurred by the balance sheet date. Judgment is used in making assumptions when calculating impairment losses both on a counterparty-specific level and collectively.

The impairment loss for a loan is the excess of the carrying value of the financial asset over the estimated recoverable amount. The estimated recoverable amount is the present value, using the loan's original effective interest rate, of expected future cash flows, including amounts that may result from restructuring or the liquidation of collateral. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. An allowance for credit losses is reported as a reduction of the carrying value of the financial asset on the balance sheet.

Our collective allowances for credit losses are calculated for our portfolios with similar credit risk characteristics, taking into account historical loss experience and current conditions. The methodology and assumptions used are reviewed regularly to reduce any differences between estimated and actual loss experience. For all of our portfolios, we also assess whether there have been any unforeseen developments which might result in impairments but which are not immediately observable. To determine whether an event-driven collective allowance for credit losses is required, we consider global economic drivers to assess the most vulnerable countries and industries. Our current event-based collective allowance for credit losses methodology considers the heightened credit risk arising from corporate clients in industries exposed to the recessionary effects in certain countries, combined with the strength of the Swiss franc.

Estimated cash flows associated with financial assets reclassified from *Held for trading* to *Loans and receivables,* as described in "Note 1a) 10) Loans and receivables" in the "Financial information" section of this report, and other similar assets acquired subsequently are revised periodically. Adverse revisions in cash flow estimates related to credit events are recognized in profit or loss as credit loss expenses. For reclassified securities, increases in estimated future cash receipts (above those originally forecast at the date of reclassification) as a result of increased recoverability are recognized as an adjustment to the effective interest rate on the loan from the date of change.

As of 31 December 2013, the gross loan portfolio was CHF 288 billion and the related allowances for credit losses amounted to CHF 0.7 billion, consisting of specific and collective allowances of CHF 669 million and CHF 20 million, respectively.

➔ **Refer to "Note 1a) 11) Allowances and provisions for credit losses," "Note 10 Due from banks and loans (held at amortized cost)," "Note 12 Allowances and provisions for credit losses" and "Note 27a Measurement categories of financial assets and liabilities" in the "Financial information" section of this report for more information**

➔ **Refer to "Policies for past due, non-performing and impaired claims" in the "Risk management and control" section of this report for more information**

Goodwill impairment test

UBS performs an impairment test annually on its goodwill assets, or when indicators of impairment exist. Our segments are each considered cash-generating units. The impairment test is performed for each segment to which goodwill is allocated and compares the recoverable amount, based on its value-in-use, to the carrying amount of the respective segment. An impairment charge is recognized if the carrying amount exceeds the recoverable amount. The impairment test is based on the assumptions described below.

The recoverable amounts are determined using a discounted cash flow model, which incorporates inputs relevant to the banking business and its regulatory environment. The recoverable amount of a segment is the sum of the discounted earnings attributable to shareholders from the first five forecasted years and the terminal value. The terminal value, reflecting all periods beyond the fifth year, is calculated on the basis of the forecast of fifth-year profit, the discount rate and the long-term growth rate and is adjusted for the effect of the capital assumed to be needed to support the perpetual growth implied by the long-term growth rate.

The carrying amount for each segment is determined by reference to the Group's equity attribution framework. Within this framework, which is described in the "Capital management" section of this report, the Board of Directors (BoD) attributes equity to the businesses after considering their risk exposure, risk-weighted assets and leverage ratio denominator usage, goodwill and intangible assets. The framework is used primarily for purposes of measuring the performance of the businesses and includes certain management assumptions. Attributed equity equates to the capital that a segment requires to conduct its business and is considered an appropriate starting point from which to determine the carrying value of the segments. The attributed equity methodology is aligned with the business planning process, the inputs from which are used in calculating the recoverable amounts of the respective cash-generating units.

Valuation parameters used within the Group's impairment test model are linked to external market information, where applicable. The model used to determine the recoverable amount is most sensitive to changes in the forecast earnings available to shareholders in years one to five, to changes in the discount rates, and to changes in the long-term growth rate. The applied long-term growth rate is based on long-term economic growth rates for different regions worldwide. Earnings available to shareholders are based on forecast results, which are part of the business plan approved by the BoD. The discount rates are determined by applying a capital-asset-pricing-model-based approach, as well as considering quantitative and qualitative inputs from both internal and external analysts and the view of management.

Key assumptions used to determine the recoverable amounts of each segment are tested for sensitivity by applying a reasonably possible change to those assumptions, as follows: forecast earnings available to shareholders were changed by 10%, the discount rates were changed by 1% and the long-term growth rates were changed by 0.5%. Under all scenarios, the recoverable amounts for each segment exceeded the respective carrying amount, such that the reasonably possible changes in key assumptions would not result in impairment as of 31 December 2013.

If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of our goodwill may become impaired in the future, giving rise to losses in the income statement. Recognition of any impairment of goodwill would reduce IFRS equity attributable to UBS shareholders and net profit. It would not impact cash flows and, as goodwill is required to be deducted from capital under the Basel capital framework, no impact would be expected on the Group total capital ratios.

As of 31 December 2013, total goodwill recognized on the balance sheet was CHF 5.8 billion, of which CHF 1.3 billion, CHF 3.1 billion and CHF 1.4 billion was carried by Wealth Management, Wealth Management Americas and Global Asset Management, respectively. On the basis of the impairment testing methodology described above, UBS concluded that the year-end 2013 balances of goodwill allocated to its segments remain recoverable.

➔ **Refer to "Note 1a) 21) Goodwill and intangible assets," "Note 2 Segment reporting" and "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information**

Deferred taxes

Deferred tax assets arise from a variety of sources, the most significant being the following: (i) tax losses that can be carried forward

to be utilized against profits in future years and (ii) expenses recognized in our income statement that are not deductible until the associated cash flows occur.

We record a valuation allowance to reduce our deferred tax assets to the amount which can be recognized in line with IAS 12 *Income Taxes*. The level of deferred tax asset recognition is influenced by management's assessment of our future profitability based on relevant business plan forecasts. Existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. This review is conducted annually, in the second half of each year, but adjustments may be made at other times, if required. In a situation where recent losses have been incurred, IAS 12 requires convincing evidence that there will be sufficient future profitability.

Swiss tax losses can be carried forward for seven years, US federal tax losses for 20 years and UK and Jersey tax losses for an unlimited period. The deferred tax assets recognized as of 31 December 2013 have been based on future profitability assumptions, adjusted to take into account the recognition criteria of IAS 12. The level of deferred tax assets recognized may, however, need to be adjusted in the future in the event of changes in those profitability assumptions. As of 31 December 2013, the deferred tax assets amounted to CHF 8.8 billion, which included CHF 6.3 billion in respect of tax losses (mainly in Switzerland and the US) that can be utilized to offset taxable income in future years.

➔ **Refer to "Note 1a) 22) Income taxes" and "Note 8 Income taxes" in the "Financial information" section of this report for more information**

Provisions

Provisions are liabilities of uncertain timing or amount, and are recognized when UBS has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are recognized for the best estimate of the consideration required to settle the present obligation at the balance sheet date.

Recognition of provisions often involves significant judgment in assessing the existence of an obligation resulting from past events and in estimating the probability, timing and amount of any outflows of resources. This is particularly the case with litigation, regulatory and similar matters which, because of their nature, are subject to many uncertainties, making their outcome difficult to predict. Such matters may involve unique fact patterns or novel legal theories, proceedings which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Determining whether an obligation exists as a result of a past event and estimating the probability, timing and amount of any potential outflows is based on a variety of assumptions, variables, and known and unknown uncertainties. The amount of any provision recognized can be very sensitive to the assumptions used and there could be a wide range of possible outcomes for any particular matter. Statistical or other quantitative analytical tools are of limited use in determining whether to establish or determine the amount of provisions in the case of litigation, regulatory or similar matters. Furthermore, information currently available to management may be incomplete or inaccurate increasing the risk of erroneous assumptions with regards to the future developments of such matters. Management regularly reviews all the available information regarding such matters, including advice from legal advisors, to assess whether the recognition criteria for provisions have been satisfied for those matters and, if not, to evaluate whether such matters represent contingent liabilities. Legal advice is a significant consideration in determining whether it is more likely than not that an obligation exists as a result of a past event and in assessing the probability, timing and amount of any potential outflows.

As of 31 December 2013, total provisions amounted to CHF 2,971 million, of which CHF 1,622 million pertained to the litigation, regulatory and similar matters class. Since the future outflow of resources in respect of these matters cannot be determined with certainty based on currently available information, the actual outflows may ultimately prove to be substantially greater (or less) than the provisions recognized.

➔ **Refer to "Note 1a) 27) Provisions" and "Note 22 Provisions and contingent liabilities" in the "Financial information" section of this report for more information**

Pension and other post-employment benefit plans

During 2012, UBS adopted revisions to IAS 19 *Employee Benefits* ("IAS 19R") issued by the IASB in June 2011. IAS 19R eliminated the "corridor method," under which the recognition of actuarial gains and losses was deferred. Instead, the full defined benefit obligation, net of plan assets, is now recorded on the balance sheet, with changes resulting from remeasurements recognized immediately in other comprehensive income. The net defined benefit liability at the end of the year and the related personnel expense depend on the expected future benefits to be provided, determined using a number of economic and demographic assumptions. The most significant assumptions include life expectancy, the discount rate, expected salary increases, pension rates, and in addition, for the Swiss plan, interest credits on retirement savings account balances.

Life expectancy is determined by reference to published mortality tables. The discount rate is determined by reference to the rates of return on high-quality fixed-income investments of appropriate currency and term at the measurement date. The assumption for salary increases reflects the long-term expectations for salary growth and takes into account inflation, seniority, promotion and other relevant factors such as supply and demand in the labor market. For a sensitivity analysis of the defined benefit obligation to these significant actuarial assumptions, refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report.

The most significant plan is the Swiss pension plan. Consistent with 2012, life expectancy for this plan has been based on

the 2010 BVG generational mortality tables. The assumption for the discount rate has changed from 1.9% in the prior year to 2.3% in the current year, as a result of higher market yields on corporate bonds.

➔ **Refer to "Note 1a) 24) Pension and other post-employment benefit plans" and "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information**

Equity compensation

We recognize shares, performance shares, options and share-settled stock appreciation rights awarded to employees as compensation expense based on their fair value at grant date. The fair value of UBS shares issued to employees is determined by reference to quoted market prices, adjusted, when relevant, to take into account the terms and conditions inherent in the award. Options, stock appreciation rights, and certain performance shares issued by UBS to its employees have features which are not directly comparable with our shares and options traded in active markets. Accordingly, we determine the fair value using suitable valuation models. Several recognized valuation models exist. The models we apply have been selected because they are able to accommodate the specific features included in the various instruments granted to our employees. If we were to use different models, the values produced would differ, even if the same inputs were used.

The models we use require inputs such as expected dividends, share price volatility and historical employee exercise behavior patterns. Some of the model inputs we use are not market observable and have to be estimated or derived from available data. Use of different estimates would produce different valuations, which in turn would result in recognition of higher or lower compensation expense.

➔ **Refer to "Note 1a) 25) Equity participation and other compensation plans" and "Note 29 Equity participation and other compensation plans" in the "Financial information" section of this report for more information**

Significant accounting and financial reporting changes

Significant accounting changes

IFRS 7 *Financial Instruments: Disclosures*

On 1 January 2013, UBS adopted revised IFRS 7 *Financial Instruments: Disclosures,* requiring the disclosure of new information in respect of an entity's use of enforceable netting arrangements. The amendments to IFRS 7 are intended to enable users of financial statements to better evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments require entities to disclose both gross and net amounts of recognized financial assets and financial liabilities associated with master netting agreements and similar arrangements, including the effects of financial collateral, whether or not presented net on the face of the balance sheet. The resultant disclosures are reflected in "Note 26 Offsetting financial assets and financial liabilities" of our consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

On 1 January 2013, UBS adopted IFRS 10 *Consolidated Financial Statements,* which introduced a new definition of control for determining when one entity should consolidate another. Upon adoption of IFRS 10, the Group has changed the consolidation status of certain entities, including entities issuing preferred securities which are no longer consolidated by the Group. As a result of deconsolidating the preferred securities entities, UBS now recognizes the preferred notes issued to these entities instead of the preferred securities which were previously presented as equity attributable to non-controlling interests. Except for one preferred note issuance of CHF 1.2 billion, which is classified as a liability, UBS presents the preferred notes as equity attributable to preferred noteholders. As of 31 December 2012, the Group's equity attributable to non-controlling interests decreased by CHF 4.3 billion, equity attributable to preferred noteholders increased by CHF 3.1 billion and debt issued held at amortized cost increased by CHF 1.2 billion. For 2012, net profit attributable to non-controlling interests decreased by CHF 271 million and net profit attributable to preferred noteholders increased by CHF 220 million. The implementation of IFRS 10 did not have a material effect on our regulatory capital.

IFRS 12 *Disclosure of Interests in Other Entities*

On 1 January 2013, UBS adopted IFRS 12 *Disclosure of Interests in Other Entities,* which provides new and comprehensive annual disclosure requirements about entities with which a reporting entity is involved. IFRS 12 replaces the disclosure requirements previously included in IAS 27 *Consolidated and Separate Financial Statements,* IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. The standard requires entities to disclose information that helps users to evaluate the nature, risks and financial effects associated with a reporting entity's interests in subsidiaries, associates, joint arrangements and, in particular, unconsolidated structured entities. The resultant disclosures are reflected in "Note 30 Interests in subsidiaries and other entities" of our consolidated financial statements.

IFRS 13 *Fair Value Measurement*

On 1 January 2013, UBS adopted IFRS 13 *Fair Value Measurement,* which establishes a single source of guidance for all fair value measurements under IFRS. It 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, i.e., an exit price. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies that the unit of measurement is generally a particular asset or liability unless an entity manages and reports its net risk exposures on a portfolio basis, in which case it may elect to apply portfolio-level price adjustments under limited circumstances. It also introduces new disclosure requirements and enhancements to existing disclosures, which are reflected in "Note 24 Fair value measurement" of our consolidated financial statements.

As a result of implementing the unit of measurement guidance, the Group's valuation reserves increased by approximately CHF 25 million as of 1 January 2013, decreasing operating profit before tax in 2013.

➔ Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IFRS 7, IFRS 10, IFRS 12 and IFRS 13

Financial reporting changes

Change in the definition of funded assets

From 2013, we define funded assets as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives. In prior reporting periods, we defined funded assets as total IFRS balance sheet assets less PRV and did not exclude the collateral delivered for OTC derivatives. Prior periods were restated to reflect the change in definition.

Funded assets exclude PRV because they are volatile but have little effect on funding requirements. As there is a direct correla-

tion between replacement values and collateral delivered for OTC derivatives, collateral delivered is also excluded to create a more consistent view of our funded assets and to better reflect how we manage our businesses.

Corporate Center – Non-core and Legacy Portfolio

In line with our strategy to focus the Investment Bank's business on its traditional strengths, UBS is exiting many business lines which are capital- and balance sheet-intensive or are in areas with high operational complexity or long tail risks. In 2013, these non-core activities and positions formerly in the Investment Bank were transferred to and are managed and reported in the Corporate Center. Together with the Legacy Portfolio and the option to acquire the equity of the SNB StabFund, which was exercised on 7 November 2013, these non-core activities and positions are reported as a separate reportable segment within the Corporate Center called "Non-core and Legacy Portfolio." Prior period segment information was restated for this change.

➔ Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information

Other reporting segment changes

In 2013, the Investment Bank was reorganized into two business units, Corporate Client Solutions and Investor Client Services.

Furthermore, the repurchase agreement and short-term interest rate cash units were transferred from the Investment Bank to the Asset Liability Management unit of Group Treasury within Corporate Center – Core Functions in 2013. Following this transfer, the Asset Liability Management unit oversees all financing, portfolio, and structural risk management activities for the Group. Revenues associated with the ongoing business activities of Asset Liability Management are allocated to the business divisions and Non-core and Legacy Portfolio, with the exception of excess funding costs.

Lastly, also in 2013, the risk management responsibility for a portfolio of financial investments available-for-sale and associated cash and balances with central banks was transferred from Wealth Management Americas to Group Treasury within Corporate Center – Core Functions. Following this transfer, net interest income associated with that portfolio is allocated back to Wealth Management Americas, whereas realized gains and losses arising from the sales and impairments of individual financial investments are retained by Group Treasury.

Prior period segment information was restated for these changes.

➔ Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information

➔ Refer to "Investment Bank" in the "Operating environment and strategy" section of this report for more information on our Investment Bank's businesses

Changes to allocations of centralized shared services units' personnel

As part of our ongoing efforts to improve our operational effectiveness and heighten our cost efficiency across the firm, on 1 July 2012 operations units from business divisions were centralized into our shared services units in the Corporate Center. Effective

1 January 2013, personnel allocations to our business divisions for shared services were revised to reflect the following factors: (i) enhancements to the Corporate Center service-level agreement framework for Group Operations, (ii) an ongoing review of attribution keys, including for technology-related personnel and (iii) organizational changes related to the accelerated implementation of our strategy, including the transfer of certain non-core businesses and positions from the Investment Bank.

Attributed equity

With effect from 1 January 2013, attributed equity required to support remaining goodwill and intangible assets that arose from the PaineWebber acquisition was transferred from the business divisions to the Corporate Center. Net charges associated with this attributed equity are retained in Corporate Center – Core Functions.

➔ **Refer to "Equity attribution framework" in the "Capital management" section of this report for more information**

➔ **Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information**

Definition of restructuring charges

In 2013, we expanded our definition of restructuring charges to include non-recurring and other temporary costs necessary to effect our restructuring programs.

➔ **Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for more information**

Refinement to the allocation of operating costs for internal services

To further enhance cost discipline and strengthen our efforts to reduce our underlying cost base, we will refine the way that operating costs for internal services are allocated from Corporate Center – Core Functions to the business divisions and Corporate Center – Non-core and Legacy Portfolio. Under this refinement, each year, as part of the annual business planning cycle, Corporate Center – Core Functions will agree with the business divisions and Non-core and Legacy Portfolio cost allocations for services at fixed amounts or at variable amounts based on formulas, depending on capital and service consumption levels as well as the nature of the services to be performed. These pre-agreed cost allocations will be designed with the expectation that Corporate Center – Core Functions will recover its costs, without a mark-up. Because actual costs incurred may differ from those expected, however, Corporate Center – Core Functions may recognize significant under- or over-allocations depending on various factors, including Corporate Center – Core Functions' ability to manage the delivery of its services and achieve cost savings. Each year these cost allocations will be reset, taking account of the prior year's experience and plans for the forthcoming period. We expect the refined approach to strengthen the effectiveness and efficiency of the services performed by Corporate Center – Core Functions, and in particular to facilitate the achievement of cost savings, by better aligning cost accountability with the management of these services. This change will become effective for 2014.

Enhancing our disclosure

We believe the market rewards companies that provide clear, consistent and informative disclosure about their business and we have established financial disclosure principles in support of this objective. More information on our financial disclosure principles can be found within "Information policy" in the "Corporate governance, responsibility and compensation" section of this report.

Consistent with these principles, we are a member of and endorse the work of the Enhanced Disclosure Task Force (EDTF), established by the Financial Stability Board in 2012 to facilitate discussion between users, preparers and other interested parties as to how enhanced disclosure could help in restoring investor confidence in banks. Our reports contain disclosures aligned with the recommendations issued by the EDTF on 29 October 2012 in its report "Enhancing the Risk Disclosures of Banks." Certain disclosures in our Annual Report 2012 were cited by the EDTF in its July 2013 "Progress Report on Implementation of Disclosure Recommendations" as "leading practice" and by Deloitte in its report, "Responding to the EDTF recommendations – A review of 2012 year end reporting," as "good practice."

For our Annual Report 2013, we have made significant further improvements to our disclosures in light of these recommendations, including making structural changes to the "Risk, treasury and capital management" section of this report and introducing a large number of both new and enhanced disclosures. Consistent with Recommendation 1 of the EDTF, where appropriate we now present together those related risk disclosures we consider to be most relevant to a particular component of our business, including integrating certain disclosures previously presented separately within our Pillar 3 disclosures or our financial statements.

Further information on our implementation of each of the EDTF recommendations can be found at the start of the "Risk, treasury and capital management" section of this report, in which most of the new and enhanced disclosures are presented.

Consistent with our financial reporting and disclosure principles, we regard the enhancement of disclosures as an ongoing commitment and we expect to make further refinements to our disclosures in 2014 and beyond.

➔ **Refer to the "Risk, treasury and capital management" section of this report for more information on our implementation of the EDTF recommendations**

➔ **Refer to the "Financial information" section of this report for an overview of our Pillar 3 related disclosures**

Group performance

Net profit attributable to UBS shareholders for 2013 was CHF 3,172 million compared with a loss of CHF 2,480 million in 2012. Operating profit before tax was 3,272 million compared with a loss of CHF 1,794 million in the prior year. Operating income increased by CHF 2,309 million and operating expenses decreased by CHF 2,755 million. Furthermore, we recorded a net tax benefit of CHF 110 million compared with a net tax expense of CHF 461 million in the prior year.

Income statement

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Interest income	**13,137**	15,968	17,969	(18)
Interest expense	**(7,351)**	(9,990)	(11,143)	(26)
Net interest income	**5,786**	5,978	6,826	(3)
Credit loss (expense) / recovery	**(50)**	(118)	(84)	(58)
Net interest income after credit loss expense	**5,736**	5,860	6,742	(2)
Net fee and commission income	**16,287**	15,396	15,236	6
Net trading income	**5,130**	3,526	4,343	45
of which: net trading income excluding own credit	***5,413***	*5,728*	*2,806*	*(5)*
of which: own credit on financial liabilities designated at fair value	***(283)***	*(2,202)*	*1,537*	*(87)*
Other income	**580**	641	1,467	(10)
Total operating income	**27,732**	25,423	27,788	9
Personnel expenses	**15,182**	14,737	15,634	3
General and administrative expenses	**8,380**	8,653	5,959	(3)
Depreciation and impairment of property and equipment	**816**	689	761	18
Impairment of goodwill	**0**	3,030	0	(100)
Amortization and impairment of intangible assets	**83**	106	127	(22)
Total operating expenses	**24,461**	27,216	22,482	(10)
Operating profit / (loss) before tax	**3,272**	(1,794)	5,307	
Tax expense / (benefit)	**(110)**	461	901	
Net profit / (loss)	**3,381**	(2,255)	4,406	
Net profit / (loss) attributable to preferred noteholders[1]	**204**	220		(7)
Net profit / (loss) attributable to non-controlling interests[1]	**5**	5	268	0
Net profit / (loss) attributable to UBS shareholders	**3,172**	(2,480)	4,138	
Comprehensive income				
Total comprehensive income	**2,524**	(1,767)	5,632	
Total comprehensive income attributable to preferred noteholders[1]	**559**	179		212
Total comprehensive income attributable to non-controlling interests[1]	**4**	20	560	(80)
Total comprehensive income attributable to UBS shareholders	**1,961**	(1,966)	5,071	

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for information on the adoption of IFRS 10.

Adjusted results[1, 2]

	For the year ended 31.12.13							
CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions[3]	CC – Non-core and Legacy Portfolio	UBS
Operating income as reported	7,563	6,538	3,756	1,935	8,601	(1,007)	347	27,732
of which: own credit on financial liabilities designated at fair value[4]						*(283)*		*(283)*
of which: gains on sales of real estate						*288*		*288*
of which: net losses related to the buyback of debt in public tender offers						*(194)*	*27*	*(167)*
of which: gain on sale of Global AM's Canadian domestic business				*34*				*34*
of which: net gain on sale of remaining proprietary trading business					*55*	*(24)[5]*		*31*
Operating income (adjusted)	7,563	6,538	3,756	1,901	8,546	(794)	320	27,829
Operating expenses as reported	5,316	5,680	2,298	1,359	6,300	847	2,660	24,461
of which: personnel-related restructuring charges[6]	*71*	*14*	*19*	*10*	*9*	*(2)*	*35*	*156*
of which: other restructuring charges[6]	*107*	*45*	*35*	*33*	*201*	*(4)*	*200*	*616*
Operating expenses (adjusted)	5,138	5,621	2,244	1,316	6,090	853	2,425	23,689
Operating profit / (loss) before tax as reported	2,247	858	1,458	576	2,300	(1,854)	(2,312)	3,272
Operating profit / (loss) before tax (adjusted)	**2,425**	**917**	**1,512**	**585**	**2,455**	**(1,647)**	**(2,104)**	**4,141**

	For the year ended 31.12.12							
CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions[3]	CC – Non-core and Legacy Portfolio	UBS
Operating income as reported	7,041	5,877	3,728	1,883	7,144	(1,689)	1,439	25,423
of which: own credit on financial liabilities designated at fair value[4]						*(2,202)*		*(2,202)*
of which: gains on sales of real estate						*112*		*112*
Operating income (adjusted)	7,041	5,877	3,728	1,883	7,144	401	1,439	27,513
Operating expenses as reported	4,634	5,281	1,901	1,314	6,877	2,008	5,202	27,216
of which: personnel-related restructuring charges[6]	*25*	*3*	*3*	*20*	*250*	*(1)*	*58*	*358*
of which: other restructuring charges[6]	*0*	*(5)*	*0*	*0*	*24*	*(6)*	*0*	*14*
of which: credit related to changes to the Swiss pension plan[7]	*(357)*		*(287)*	*(30)*	*(51)*	*(3)*	*(2)*	*(730)*
of which: credit related to changes to retiree benefit plans in the US[7]	*(1)*	*(2)*		*(16)*	*(91)*	*(1)*	*(7)*	*(116)*
of which: impairment of goodwill and other non-financial assets[8]							*3,064*	*3,064*
Operating expenses (adjusted)	4,966	5,284	2,185	1,340	6,746	2,020	2,089	24,627
Operating profit / (loss) before tax as reported	2,407	597	1,827	569	267	(3,698)	(3,764)	(1,794)
Operating profit / (loss) before tax (adjusted)	**2,075**	**594**	**1,543**	**543**	**398**	**(1,620)**	**(651)**	**2,885**

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 3 Corporate Center – Core Functions operating expenses presented in this table are after service allocations to business divisions and Corporate Center – Non-core and Legacy Portfolio. 4 Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information. 5 Reflects a foreign currency translation loss. 6 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for more information. 7 Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information. 8 Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information.

Adjusted results[1, 2] (continued)

	For the year ended 31.12.11							
CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions[3]	CC – Non-core and Legacy Portfolio	UBS
Operating income as reported	7,645	5,213	4,085	1,803	6,802	1,931	309	27,788
of which: own credit on financial liabilities designated at fair value[4]						*1,537*		*1,537*
of which: gains on sales of real estate						*94*		*94*
of which: gain on sale of strategic investment portfolio	*433*		*289*					*722*
Operating income (adjusted)	7,212	5,213	3,796	1,803	6,802	300	309	25,435
Operating expenses as reported	5,012	4,750	2,201	1,373	7,019	369	1,756	22,482
of which: personnel-related restructuring charges[5]	*64*	*5*	*29*	*19*	*129*	*2*	*14*	*261*
of which: other restructuring charges[5]	*18*	*5*	*3*	*7*	*73*	*14*	*0*	*119*
Operating expenses (adjusted)	4,930	4,740	2,169	1,347	6,817	354	1,742	22,102
Operating profit / (loss) before tax as reported	2,633	463	1,884	430	(217)	1,562	(1,448)	5,307
Operating profit / (loss) before tax (adjusted)	**2,282**	**473**	**1,627**	**456**	**(15)**	**(54)**	**(1,434)**	**3,334**

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 3 Corporate Center – Core Functions operating expenses presented in this table are after service allocations to business divisions and Corporate Center – Non-core and Legacy Portfolio. 4 Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information. 5 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for more information.

2013 compared with 2012

Performance

Operating profit before tax was CHF 3,272 million in 2013 compared with a loss of CHF 1,794 million in the prior year, reflecting a CHF 2,309 million increase in operating income and a CHF 2,755 million reduction in operating expenses.

In addition to reporting our results in accordance with IFRS, we report adjusted results that exclude items considered non-recurring and certain other items that management believes are not representative of the underlying performance of our businesses. Such adjusted results are non-GAAP financial measures as defined by SEC regulations. For 2013, the items we excluded were an own credit loss of CHF 283 million, gains on sales of real estate of CHF 288 million, net losses related to the buyback of debt in public tender offers of CHF 167 million, a gain on the sale of Global Asset Management's Canadian domestic business of CHF 34 million, a net gain on the sale of our remaining proprietary trading business of CHF 31 million and net restructuring charges of CHF 772 million. For 2012, the items we excluded were an own credit loss of CHF 2,202 million, gains on sales of real estate of CHF 112 million, net restructuring charges of CHF 371 million, a credit related to changes to our Swiss pension plan of CHF 730 million, a credit related to changes to our retiree benefit plans in the US of CHF 116 million and the impairment of goodwill and other non-financial assets of CHF 3,064 million.

On this adjusted basis, profit before tax was CHF 4,141 million in 2013 compared with CHF 2,885 million in the prior year. Adjusted operating income increased by CHF 316 million, mainly reflecting an increase of CHF 891 million in net fee and commission income, largely in our wealth management businesses. Adjusted net interest and trading income declined by CHF 535 million, mainly as a result of reductions in Corporate Center – Non-core and Legacy Portfolio as well as Corporate Center – Core Functions, partly offset by higher revenues in the Investment Bank. Adjusted other income decreased by CHF 108 million, mainly due to lower net gains on financial investments available-for-sale.

Adjusted operating expenses decreased by CHF 938 million to CHF 23,689 million, mainly due to a decline of CHF 848 million in charges for provisions for litigation, regulatory and similar matters as well as a CHF 199 million reduction in personnel expenses, partly offset by CHF 110 million higher other non-personnel expenses.

Operating income

Total operating income was CHF 27,732 million compared with CHF 25,423 million. On an adjusted basis, total operating income increased by CHF 316 million to CHF 27,829 million from CHF 27,513 million, as we recorded an increase of CHF 891 million in net fee and commission income, largely in our wealth management businesses. This increase was largely offset by a CHF 535 million decline in adjusted net interest and trading income, mainly as a result of reductions in Non-core and Legacy Portfolio as well as Corporate Center – Core Functions, partly offset by higher revenues in the Investment Bank. Adjusted other income decreased by CHF 108 million, mainly due to lower net gains on financial investments available-for-sale.

Net interest and trading income

	For the year ended			% change from
CHF million	31.12.13	31.12.12	31.12.11	31.12.12
Net interest and trading income				
Net interest income	5,786	5,978	6,826	(3)
Net trading income	5,130	3,526	4,343	45
Total net interest and trading income	**10,915**	**9,504**	**11,169**	**15**
Wealth Management	2,868	2,728	2,846	5
Wealth Management Americas	1,323	1,265	1,179	5
Retail & Corporate	2,485	2,467	2,661	1
Global Asset Management	9	9	8	0
Investment Bank	5,015	3,574	2,831	40
of which: Corporate Client Solutions	*1,035*	*575*	*399*	*80*
of which: Investor Client Services	*3,980*	*2,999*	*2,432*	*33*
Corporate Center	(784)	(540)	1,645	45
of which: Core Functions	*(1,045)*	*(1,992)*	*1,765*	*(48)*
of which: own credit on financial liabilities designated at fair value	*(283)*	*(2,202)*	*1,537*	*(87)*
of which: Non-core and Legacy Portfolio	*261*	*1,452*	*(121)*	*(82)*
Total net interest and trading income	**10,915**	**9,504**	**11,169**	**15**

Net interest and trading income

Net interest and trading income increased by CHF 1,411 million to CHF 10,915 million. 2013 included an own credit loss on financial liabilities designated at fair value of CHF 283 million, primarily due to further tightening of our funding spreads, compared with an own credit loss of CHF 2,202 million in the prior year when our funding spreads tightened significantly. Excluding the effect of own credit and a net interest and trading income gain related to the buyback of debt in a public tender offer of CHF 27 million in 2013, net interest and trading income decreased by CHF 535 million to CHF 11,171 million, mainly as a result of reductions in Non-core and Legacy Portfolio as well as Corporate Center – Core Functions, partly offset by higher revenues in the Investment Bank.

Net interest and trading income in Wealth Management increased by CHF 140 million. Net interest income increased by CHF 110 million to CHF 2,061 million, mainly due to revenues of CHF 110 million allocated from the repurchase agreement unit within Group Treasury in Corporate Center – Core Functions. Previously, such revenues were not allocated to the business divisions. The increase in net interest income was also due to lower costs related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury. These factors, together with higher income resulting from increased loan and client deposit volumes, more than offset the negative effect of a lower deposit margin resulting from the ongoing low interest rate environment. Net trading income increased by CHF 29 million to CHF 807 million and included higher income from foreign exchange-related products and increased treasury-related income, partly offset by lower income from precious metals.

In Wealth Management Americas, net interest and trading income increased by CHF 58 million, reflecting a CHF 144 million increase in net interest income primarily due to higher client balances in securities-backed lending and mortgages. Furthermore, net funding costs related to the goodwill and intangible assets that arose from the PaineWebber acquisition are retained in Corporate Center – Core Functions with effect from 1 January 2013. These increases were partly offset by lower net interest income from the available-for-sale portfolio, primarily due to lower average balances. Net trading income decreased by CHF 86 million to CHF 387 million, mainly due to trading losses related to the Puerto Rico municipal market as well as lower income from taxable fixed income and US municipal bond trading.

Net interest and trading income in Retail & Corporate increased by CHF 18 million.

Within the Investment Bank, Investor Client Services net interest and trading income increased by CHF 981 million, primarily due to higher derivatives revenues, mainly as a result of higher revenues in Asia Pacific and Europe, Middle East and Africa. Furthermore, cash revenues increased, largely as 2012 included a loss of CHF 349 million related to the Facebook initial public offering. Revenues in financing services and other equities also increased. These increases were partly offset by lower revenues in rates and credit, primarily due to weaker trading performance in the flow businesses, and by slightly lower foreign exchange revenues. Corporate Client Solutions net interest and trading income increased by CHF 460 million, largely due to higher revenues in equity capital markets, mainly as a result of a large private transaction recorded in the first half of 2013.

Corporate Center – Core Functions net interest and trading income, excluding the effect of own credit, decreased by CHF 972 million, partly due to losses of CHF 153 million related to our macro cash flow hedge models compared with gains of CHF 152 million in the prior year. The decrease in net interest and trading income was also due to a decline in revenues to CHF 22 million from CHF 245 million in the repurchase agreement unit, which was transferred

from the Investment Bank to Corporate Center – Core Functions in 2013 and for which prior period information was restated. Whereas restated results reflected no allocation of revenues from the repurchase agreement unit to the business divisions, from 2013 onwards revenues from this unit are allocated to the business divisions, mainly to Wealth Management. In addition, 2013 included losses from cross-currency basis swaps of CHF 222 million which are held as economic hedges and central funding costs retained in Group Treasury increased. Furthermore, 2013 included CHF 102 million in net funding costs related to the goodwill and intangible assets that arose from the PaineWebber acquisition which are retained in Corporate Center – Core Functions with effect from 1 January 2013.

In Non-core and Legacy Portfolio, net interest and trading income decreased by CHF 1,191 million. Non-core net interest and trading income decreased by CHF 1,146 million, largely due to lower revenues in rates and credit as we focused on risk-weighted assets (RWA) and balance sheet reduction, as well as on reducing operational complexity as part of the accelerated implementation of our strategy. In 2012, portfolios were actively traded and benefited from increased liquidity, with strong two-way client flow that resulted in higher revenues. Legacy Portfolio net interest and trading income decreased by CHF 45 million. In 2013, we exercised our option to acquire the SNB StabFund's equity and recorded an option revaluation gain of CHF 431 million prior to the exercise compared with a gain of CHF 526 million in the prior year. Trading revenues also decreased due to an interest charge of CHF 34 million in 2013 relating to tax obligations of the SNB StabFund. Legacy Portfolio net interest and trading income, excluding the SNB StabFund option, increased by CHF 83 million, mainly as 2012 included losses on collateralized debt obligations (CDO) and related hedging swaps of CHF 171 million as we exited certain CDO positions to reduce RWA.

➔ **Refer to "Note 3 Net interest and trading income" in the "Financial information" section of this report for more information**

➔ **Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information on own credit**

Credit loss expense / recovery

We recorded net credit loss expenses of CHF 50 million compared with CHF 118 million in the prior year.

In Wealth Management, net credit loss expenses were CHF 10 million compared with net credit loss recoveries of CHF 1 million in the prior year.

In Wealth Management Americas, 2013 included net credit loss expenses of CHF 27 million compared with net credit loss expenses of CHF 14 million in the prior year. The 2013 expenses were largely due to loan loss allowances on securities-backed lending facilities collateralized by Puerto Rico municipal securities and related funds.

In Retail & Corporate, net credit loss expenses were CHF 18 million compared with net credit loss expenses of CHF 27 million in the prior year. 2013 included net specific loan loss allowances of CHF 113 million, reflecting a number of new workout cases that were individually reviewed, downgraded and impaired as well as adjustments on existing positions. This was largely offset by a net release of CHF 95 million of collective loan loss allowances based on the ongoing review of the portfolio, as well as the overall improved outlook for relevant industries. The prior year included net specific loan loss allowances of CHF 43 million, partly offset by a net decrease in collective loan loss allowances of CHF 16 million.

In Non-core and Legacy Portfolio, net credit loss recoveries were CHF 3 million compared with net credit loss expenses of CHF 78 million in the prior year, which mainly reflected an impairment charge related to certain student loan auction rate securities, subsequently sold to reduce RWA.

➔ **Refer to the "Wealth Management Americas," "Retail & Corporate" and "Corporate Center" sections of this report for more information**

Net fee and commission income

Net fee and commission income increased by CHF 891 million to CHF 16,287 million.

Portfolio management and advisory fees increased by CHF 730 million to CHF 6,625 million, mainly in Wealth Management Americas and in Wealth Management, largely due to higher average invested assets as well as pricing adjustments.

Net brokerage fees increased by CHF 231 million to CHF 3,196 million, mainly in the Investment Bank due to improved market activity levels, and in Wealth Management Americas due to higher client activity levels.

Credit loss (expense) / recovery

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Wealth Management	**(10)**	1	11	
Wealth Management Americas	**(27)**	(14)	(6)	93
Retail & Corporate	**(18)**	(27)	(101)	(33)
Investment Bank	**2**	0	(10)	
Corporate Center	**3**	(78)	22	
of which: Core Functions	***0***	*0*	*(1)*	
of which: Non-core and Legacy Portfolio	***3***	*(78)*	*22*	
Total	**(50)**	(118)	(84)	(58)

Investment fund fees increased by CHF 177 million to CHF 3,803 million, primarily due to higher managed account fees calculated on higher invested asset levels in Wealth Management Americas and higher client activity levels in Wealth Management.

Total underwriting fees decreased by CHF 165 million to CHF 1,374 million, reflecting a decrease of CHF 208 million in debt underwriting fees, mainly in the Investment Bank.

➔ **Refer to "Note 4 Net fee and commission income" in the "Financial information" section of this report for more information**

Other income

Other income was CHF 580 million compared with CHF 641 million in the prior year.

Income from financial investments available-for-sale was CHF 168 million compared with CHF 308 million in the prior year.

Net gains from disposals of financial investments available-for-sale in 2013 included gains of CHF 74 million resulting from the divestment of our participation in Euroclear Plc., of which CHF 27 million was allocated to Retail & Corporate, CHF 25 million to Wealth Management and CHF 22 million to the Investment Bank. Further, net gains from disposals of financial investments available-for-sale included net gains of CHF 61 million in Corporate Center – Core Functions in 2013. 2012 included net gains of CHF 272 million in Corporate Center – Core Functions, as well as gains of CHF 101 million in Non-core and Legacy Portfolio, mainly related to the sale of an equity investment.

Income related to associates and subsidiaries increased by CHF 79 million to CHF 160 million, mainly due to lower charges for certain provisions for litigation, regulatory and similar matters recorded within other income, partly offset by lower income related to our participation in the SIX Group. Furthermore, 2013 included a net gain on sale of our remaining proprietary trading business of CHF 31 million.

Other income excluding income from financial investments available-for-sale and income related to associates and subsidiaries was unchanged at CHF 252 million. Gains on sales of real estate were CHF 288 million compared with CHF 112 million in the prior year. Net gains on sales of loans and receivables were CHF 53 million compared with net losses of CHF 11 million in the prior year. Furthermore, 2013 included losses related to the buyback of debt in public tender offers of CHF 194 million.

➔ **Refer to "Note 5 Other income" in the "Financial information" section of this report for more information**

Operating expenses

Total operating expenses decreased by CHF 2,755 million to CHF 24,461 million. Restructuring charges were CHF 772 million compared with CHF 371 million in the prior year, mainly related to

Operating expenses

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Personnel expenses (adjusted)[1]				
Salaries	**6,203**	6,750	6,828	(8)
Total variable compensation	**3,201**	3,005	3,531	7
of which: relating to current year[2]	***2,369***	*1,901*	*2,020*	*25*
of which: relating to prior years[3]	***832***	*1,104*	*1,511*	*(25)*
Wealth Management Americas: Financial advisor compensation[4]	**3,140**	2,873	2,519	9
Other personnel expenses[5]	**2,481**	2,595	2,494	(4)
Total personnel expenses (adjusted)[1]	**15,026**	15,225	15,373	(1)
Non-personnel expenses (adjusted)[1]				
Provisions for litigation, regulatory and similar matters	**1,701**	2,549	276	(33)
Other non-personnel expenses[6]	**6,962**	6,852	6,453	2
Total non-personnel expenses (adjusted)[1]	**8,662**	9,401	6,728	(8)
Adjusting items	**772**	2,589	380	(70)
of which: personnel-related restructuring charges	***156***	*358*	*261*	*(56)*
of which: other restructuring charges	***616***	*14*	*119*	
of which: credits related to changes to the Swiss pension plan and retiree benefit plans in the US[7]		*(846)*		
of which: impairment of goodwill and other non-financial assets[8]		*3,064*		
Total operating expenses as reported	**24,461**	27,216	22,482	(10)

1 Excluding adjusting items. 2 Includes expenses relating to performance awards and other variable compensation for the respective performance year. 3 Consists of amortization of prior years' awards relating to performance awards and other variable compensation. 4 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. 5 Consists of expenses related to contractors, social security, pension and other post-employment benefit plans and other personnel expenses. Refer to "Note 6 Personnel expenses" in the "Financial information" section of this report for more information. 6 Includes general and administrative expenses excluding charges for provisions for litigation, regulatory and similar matters, as well as depreciation and impairment of property and equipment and amortization and impairment of intangible assets. 7 Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information. 8 Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information.

increased non-personnel related restructuring charges, partly offset by lower personnel-related restructuring charges.

Furthermore, 2012 included a credit related to changes to our Swiss pension plan of CHF 730 million and a credit related to changes to our retiree benefit plans in the US of CHF 116 million, as well as impairment losses on goodwill and other non-financial assets of CHF 3,064 million. On an adjusted basis, total operating expenses decreased by CHF 938 million to CHF 23,689 million, mainly due to a reduction of CHF 848 million in charges for provisions for litigation, regulatory and similar matters as well as a decrease of CHF 199 million in personnel expenses, partly offset by an increase of CHF 110 million in other non-personnel expenses.

➔ Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for more information on restructuring charges

Personnel expenses

Personnel expenses increased by CHF 445 million to CHF 15,182 million. 2013 included net charges of CHF 156 million in personnel-related restructuring expenses compared with CHF 358 million in the prior year. Furthermore, 2012 included a credit related to changes to our Swiss pension plan of CHF 730 million and a credit related to changes to our retiree benefit plans in the US of CHF 116 million. On an adjusted basis, personnel expenses decreased by CHF 199 million to CHF 15,026 million.

Expenses for salaries, excluding the effects of restructuring, decreased by CHF 547 million, largely due to a reduction in the number of personnel as a result of our ongoing cost reduction programs.

Excluding the effects of restructuring, total variable compensation expenses increased by CHF 196 million. Expenses for performance awards increased by CHF 116 million, due to higher expenses for current year performance awards reflecting a 28% increase in the overall performance award pool, partly offset by a lower charge for the amortization of deferred compensation awards from prior years. Including restructuring, expenses for performance awards were virtually unchanged. Other variable compensation expenses excluding restructuring increased by CHF 80 million, mainly due to increased expenses for retention payments.

Financial advisor compensation in Wealth Management Americas increased by CHF 267 million, corresponding with higher compensable revenues.

Other personnel expenses decreased by CHF 114 million on an adjusted basis, mainly due to lower expenses for pension and other post-employment benefits plans and reduced expenses for contractors.

➔ Refer to "Note 6 Personnel expenses" in the "Financial information" section of this report for more information

➔ Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information

➔ Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of this report for more information

➔ Refer to the "Compensation" section of this report for more information

General and administrative expenses

General and administrative expenses decreased by CHF 273 million to CHF 8,380 million. On an adjusted basis, excluding net restructuring charges of CHF 548 million in 2013 compared with zero in 2012, general and administrative expenses decreased by CHF 821 million.

Net charges for provisions for litigation, regulatory and similar matters decreased by CHF 848 million to CHF 1,701 million, primarily as the prior year included charges arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. This was partly offset by higher provisions in 2013 for claims related to sales of residential mortgage-backed securities and mortgages. In view of the current regulatory and political climate affecting financial institutions, and because we continue to be exposed to a number of significant claims and regulatory matters, we expect charges associated with litigation, regulatory and similar matters to remain at elevated levels through 2014.

2013 expenses included a net charge of CHF 124 million for the UK bank levy, mainly in Non-core and Legacy Portfolio and the Investment Bank, compared with a net charge of CHF 127 million recognized in the prior year, as well as a charge of CHF 110 million related to the Swiss-UK tax agreement, allocated primarily to Wealth Management, and an impairment charge of CHF 87 million in Non-core and Legacy Portfolio related to certain disputed receivables. Furthermore, excluding the effects of restructuring, expenses decreased for outsourcing of information technology and other services, occupancy, and marketing and public relations, by CHF 76 million, CHF 66 million and CHF 50 million, respectively.

➔ Refer to "Note 7 General and administrative expenses" in the "Financial information" section of this report for more information

➔ Refer to "Note 22 Provisions and contingent liabilities" in the "Financial information" section of this report for more information

➔ Refer to the "Regulatory and legal developments" section of this report for more information on the charge in relation to the Swiss-UK tax agreement

Depreciation, impairment and amortization

Depreciation and impairment of property and equipment was CHF 816 million compared with CHF 689 million in the prior year, partly as restructuring-related charges increased to CHF 68 million from CHF 14 million.

Impairment of goodwill was zero compared with CHF 3,030 million in the prior year.

Amortization and impairment of intangible assets was CHF 83 million compared with CHF 106 million in the prior year. We recorded impairment charges of CHF 3 million compared with CHF 17 million.

➔ Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information

Tax

We recognized a net income tax benefit of CHF 110 million for 2013, which included a Swiss tax expense of CHF 548 million and a net foreign tax benefit of CHF 658 million.

The Swiss tax expense included a current tax expense of CHF 93 million related to taxable profits, against which no losses were available to offset, earned by Swiss subsidiaries and also from the sale of real estate. In addition, it included a deferred tax expense of CHF 455 million, mainly reflecting the amortization of deferred tax assets previously recognized in relation to tax losses carried forward used to offset taxable profits for the year.

The net foreign tax benefit included a current tax expense of CHF 342 million in respect of taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset. This was more than offset by a net deferred tax benefit of CHF 1,000 million reflecting a net upward revaluation of deferred tax assets, partially offset by the amortization of deferred tax assets, as tax losses were used against taxable profits.

In 2014, notwithstanding the effects of any potential reassessment of the level of deferred tax assets, we expect the tax rate to be in the range of 20% to 25%. Consistent with past practice, we expect to revalue our overall level of deferred tax assets in the second half of 2014 based on a reassessment of future profitability taking into account updated business plan forecasts. Furthermore, based on our actual and forecasted financial performance, we may reassess the manner in which the probability of future taxable income is evaluated and include additional forecasted taxable income in our deferred tax assets assessment which may have a material effect on recognized deferred tax assets and tax expense. The full year effective tax rate could change significantly on the basis of this reassessment. It could also change if aggregate tax expenses for locations other than Switzerland, the US and UK differ from what is expected.

➔ Refer to "Note 8 Income taxes" in the "Financial information" section of this report for more information

Total comprehensive income attributable to UBS shareholders

Total comprehensive income attributable to UBS shareholders includes all changes in equity (including net profit) attributed to UBS shareholders during a period, except those resulting from investments by and distributions to shareholders as well as equity-settled share-based payments. Items included in comprehensive income, but not in net profit, are reported under other comprehensive income (OCI). These items will be reclassified to net profit when the underlying item is sold or realized, with the exception of gains and losses on defined benefit plans and certain property revaluations.

In 2013, total comprehensive income attributable to UBS shareholders was CHF 1,961 million, reflecting net profit attributable to UBS shareholders of CHF 3,172 million, partly offset by negative OCI attributable to UBS shareholders of CHF 1,211 million (net of tax).

OCI in 2013 included negative cash flow hedge OCI of CHF 1,520 million (net of tax), mainly reflecting significant increases in long-term interest rates across all major currencies.

Foreign currency translation losses amounted to CHF 471 million (net of tax), primarily related to a weakening of the US dollar, Indian rupee and Australian dollar against the Swiss franc.

OCI associated with financial investments available-for-sale was negative CHF 154 million (net of tax), mainly as previously unrealized net gains were reclassified from OCI to the income statement upon sale of investments.

These decreases in OCI were partly offset by net OCI gains on defined benefit plans of CHF 939 million (net of tax), mainly related to our Swiss pension plan which recorded a pre-tax OCI gain of CHF 1,119 million. This OCI gain on the Swiss pension plan reflected a gain of CHF 1,124 million due to a reduction of the defined benefit obligation and a gain of CHF 803 million related to an increase in the fair value of plan assets, partly offset by an OCI reduction of CHF 808 million representing the excess of the pension surplus over the estimated future economic benefit. The net pre-tax OCI gains on non-Swiss pension plans amounted to CHF 49 million.

➔ Refer to the "Statement of comprehensive income" in the "Financial information" section of this report for more information

➔ Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information on OCI related to defined benefit plans

Net profit attributable to preferred noteholders

Net profit attributable to preferred noteholders was CHF 204 million compared with CHF 220 million in the prior year.

We expect net profit attributable to preferred noteholders to be approximately CHF 110 million in both 2014 and 2015, and approximately CHF 85 million in 2016.

Key figures

Cost/income ratio

The cost/income ratio improved to 88.0% in 2013 compared with 106.6% in the prior year. On an adjusted basis, the cost/income ratio improved to 85.0% from 89.1%.

Risk-weighted assets

Our phase-in Basel III RWA decreased by CHF 33 billion to CHF 229 billion, mainly due to a CHF 41 billion reduction in credit risk RWA and a CHF 17 billion reduction in market risk RWA, partly offset by a CHF 25 billion increase in operational risk RWA. The CHF 41 billion decrease in credit risk RWA was mainly due to a CHF 24 billion reduction related to Other exposure segments, mainly driven by a reduction in RWA for advanced and standardized credit valuation adjustments (CVA) of CHF 18 billion, mainly due to benefits from economic CVA hedges, ratings migration,

reduced exposures and market-driven reductions in the Investment Bank and Non-core and Legacy Portfolio. Furthermore, a decline of CHF 6 billion was realized due to the sale of securitization exposures in Non-core and Legacy Portfolio. Credit risk RWA for exposures to corporates decreased by CHF 10 billion, primarily due to a reduction in drawn loans, undrawn loan commitments and derivative exposures in Wealth Management Americas, the Investment Bank and Non-core and Legacy Portfolio. Credit risk RWA for exposures to banks declined by CHF 6 billion, mainly due to lower derivative exposures in the Investment Bank and Non-core and Legacy Portfolio. The CHF 17 billion decrease in market risk RWA was due to a CHF 5 billion decrease in the comprehensive risk measure, a decline of CHF 4 billion in the incremental risk charge and reductions of CHF 2 billion, CHF 3 billion and CHF 1 billion in RWA related to value-at-risk (VaR), stressed VaR and risks-not-in-VaR, respectively. The CHF 25 billion increase in operational risk RWA was primarily due to incremental RWA of CHF 22.5 billion resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

➔ Refer to the "Investment Bank," "Corporate Center" and "Capital management" sections of this report for more information

➔ Refer to the "Regulatory and legal developments" section of this report for more information on the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA

Net new money

In Wealth Management, all regions contributed to net inflows of CHF 35.9 billion in 2013, compared with CHF 26.3 billion in the prior year. The strongest net inflows were recorded in Asia Pacific followed by emerging markets, Switzerland and Europe. Net inflows in the European onshore and the Swiss-based Global Family Office business in Europe more than offset net outflows in the European cross-border business, which was negatively affected by ongoing asset outflows in the context of fiscal and regulatory concerns. On a global basis, net new money from ultra high net worth clients was CHF 33.6 billion compared with CHF 19.9 billion in the prior year.

In Wealth Management Americas, net new money totaled CHF 17.6 billion, or USD 19.0 billion, compared with CHF 20.6 billion, or USD 22.1 billion, in the prior year, due to lower inflows from financial advisors employed with UBS for more than one year as well as lower inflows from net recruiting of financial advisors. This decrease was partly offset by higher inflows from the Global Family Office.

Excluding money market flows, Global Asset Management recorded net new money inflows from third parties of CHF 0.7 billion compared with net outflows of CHF 0.6 billion in 2012. Net inflows, notably from clients serviced from Europe, Middle East and Africa and from Switzerland, were partly offset by net outflows from clients serviced from the Americas. Net new money outflows from clients of UBS's wealth management businesses, excluding money market flows, were CHF 5.5 billion compared with CHF 5.2 billion in the prior year. Net outflows, mainly from clients serviced from Switzerland, were partly offset by net inflows from clients serviced from the Americas. Money market net outflows from third parties were CHF 1.5 billion compared with net inflows of CHF 0.9 billion in the prior year and were mainly from clients serviced from the Americas. Money market net outflows from clients of UBS's wealth management businesses were CHF 13.6 billion compared with CHF 8.3 billion in the prior year. In both years, net outflows were primarily due to an ongoing initiative by Wealth Management Americas to increase deposit account balances in UBS banking entities. This led to CHF 8.3 billion in outflows from money market funds managed by Global Asset Management in 2013 and CHF 6.2 billion in 2012. The corresponding increase in deposit account balances in Wealth Management Americas does not constitute net new money. Total net new money outflows were CHF 19.9 billion compared with CHF 13.3 billion in the prior year.

➔ Refer to the "Wealth Management," "Wealth Management Americas" and "Global Asset Management" sections of this report for more information

Net new money[1]

	For the year ended		
CHF billion	**31.12.13**	31.12.12	31.12.11
Wealth Management	**35.9**	26.3	23.5
Wealth Management Americas	**17.6**	20.6	12.1
Global Asset Management	**(19.9)**	(13.3)	4.3
of which: non-money market flows	***(4.8)***	*(5.9)*	9.0
of which: money market flows	***(15.1)***	*(7.4)*	*(4.7)*

1 Net new money excludes interest and dividend income.

Invested assets

	As of			% change from
CHF billion	**31.12.13**	31.12.12	31.12.11	31.12.12
Wealth Management	**886**	821	750	8
Wealth Management Americas	**865**	772	709	12
Global Asset Management	**583**	581	574	0

Invested assets

In Wealth Management, invested assets were CHF 886 billion as of 31 December 2013, representing an increase of CHF 65 billion from 31 December 2012. Net new money inflows of CHF 36 billion and positive market performance of CHF 34 billion were slightly offset by negative currency translation effects of CHF 4 billion.

In Wealth Management Americas, invested assets were CHF 865 billion as of 31 December 2013, an increase of CHF 93 billion from 31 December 2012. In US dollar terms, invested assets increased by USD 127 billion to USD 970 billion, reflecting positive market performance of USD 108 billion and continued strong net new money inflows of USD 19 billion.

In Global Asset Management, invested assets were CHF 583 billion as of 31 December 2013 compared with CHF 581 billion as of 31 December 2012. Net new money outflows of CHF 20 billion, combined with negative currency translation effects of CHF 15 billion and a reduction of CHF 7 billion related to the aforementioned sale of the Canadian domestic business, were more than offset by positive market performance of CHF 44 billion.

➔ **Refer to the “Wealth Management,” “Wealth Management Americas” and “Global Asset Management” sections of this report for more information**

2012 compared with 2011

Performance

Operating profit before tax was a loss of CHF 1,794 million in 2012 compared with a profit of CHF 5,307 million in the prior year. The 2012 loss was primarily due to impairment losses of CHF 3,064 million on goodwill and other non-financial assets and net charges for provisions for litigation, regulatory and similar matters of CHF 2,549 million, including charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates, as well as claims related to sales of residential mortgage-backed securities. The full year 2012 result also included an own credit loss on financial liabilities designated at fair value of CHF 2,202 million and net restructuring charges of CHF 371 million.

In addition to reporting our results in accordance with IFRS, we report adjusted results that exclude items considered non-recurring and certain other items that management believes are not representative of the underlying performance of our businesses. Such adjusted results are non-GAAP financial measures as defined by SEC regulations. For 2012, the items we excluded were the abovementioned impairment losses of CHF 3,064 million, the own credit loss of CHF 2,202 million, gains on sales of real estate of CHF 112 million, a credit to personnel expenses related to changes to our Swiss pension plan of CHF 730 million, net restructuring charges of CHF 371 million and a credit to personnel expenses related to changes to our retiree benefit plans in the US of CHF 116 million. The adjustments in 2011 were an own credit gain of CHF 1,537 million, gains on sales of real estate of CHF 94 million, a gain on sale of our strategic investment portfolio of CHF 722 million and net restructuring charges of CHF 380 million.

On this adjusted basis, the 2012 profit before tax was CHF 2,885 million compared with CHF 3,334 million in 2011, mainly as net charges for provisions for litigation, regulatory and similar matters increased by CHF 2,273 million to CHF 2,549 million, while 2011 included a loss of CHF 1,849 million related to the unauthorized trading incident announced in September of that year.

Operating income

Total operating income was CHF 25,423 million in 2012 compared with CHF 27,788 million in 2011. Excluding the impacts of own credit as well as gains on sales of real estate in both years and the gain on the sale of our strategic investment portfolio in 2011, operating income increased by CHF 2,078 million to CHF 27,513 million.

Net interest and trading income

Net interest and trading income decreased by CHF 1,665 million to CHF 9,504 million. 2012 included an own credit loss on financial liabilities designated at fair value of CHF 2,202 million, primarily reflecting significant tightening of our funding spreads, compared with an own credit gain of CHF 1,537 million in 2011. Excluding the impact of own credit, net interest and trading income increased by CHF 2,074 million.

Net interest and trading income in Wealth Management declined by CHF 118 million, mainly as the prior year included CHF 103 million of interest income stemming from the abovementioned strategic investment portfolio. Moreover, net interest income was negatively affected by increased costs of CHF 69 million related to assets managed centrally by Group Treasury. Furthermore, net trading revenues declined as a result of lower treasury-related income and lower client activity levels following reduced volatility in the foreign exchange market. These factors were partly offset by CHF 180 million higher product-related interest income, reflecting the beneficial effects of increases in client deposit and lending volumes.

In Wealth Management Americas, net interest and trading income increased by CHF 86 million, reflecting favorable currency effects and higher client balances in securities-backed lending and mortgages.

Retail & Corporate net interest and trading income declined by CHF 194 million, partly as the prior year included interest income of CHF 68 million related to our strategic investment portfolio. Net interest income was also negatively affected by increased costs related to assets managed centrally by Group Treasury and lower allocations related to investment proceeds from the firm's equity. The loan margin was stable, but the historically low interest rate environment continued to negatively affect the deposit margin. This was partly offset by growth in average deposit and, to a lesser extent, loan volumes as well as a number of pricing adjustments. Net trading income decreased to CHF 281 million from CHF 333 million due to lower treasury-related income and lower valuation income in 2012 related to credit default swaps to hedge certain loans.

Within the Investment Bank, Corporate Client Solutions net interest and trading income increased by CHF 176 million, largely due to higher revenues in debt capital markets. Investor Client Services net interest and trading income increased by CHF 567 million, mainly as 2011 included a loss of CHF 1,849 million related to the unauthorized trading incident, partly offset by lower equities cash revenues, mainly as 2012 included a loss of CHF 349 million related to the Facebook initial public offering. In addition, equities derivatives revenues declined, as trading revenues, particularly in Asia Pacific and Europe, Middle East and Africa, were affected by lower volatility levels. Other equities revenues also decreased, primarily reflecting a reduced contribution from proprietary trading as we continued to exit the business. Furthermore, foreign exchange revenues declined, mainly within foreign exchange spot and foreign exchange options as volatility decreased from the high levels seen in 2011 resulting from eurozone uncertainty. Rates and credit revenues also declined, primarily due to increased negative debit valuation adjustments and lower revenues from flow businesses, partly offset by higher revenues from solutions businesses.

Excluding own credit, net interest and trading revenues in Corporate Center – Core Functions decreased by CHF 18 million.

In Non-core and Legacy Portfolio, net interest and trading income increased by CHF 1,573 million. Our option to acquire the SNB StabFund's equity resulted in a gain of CHF 526 million in 2012, compared with a loss of CHF 133 million in 2011. Legacy Portfolio net interest and trading income excluding the SNB StabFund option increased by CHF 714 million, partly as 2011 included a loss of CHF 284 million related to credit valuation adjustments for monoline credit protection. Non-core net interest and trading revenues increased by CHF 200 million, mainly as a result of higher credit revenues.

➔ **Refer to "Note 3 Net interest and trading income" in the "Financial information" section of this report for more information**

➔ **Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information on own credit**

Credit loss expense / recovery

In 2012, we recorded net credit loss expenses of CHF 118 million compared with net credit loss expenses of CHF 84 million in 2011. In 2012, we recorded net credit loss expenses of CHF 78 million in Non-core and Legacy Portfolio, mainly related to student loan auction rate securities, and net credit loss expenses of CHF 27 million in Retail & Corporate.

➔ **Refer to the "Wealth Management Americas," "Retail & Corporate" and "Corporate Center" sections of this report for more information**

Net fee and commission income

Net fee and commission income increased by CHF 160 million to CHF 15,396 million.

Underwriting fees increased by CHF 359 million to CHF 1,539 million, reflecting an increase in both equity and debt underwriting fees. The increase in underwriting fees corresponded to increased market share in both equity underwriting and debt underwriting. In addition, we increased our participation in private and structured transactions.

Portfolio management and advisory fees increased by CHF 344 million to CHF 5,895 million, mainly reflecting an increase in Wealth Management Americas.

Net brokerage fees fell by CHF 271 million, primarily in the Investment Bank due to a lower level of client activity.

Merger and acquisition and corporate finance fees decreased by CHF 313 million due to a lower volume of transactions.

➔ **Refer to "Note 4 Net fee and commission income" in the "Financial information" section of this report for more information**

Other income

Other income was CHF 641 million compared with CHF 1,467 million in the previous year.

In 2012, net revenues from financial investments available-for-sale were CHF 308 million, which included CHF 272 million in gains from Corporate Center – Core Functions, as well as a gain of CHF 101 million in Non-core and Legacy Portfolio mainly related to the sale of an equity investment. In 2011, net revenues from financial investments available-for-sale were CHF 887 million, which included a gain of CHF 722 million from the sale of our strategic investment portfolio as well as net gains of CHF 141 million in Corporate Center – Core Functions.

Other income from associates and subsidiaries was CHF 81 million compared with CHF 44 million, mainly related to higher revenues from our participation in the SIX Group.

Other income in 2012 further included gains of CHF 112 million on sales of Swiss real estate compared with a gain of CHF 78 million on sale of a property in Switzerland in 2011. Other income in 2011 included net gains of CHF 344 million from the sale of loans and receivables.

➔ **Refer to "Note 5 Other income" in the "Financial information" section of this report for more information**

Operating expenses

Total operating expenses increased by CHF 4,734 million to CHF 27,216 million, mainly due to impairment losses of CHF 3,064 million on goodwill and other non-financial assets and CHF 2,273 million higher net charges for provisions for litigation, regulatory and similar matters. The appreciation of the US dollar and British pound against the Swiss franc also contributed to the overall increase. These increases were partly offset by a credit to personnel expenses of CHF 730 million related to changes to our Swiss pension plan and a credit to personnel expenses of CHF 116 million related to changes to our retiree benefit plans in the US. Net restructuring charges were CHF 371 million in 2012 compared with CHF 380 million in 2011.

➔ **Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for more information on restructuring charges**

Personnel expenses

Personnel expenses decreased by CHF 897 million to CHF 14,737 million. In 2012, personnel expenses included a credit of CHF 730 million related to changes to our Swiss pension plan and a credit of CHF 116 million related to changes to our retiree benefit plans in the US. Net personnel-related restructuring charges were CHF 358 million in 2012 compared with CHF 261 million in 2011. Excluding the effects of restructuring and the credits related to the Swiss and US benefit plans, personnel expenses decreased by CHF 148 million, despite the appreciation of the US dollar and British pound against the Swiss franc.

On this adjusted basis, expenses for performance awards declined by CHF 577 million to CHF 2,885 million. Expenses relating to 2012 performance awards recognized in the performance year 2012 were CHF 1,724 million, down CHF 123 million from the prior year, reflecting a 7% decrease in the overall performance award pool for the 2012 performance year. The amortization of

deferred compensation awards from prior years decreased by CHF 454 million to CHF 1,161 million.

Other variable compensation excluding restructuring charges increased by CHF 51 million, reflecting increased expenses for employee retention, including costs related to a special plan award program.

Salary expenses, excluding restructuring, decreased by CHF 78 million, partly related to a one-time net credit of CHF 31 million from changes to the rules for the Swiss long-service and sabbatical awards.

Financial advisor compensation in Wealth Management Americas increased by CHF 354 million excluding restructuring reflecting higher revenue production and higher compensation commitments with recruited financial advisors.

➔ Refer to "Note 6 Personnel expenses" in the "Financial information" section of this report for more information

➔ Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information

➔ Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of this report for more information

➔ Refer to the "Compensation" section of this report for more information

General and administrative expenses

General and administrative expenses were CHF 8,653 million in 2012 compared with CHF 5,959 million in 2011.

Net charges for provisions for litigation, regulatory and similar matters increased by CHF 2,273 million, primarily as a result of charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates and claims related to sales of residential mortgage-backed securities.

Costs for outsourcing of information technology and other services increased by CHF 206 million due to higher business demand.

Expenses for marketing and public relations increased by CHF 135 million, partly due to expenditures related to our 150th anniversary, and professional fees increased by CHF 86 million. In 2012, no general and administrative restructuring charges were recorded compared with net charges of CHF 93 million in 2011.

➔ Refer to "Note 7 General and administrative expenses" in the "Financial information" section of this report for more information

➔ Refer to "Note 22 Provisions and contingent liabilities" in the "Financial information" section of this report for more information

Depreciation, impairment and amortization

Depreciation and impairment of property and equipment was CHF 689 million, a decrease of CHF 72 million from the prior year, mainly reflecting lower depreciation of information technology equipment.

Impairment of goodwill was CHF 3,030 million in 2012.

Amortization and impairment of intangible assets was CHF 106 million compared with CHF 127 million. In 2012, we recorded impairment charges of CHF 17 million. In 2011, impairment charges were CHF 37 million, mainly related to a past acquisition in the UK.

➔ Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information

Tax

We recognized a net income tax expense in the income statement for the year of CHF 461 million. This included a Swiss current tax expense of CHF 95 million, which relates to taxable profits, against which no losses were available to offset, earned by Swiss subsidiaries and also from the sale of real estate. The net income tax expense for the year also includes a Swiss deferred tax expense of CHF 23 million, which relates to a decrease in recognized deferred tax assets due to Swiss pre-tax profits earned during the year, offset by Swiss tax relief for the impairment of goodwill. In addition, it includes a foreign net current tax expense of CHF 72 million, which relates to a tax expense in respect of taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset, which were partly offset by a tax benefit from the release of provisions in respect of tax positions which were previously uncertain. Finally, the net income tax expense for the year includes a foreign deferred tax expense of CHF 271 million, which mainly reflects a tax expense for the amortization of deferred tax assets, as tax losses were used against taxable profits.

➔ Refer to "Note 8 Income taxes" in the "Financial information" section of this report for more information

Total comprehensive income attributable to UBS shareholders

Total comprehensive income attributable to UBS shareholders in 2012 was negative CHF 1,966 million, reflecting the net loss attributable to UBS shareholders of CHF 2,480 million, partly offset by positive other comprehensive income attributable to UBS shareholders of CHF 514 million.

OCI in 2012 included net OCI gains on defined benefit plans of CHF 609 million (net of tax). This reflected net pre-tax OCI gains of CHF 1,023 million, which were almost entirely due to an increase in the fair value of plan assets of the Swiss pension plan, partly offset by an income tax expense of CHF 413 million. Cash flow hedge OCI was positive CHF 384 million (net of tax), mainly reflecting decreases in long-term interest rates across all major currencies, partly offset by the reclassification of net gains associated with the effective portion of changes in fair value of hedging derivatives to the income statement. Financial investments available-for-sale OCI was positive CHF 26 million (net of tax). Foreign currency translation OCI was a loss of CHF 511 million (net of tax),

predominantly related to the 2% weakening of the US dollar against the Swiss franc.

OCI attributable to UBS shareholders in 2011 was CHF 934 million (net of tax), mainly reflecting positive cash flow hedge OCI of CHF 1,537 million and foreign currency translation gains of CHF 722 million, partly offset by net OCI losses on defined benefit plans of CHF 1,820 million.

➔ Refer to the "Statement of comprehensive income" in the "Financial information" section of this report for more information

➔ Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information on OCI related to defined benefit plans

Net profit attributable to preferred noteholders

Net profit attributable to preferred noteholders was CHF 220 million in 2012.

Key figures

Cost/income ratio

The cost/income ratio increased to 106.6% in 2012 compared with 80.7% in the prior year. On an adjusted basis, the cost/income ratio increased to 89.1% from 86.6%.

Net new money

In Wealth Management, net new money inflows were CHF 26.3 billion in 2012 compared with CHF 23.5 billion in 2011. The strongest net inflows were recorded in Asia Pacific and emerging markets as well as globally from ultra high net worth clients. Europe reported net outflows in the offshore business, mainly related to clients from countries neighboring Switzerland. This was partly offset by net inflows in the European onshore business. Swiss wealth management reported increased net inflows compared with the prior year.

Wealth Management Americas recorded net new money inflows of CHF 20.6 billion or USD 22.1 billion in 2012, compared with net new money inflows of CHF 12.1 billion or USD 14.1 billion in 2011 due to stronger inflows from net recruiting of financial advisors as well as financial advisors employed with UBS for more than one year.

Excluding money market flows, Global Asset Management recorded net new money outflows of CHF 5.9 billion in 2012 compared with net inflows of CHF 9.0 billion in the prior year. Net new money from third parties was a net outflow of CHF 0.6 billion compared with a net inflow of CHF 12.2 billion. Net new money from clients of UBS's wealth management businesses was a net outflow of CHF 5.2 billion compared with a net outflow of CHF 3.1 billion.

➔ Refer to the "Wealth Management," "Wealth Management Americas" and "Global Asset Management" sections of this report for more information

Invested assets

Invested assets in Wealth Management rose by CHF 71 billion to CHF 821 billion during the year. Positive market performance and net new money inflows were partly offset by negative currency translation effects.

In Wealth Management Americas, invested assets increased by CHF 63 billion to CHF 772 billion, reflecting positive market performance and strong net new money inflows.

Global Asset Management invested assets increased by CHF 7 billion to CHF 581 billion, mainly due to positive market performance, partly offset by net new money outflows and negative currency translation effects. The sale, as agreed prior to the acquisition, of parts of the ING Investment Management business acquired in Australia in 2011 resulted in a net divestment of CHF 14 billion of invested assets in 2012.

➔ Refer to the "Wealth Management," "Wealth Management Americas" and "Global Asset Management" sections of this report for more information

Balance sheet

As of 31 December 2013, our balance sheet assets stood at CHF 1,010 billion, a decrease of CHF 250 billion or 20% from 31 December 2012, primarily due to a reduction in positive replacement values (PRV) in Corporate Center – Non-core and Legacy Portfolio. Funded assets, which represent total assets excluding PRV and collateral delivered against over-the-counter (OTC) derivatives, decreased by CHF 66 billion to CHF 739 billion, mainly due to reductions in both collateral trading and trading portfolio assets, primarily reflecting the ongoing execution of our strategy. Currency effects reduced funded assets by approximately CHF 18 billion.

Balance sheet

			% change from
CHF million	**31.12.13**	31.12.12	31.12.12
Assets			
Cash and balances with central banks	**80,879**	66,383	22
Due from banks	**17,170**	21,220	(19)
Cash collateral on securities borrowed	**27,496**	37,372	(26)
Reverse repurchase agreements	**91,563**	130,941	(30)
Trading portfolio assets	**122,848**	160,564	(23)
of which: assets pledged as collateral which may be sold or repledged by counterparties	***42,449***	*44,698*	*(5)*
Positive replacement values	**245,835**	418,957	(41)
Cash collateral receivables on derivative instruments	**28,007**	30,413	(8)
Financial assets designated at fair value	**7,364**	9,106	(19)
Loans	**286,959**	279,901	3
Financial investments available-for-sale	**59,525**	66,230	(10)
Investments in associates	**842**	858	(2)
Property and equipment	**6,006**	6,004	0
Goodwill and intangible assets	**6,293**	6,461	(3)
Deferred tax assets	**8,845**	8,143	9
Other assets	**20,228**	17,244	17
Total assets	**1,009,860**	1,259,797	(20)
Liabilities			
Due to banks	**12,862**	23,024	(44)
Cash collateral on securities lent	**9,491**	9,203	3
Repurchase agreements	**13,811**	38,557	(64)
Trading portfolio liabilities	**26,609**	34,247	(22)
Negative replacement values	**239,953**	395,260	(39)
Cash collateral payables on derivative instruments	**49,138**	71,148	(31)
Financial liabilities designated at fair value	**69,901**	91,901	(24)
Due to customers	**390,825**	373,459	5
Debt issued	**81,586**	104,837	(22)
Provisions	**2,971**	2,536	17
Other liabilities	**62,777**	66,523	(6)
Total liabilities	**959,925**	1,210,697	(21)

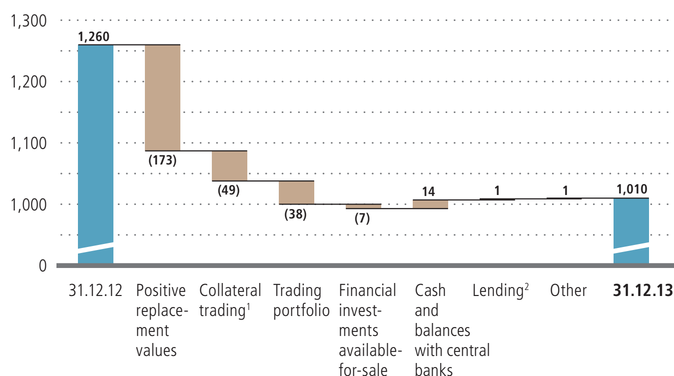
Balance sheet (continued)

CHF million	31.12.13	31.12.12	% change from 31.12.12
Equity			
Share capital	384	384	0
Share premium	33,952	33,898	0
Treasury shares	(1,031)	(1,071)	(4)
Equity classified as obligation to purchase own shares	(46)	(37)	24
Retained earnings	24,475	21,297	15
Cumulative net income recognized directly in equity, net of tax	(9,733)	(8,522)	14
Equity attributable to UBS shareholders	48,002	45,949	4
Equity attributable to preferred noteholders	1,893	3,109	(39)
Equity attributable to non-controlling interests	41	42	(2)
Total equity	49,936	49,100	2
Total liabilities and equity	1,009,860	1,259,797	(20)

Balance sheet development

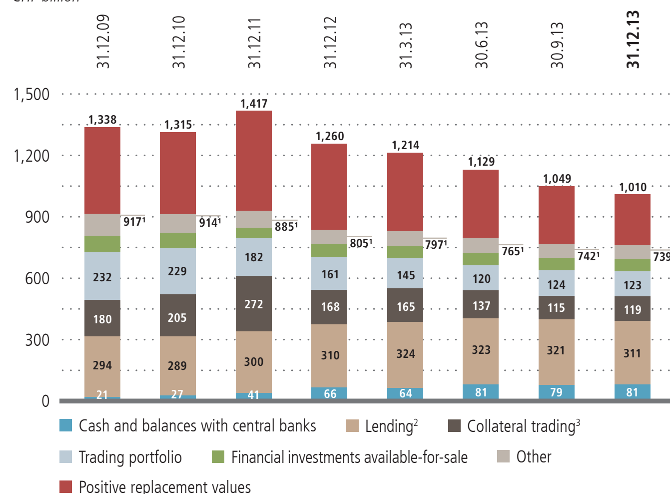
Non-core and Legacy Portfolio total assets decreased by CHF 218 billion to CHF 211 billion as of 31 December 2013, mainly reflecting a CHF 170 billion decline in positive replacement values in Non-core and Legacy Portfolio, primarily from a reduction in OTC derivative exposures by means of negotiated bilateral settlements with specific counterparties, third-party novations, including transfers to central clearing houses, agreements to net down trades with other dealer counterparties, as well as, to a lesser extent, fair value changes due to interest rate movements. Non-core and Legacy Portfolio funded assets decreased by CHF 39 billion to CHF 22 billion, primarily due to the exit of government and other liquid bond positions, along with the sale of a portfolio of distressed assets in Non-core and sales and redemptions of student loan auction rate securities in the Legacy Portfolio. Investment Bank total assets decreased by CHF 21 billion to CHF 241 billion, and funded assets declined by CHF 23 billion to CHF 162 billion, largely due to lower collateral trading assets across businesses, as well as due to a reduction in trading portfolio assets in our foreign exchange, rates and credit business and a reduction in lending assets in Corporate Client Solutions. Corporate Center – Core

Balance sheet assets: development during 2013



1 Consists of reverse repurchase agreements and cash collateral on securities borrowed.
2 Consists of due from banks, financial assets designated at fair value and loans.

Balance sheet assets: development 2009–2013



1 Total assets excluding positive replacement values and collateral delivered against OTC derivatives.
2 Consists of due from banks, financial assets designated at fair value and loans. 3 Consists of reverse repurchase agreements and cash collateral on securities borrowed.

Total assets and funded assets

	31.12.13					31.12.12				
CHF billion	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Other business divisions	UBS	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Other business divisions	UBS
Total IFRS assets	241	247	211	311	1,010	262	263	429	307	**1,260**
Less: positive replacement values	(72)	0	(170)	(3)	(246)	(69)	(7)	(340)	(3)	**(419)**
Less: collateral delivered against OTC derivatives[1]	(6)	0	(19)[2]	0	(25)	(8)	0	(28)[2]	0	**(36)**
Funded assets	**162**	**247**	**22**	**307**	**739**	**185**	**256**	**61**	**303**	**805**

1 Mainly consists of cash collateral receivables on derivative instruments and reverse repurchase agreements. 2 Non-core: CHF 17 billion as of 31 December 2013 (CHF 27 billion as of 31 December 2012). Legacy Portfolio: CHF 1 billion as of 31 December 2013 (CHF 2 billion as of 31 December 2012).

Functions assets decreased by CHF 16 billion to CHF 247 billion, primarily reflecting lower collateral trading assets, reduced PRV and sales of mortgage-backed securities held as financial investments available-for-sale. The overall size of our multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury remained stable. Retail & Corporate total assets decreased by CHF 4 billion to CHF 141 billion, largely reflecting a reduction in cash balances. Wealth Management total assets increased by CHF 5 billion to CHF 110 billion mainly resulting from increased Lombard and mortgage lending activities. Wealth Management Americas and Global Asset Management total assets were broadly unchanged at CHF 45 billion and CHF 14 billion, respectively.

Cash and balances with central banks

Cash and balances with central banks increased by CHF 14 billion to CHF 81 billion as of 31 December 2013, mainly due to a rebalancing of our multi-currency portfolio of unencumbered, high-quality, short-term assets.

Lending

Loans increased by CHF 7 billion to CHF 287 billion, predominantly in our wealth management businesses and mainly reflecting increased Lombard and residential mortgage lending, partly offset by sales and redemptions of student loan auction rate securities in the Legacy Portfolio. Interbank lending was lower by CHF 4 billion, mainly in the Investment Bank, and financial assets designated at fair value were reduced by CHF 2 billion, primarily due to trade terminations in Non-core.

Collateral trading

Collateral trading assets (reverse repurchase agreements and cash collateral on securities borrowed) decreased by CHF 49 billion to CHF 119 billion, primarily due to the rebalancing of our multi-currency portfolio of unencumbered, high-quality, short-term assets, lower collateral trading activity in the Investment Bank and a reduction in externally sourced securities collateral by Group Treasury.

Collateral trading liabilities (repurchase agreements and cash collateral on securities lent) were reduced by CHF 24 billion, reflecting reduced funding requirements.

Trading portfolio

Trading portfolio assets were reduced by CHF 38 billion to CHF 123 billion, mainly due to a CHF 34 billion decrease in debt instruments held, primarily reflecting lower government, corporate and mortgage-backed securities debt, and a reduction of CHF 8 billion in precious metal holdings, partly offset by a CHF 4 billion client-driven increase in equity instruments. A majority of the reduction in trading portfolio assets occurred in Non-core, reflecting the ongoing execution of our strategy.

Trading portfolio liabilities were lower by CHF 8 billion, primarily reflecting reduced government debt and corporate bonds short sales.

Replacement values

Positive and negative replacement values declined on both sides of the balance sheet, decreasing by CHF 173 billion or 41% and CHF 155 billion or 39% to CHF 246 billion and CHF 240 billion,

respectively. Decreases in positive replacement values mainly occurred in Non-core and Legacy Portfolio, primarily from a reduction in OTC derivative exposures by means of negotiated bilateral settlements with specific counterparties, third-party novations, including transfers to central clearing houses, agreements to net down trades with other dealer counterparties, as well as, to a lesser extent, fair value changes due to interest rate movements. Similarly, decreases in negative replacement values also mainly occurred in interest rate contracts in Non-core and Legacy Portfolio.

Financial investments available-for-sale

Financial investments available-for-sale were reduced by CHF 7 billion to CHF 60 billion, mainly reflecting lower holdings of government debt as well as sales of mortgage-backed securities.

Short-term borrowings

Short-term borrowings (short-term debt issued and due to banks) decreased by CHF 15 billion to CHF 40 billion, primarily due to lower interbank precious metal accounts recognized on our balance sheet, combined with reduced funding requirements. The reduction in short-term debt issued primarily occurred in commercial paper and client customized issuances, partly offset by an increase in certificates of deposit.

➔ Refer to the "Treasury management" section of this report for more information

Due to customers

Customer deposits increased by CHF 17 billion to CHF 391 billion as Wealth Management, Wealth Management Americas and Retail & Corporate all continued to attract client money into both current and deposit accounts.

➔ Refer to the "Treasury management" section of this report for more information

Long-term debt

Long-term debt decreased by CHF 40 billion to CHF 124 billion, primarily resulting from a CHF 22 billion reduction in financial liabilities designated at fair value, mainly in the Investment Bank and Non-core and Legacy Portfolio. Long-term debt issued held at amortized cost was reduced by CHF 18 billion, primarily due to decreases in senior debt. As part of our reduction in wholesale funding, we successfully completed two cash tender offers during 2013 to repurchase certain subordinated and senior unsecured bonds.

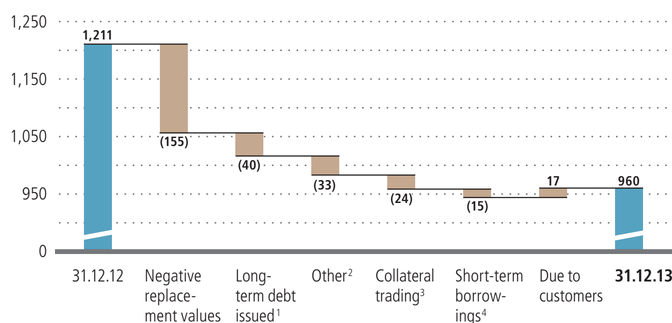
➔ Refer to the "Treasury management" section of this report for more information

Other assets / Other liabilities

Other assets were largely unchanged at CHF 70 billion, mainly as a CHF 3 billion increase in prime brokerage receivables was mostly offset by a CHF 2 billion reduction in cash collateral receivables on derivative instruments.

Balance sheet liabilities: development during 2013

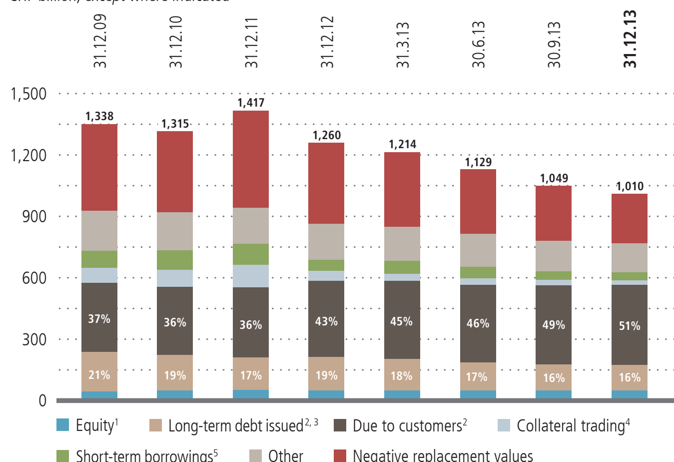
CHF billion



1 Consists of long-term debt issued and financial liabilities designated at fair value.
2 Includes trading portfolio liabilities and cash collateral payables on derivative instruments.
3 Consists of repurchase agreements and cash collateral on securities lent.
4 Consists of short-term debt issued and due to banks.

Balance sheet liabilities and equity: development 2009–2013

CHF billion, except where indicated



1 Consists of equity attributable to UBS shareholders, equity attributable to preferred noteholders and equity attributable to non-controlling interests. 2 Percentages based on total liabilities and equity excluding negative replacement values. 3 Consists of long-term debt issued and financial liabilities designated at fair value. 4 Consists of repurchase agreements and cash collateral on securities lent. 5 Consists of short-term debt issued and due to banks.

Other liabilities decreased by CHF 25 billion to CHF 115 billion, primarily due to a CHF 22 billion reduction in cash collateral payables on derivative instruments.

Equity

Equity attributable to UBS shareholders increased by CHF 2,053 million to CHF 48,002 million as of 31 December 2013 from CHF 45,949 million a year earlier. Total comprehensive income attributable to UBS shareholders was CHF 1,961 million, reflecting the net profit attributable to UBS shareholders of CHF 3,172 million, partly offset by negative other comprehensive income (OCI) attributable to UBS shareholders of CHF 1,211 million (net of tax). OCI included foreign currency translation losses of CHF 471 million as well as negative OCI movements related to cash flow hedges and financial investments available-for-sale of CHF 1,520 million and CHF 154 million, respectively, partly offset by net gains on defined benefit plans of CHF 939 million. Share premium increased by CHF 54 million, mainly reflecting an increase of CHF 305 million related to employee share and share option plans and treasury share gains of CHF 203 million, partly offset by the payment of CHF 564 million to UBS shareholders out of the capital contribution reserve. Net treasury share activity increased equity attributable to UBS shareholders by CHF 41 million.

➔ Refer to the "Statement of changes in equity" in the "Financial information" section of this report for more information

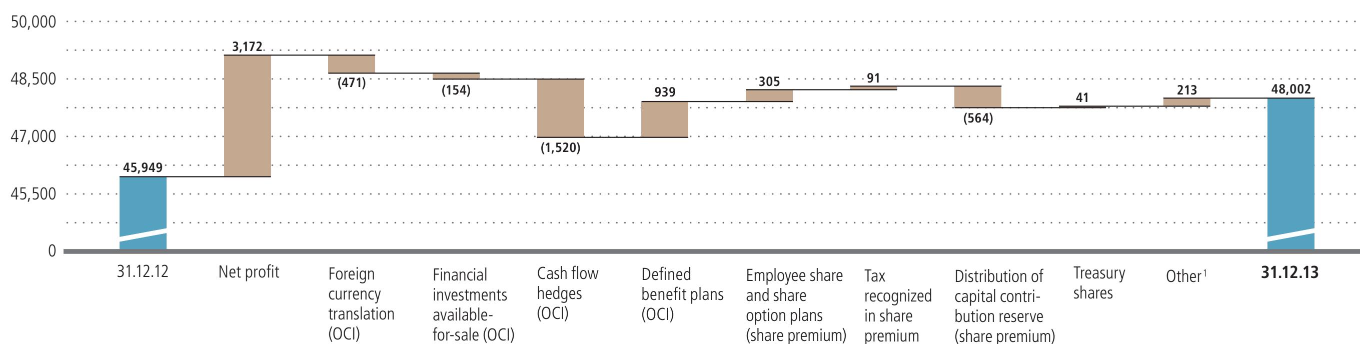
➔ Refer to "Total comprehensive income attributable to UBS shareholders" in the "Group performance" section of this report for more information

Intra-period balances

Balance sheet positions disclosed in this section represent year-end positions. Intra-period balance sheet positions fluctuate in the ordinary course of business and may differ from quarter-end and year-end positions.

Equity attributable to UBS shareholders: development during 2013

CHF million



1 Includes treasury share gains (share premium) of CHF 203 million.

Off-balance sheet

Off-balance sheet arrangements

In the normal course of business, we enter into transactions that may not be fully recognized on the balance sheet due to the International Financial Reporting Standards (IFRS) accounting treatment adopted for the arrangement entered into. These transactions include derivative instruments, guarantees and similar arrangements, as well as purchased and retained interests in non-consolidated structured entities (SE), which are transacted for a number of reasons, including market-making and hedging activities, to meet specific needs of our clients or to offer investment opportunities to clients through entities that are not controlled by us.

When we, through these arrangements, incur an obligation or become entitled to an asset, we recognize these on the balance sheet. It should be noted that in certain instances the amount recognized on the balance sheet does not represent the full gain or loss potential inherent in such arrangements.

➔ Refer to "Note 1a) 3) Subsidiaries and structured entities" and "Note 1a) 5) Recognition and derecognition of financial instruments" in the "Financial information" section of this report for more information on accounting policies regarding consolidation and deconsolidation of subsidiaries, including structured entities, and recognition and derecognition of financial instruments, respectively

➔ Refer to "Note 30 Interests in subsidiaries and other entities" in the "Financial information" section of this report for more information on our interests in, and maximum exposure to loss from, unconsolidated structured entities

The following paragraphs provide more information on several distinct off-balance sheet arrangements. Additional off-balance sheet information is primarily provided in "Note 14 Derivative instruments and hedge accounting," "Note 22 Provisions and contingent liabilities," "Note 25 Restricted and transferred financial assets," "Note 30 Interests in subsidiaries and other entities" and "Note 33 Operating lease commitments" in the "Financial information" section and in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report.

Risk disclosures, including our involvement with off-balance sheet vehicles

Refer to the "Risk, treasury and capital management" section of this report for comprehensive liquidity, market and credit risk information related to risk positions, which includes our exposures to off-balance sheet vehicles.

Support provided to non-consolidated investment funds

In 2013, the Group did not provide material support, financial or otherwise, to unconsolidated investment funds when the Group was not contractually obligated to do so, nor does the Group have an intention to do so.

Guarantees and similar arrangements

In the normal course of business, we issue various forms of guarantees, commitments to extend credit, standby and other letters of credit to support our clients, commitments to enter into forward starting transactions, note issuance facilities and revolving underwriting facilities. With the exception of related premiums, generally these guarantees and similar obligations are kept as off-balance sheet items unless a provision to cover probable losses is required.

As of 31 December 2013, the net exposure (gross values less sub-participations) from guarantees and similar instruments was CHF 15.8 billion, compared with CHF 17.8 billion as of 31 December 2012. Fee income from issuing guarantees was not significant to total revenues in 2013.

Guarantees represent irrevocable assurances, subject to the satisfaction of certain conditions, that we will make a payment in the event that clients fail to fulfill their obligations to third parties. We also enter into commitments to extend credit in the form of credit lines that are available to secure the liquidity needs of clients. The majority of these unutilized credit lines range in maturity from one month to five years. If customers fail to meet their obligations, our maximum exposure to credit risk is the contractual amount of these instruments. The risk is similar to the risk involved in extending loan facilities and is subject to the same risk management and control framework. For the year ended 31 December 2013, we recognized net credit loss recoveries of CHF 2 million, compared with net credit loss recoveries of CHF 16 million for the year ended 31 December 2012, related to obligations incurred for guarantees and loan commitments. Provisions recognized for guarantees and loan commitments were CHF 61 million as of 31 December 2013 and CHF 64 million as of 31 December 2012.

For certain obligations, we enter into partial sub-participations to mitigate various risks from guarantees and loan commitments. A sub-participation is an agreement by another party to take a share of the loss in the event that the obligation is not fulfilled by the obligor and, where applicable, to fund a part of the credit facility. We retain the contractual relationship with the obligor, and the sub-participant has only an indirect relationship. We will only enter into sub-participation agreements with banks to which we ascribe a credit rating equal to or better than that of the obligor.

Furthermore, we provide representations, warranties and indemnifications to third parties in the normal course of business.

Clearing house and exchange memberships

We are a member of numerous securities and derivative exchanges and clearing houses. In connection with some of those memberships, we may be required to pay a share of the financial obliga-

Financial instruments not recognized on the balance sheet

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

	31.12.13			31.12.12		
CHF million	**Gross**	**Sub-participations**	**Net**	Gross	Sub-participations	Net
Guarantees						
Credit guarantees and similar instruments	**7,731**	**(670)**	**7,061**	8,313	(734)	7,579
Performance guarantees and similar instruments	**3,423**	**(706)**	**2,717**	3,673	(829)	2,844
Documentary credits	**7,644**	**(1,599)**	**6,044**	8,072	(660)	7,412
Total guarantees	**18,798**	**(2,975)**	**15,823**	20,058	(2,223)	17,835
Commitments						
Loan commitments	**54,913**	**(1,227)**	**53,686**	59,818	(867)	58,950
Underwriting commitments	**760**	**(225)**	**535**	167	(167)	0
Total commitments	**55,673**	**(1,452)**	**54,221**	59,985	(1,034)	58,951
Forward starting transactions[1]						
Reverse repurchase agreements	**9,376**			18,576		
Securities borrowing agreements	**46**			249		
Repurchase agreements	**8,191**			9,993		

1 Cash to be paid in the future by either UBS or the counterparty.

tions of another member who defaults, or we may be otherwise exposed to additional financial obligations. While the membership rules vary, obligations generally would arise only if the exchange or clearing house had exhausted its resources. We consider the probability of a material loss due to such obligations to be remote.

Swiss deposit insurance

Swiss banking law and the deposit insurance system require Swiss banks and securities dealers to jointly guarantee an amount of up to CHF 6 billion for privileged client deposits in the event that a Swiss bank or securities dealer becomes insolvent. The Swiss Financial Market Supervisory Authority (FINMA) estimates our share in the deposit insurance system to be CHF 0.9 billion. The deposit insurance is a guarantee and exposes us to additional risk. This is not reflected in the table above due to its unique characteristics. As of 31 December 2013, we consider the probability of a material loss from our obligation to be remote.

Underwriting commitments

Gross equity underwriting commitments as of 31 December 2013 and 31 December 2012 amounted to CHF 0.8 billion and CHF 0.2 billion, respectively. Gross debt and private equity underwriting commitments as of 31 December 2013 and 31 December 2012 were not material.

Contractual obligations

The table below summarizes payments due by period under contractual obligations as of 31 December 2013.

All contracts included in this table, with the exception of purchase obligations (i.e., those in which we are committed to purchasing determined volumes of goods and services), are either recognized as liabilities on our balance sheet or, in the case of operating leases, disclosed in "Note 33 Operating lease commitments" in the "Financial information" section of this report.

Long-term debt obligations as of 31 December 2013 were CHF 136 billion and consisted of financial liabilities designated at fair value (CHF 73 billion) and long-term debt issued (CHF 64 billion) and represent both estimated future interest and principal payments on an undiscounted basis. Refer to "Note 27b Maturity analysis of financial liabilities" in the "Financial information" section of this report for more information. Approximately half of total long-

Contractual obligations

	Payment due by period			
CHF million	< 1 year	1–3 years	3–5 years	> 5 years
Long-term debt obligations	30,448	37,672	27,479	40,972
Finance lease obligations	39	42	6	2
Operating lease obligations	737	1,257	1,021	2,316
Purchase obligations	1,433	890	427	240
Other liabilities	128	8	6	2
Total	**32,785**	**39,869**	**28,939**	**43,532**

term debt obligations had a variable rate of interest. Amounts due on interest rate swaps used to hedge interest rate risk inherent in fixed-rate debt issued, and designated in fair value hedge accounting relationships, are not included in the table on the previous page. The notional amount of these interest rate swaps was CHF 31 billion as of 31 December 2013. Financial liabilities designated at fair value (CHF 73 billion on an undiscounted cash flow basis) mostly consist of structured notes and are generally economically hedged, but it would not be practicable to estimate the amount and/or timing of the payments on interest swaps used to hedge these instruments as interest rate risk inherent in respective liabilities is generally risk managed on a portfolio level.

Within purchase obligations, the obligation to employees under mandatory notice periods is excluded (i.e., the period in which we must pay contractually agreed salaries to employees leaving the firm).

Our obligations recognized on the balance sheet as *Due to banks, Cash collateral on securities lent, Repurchase agreements, Trading portfolio liabilities, Negative replacement values, Cash collateral payables on derivative instruments, Due to customers, Provisions* and *Other liabilities* are excluded from the table on the previous page. Refer to the respective Notes in the "Financial information" section of this report for more information on these liabilities.

Cash flows

As a global financial institution, our cash flows are complex and may bear little relation to our net earnings and net assets. Consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the liquidity, funding and capital management polices described within the "Risk, treasury and capital management" section of this report. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our businesses.

Statement of cash flows (condensed)

	For the year ended	
CHF million	**31.12.13**	31.12.12
Net cash flow from / (used in) operating activities	**54,325**	67,160
Net cash flow from / (used in) investing activities	**5,457**	(14,879)
Net cash flow from / (used in) financing activities	**(47,555)**	(38,110)
Effects of exchange rate differences on cash and cash equivalents	**(2,702)**	(673)
Net increase / (decrease) in cash and cash equivalents	**9,524**	**13,500**
Cash and cash equivalents at the end of the year	**108,632**	**99,108**

As of 31 December 2013, cash and cash equivalents totaled CHF 108.6 billion, an increase of CHF 9.5 billion from 31 December 2012.

Operating activities

For the year ended 31 December 2013, net cash inflow generated from operating activities was CHF 54.3 billion, primarily due to the deleveraging of our balance sheet, compared with net cash inflow from operating activities of CHF 67.2 billion in 2012. Net operating cash inflow (before changes in operating assets and liabilities and income taxes paid, net of refunds) totaled CHF 12.4 billion in 2013 compared with net operating cash inflow of CHF 11.2 billion in 2012. In 2013, net cash inflow of CHF 42.4 billion was generated by the overall decrease in operating assets and liabilities. Gross cash inflows of CHF 99.9 billion primary resulted from the reduction of cash collateral on securities borrowed and reverse repurchase agreement assets (CHF 43.8 billion), and from the reduction of trading portfolio, replacement values and financial assets designated at fair value balances (CHF 44.1 billion). Key components of the gross cash outflows of CHF 57.6 billion were the reduction of cash collateral on securities lent and repurchase agreement liabilities (CHF 23.7 billion), as well as the reduction of cash collateral on derivative instruments balances (CHF 22.4 billion).

Investing activities

Net cash inflow from investing activities was CHF 5.5 billion in 2013 compared with a net cash outflow of CHF 14.9 billion in 2012. The 2013 cash inflow was primarily due to the net divestment of financial investments available-for-sale of CHF 6.0 billion. This includes gross cash inflow from sales and maturities of CHF 7.3 billion and gross cash outflow from purchases of CHF 3.5 billion predominantly related to longer-term US asset-backed securities held as financial investments available-for-sale. The remaining net cash inflow of CHF 2.2 billion almost entirely related to our multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury.

Financing activities

Net cash flow used in financing activities was CHF 47.6 billion in 2013, primarily due to the net repayment of long-term debt and financial liabilities designated at fair value of CHF 40.9 billion (issuances less redemptions). Furthermore, the net redemption of short-term debt generated cash outflows of CHF 4.3 billion, dividends paid and redemptions of preferred notes led to cash outflows of CHF 1.4 billion and dividends of CHF 0.6 billion were paid to UBS shareholders. In 2012, financing activities generated net cash outflows of CHF 38.1 billion.

➔ **Refer to the "Statement of cash flows" in the "Financial information" section of this report for more information**

Wealth Management

Profit before tax was CHF 2,247 million in 2013, a decrease of CHF 160 million compared with CHF 2,407 million in 2012. Operating expenses included restructuring charges of CHF 178 million in 2013, while the prior year included a credit to personnel expenses of CHF 358 million related to changes to our pension and retiree benefit plans as well as restructuring charges of CHF 26 million. Adjusted for these items, profit before tax increased by CHF 350 million to CHF 2,425 million, reflecting CHF 522 million higher operating income, partly offset by a CHF 172 million increase in adjusted operating expenses, which included a charge in relation to the Swiss-UK tax agreement of CHF 107 million. The gross margin on invested assets declined by 1 basis point to 88 basis points. Net new money was CHF 35.9 billion compared with CHF 26.3 billion in the prior year.

Business division reporting[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Net interest income	**2,061**	1,951	1,968	6
Net fee and commission income	**4,648**	4,275	4,363	9
Net trading income	**807**	778	878	4
Other income	**57**	37	425	54
Income	**7,573**	7,040	7,634	8
Credit loss (expense) / recovery	**(10)**	1	11	
Total operating income	**7,563**	7,041	7,645	7
Personnel expenses	**3,371**	2,865	3,300	18
General and administrative expenses	**1,650**	1,360	1,192	21
Services (to) / from other business divisions	**97**	243	318	(60)
Depreciation and impairment of property and equipment	**190**	159	165	19
Amortization and impairment of intangible assets	**8**	7	37	14
Total operating expenses[2]	**5,316**	4,634	5,012	15
Business division operating profit / (loss) before tax	**2,247**	2,407	2,633	(7)
Key performance indicators[3]				
Pre-tax profit growth (%)	**(6.6)**	(8.6)	17.9	
Cost / income ratio (%)	**70.2**	65.8	65.7	
Net new money growth (%)[4]	**4.4**	3.5	3.1	
Gross margin on invested assets (bps)[5]	**88**	89	101	(1)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 4 Net new money excludes interest and dividend income. 5 Excludes any effect on profit or loss from a property fund (2013: loss of CHF 10 million, 2012: gain of CHF 4 million, 2011: loss of CHF 22 million).

Business division reporting[1] (continued)

CHF million, except where indicated	As of or for the year ended 31.12.13	31.12.12	31.12.11	% change from 31.12.12
Additional information				
Recurring income	**5,652**	5,277	5,406	7
Recurring income as a % of income (%)	**74.6**	75.0	70.8	
Average attributed equity (CHF billion)[2]	**3.5**	4.0	5.0	(13)
Return on attributed equity (RoAE) (%)	**64.2**	60.9	52.7	
Risk-weighted assets (phase-in, CHF billion)[3]	**21.4**	18.6		15
Risk-weighted assets (fully applied, CHF billion)[3]	**20.9**	18.2		15
Return on risk-weighted assets, gross (%)[4]	**38.7**	41.4		
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[5]	**122.1**			
Goodwill and intangible assets (CHF billion)	**1.3**	1.4	1.4	(7)
Net new money (CHF billion)[6]	**35.9**	26.3	23.5	
Invested assets (CHF billion)	**886**	821	750	8
Client assets (CHF billion)	**1,023**	951	875	8
Loans, gross (CHF billion)	**96.8**	86.6	75.1	12
Due to customers (CHF billion)	**189.4**	180.2	170.2	5
Personnel (full-time equivalents)	**16,414**	16,210	15,904	1
Client advisors (full-time equivalents)	**4,164**	4,128	4,202	1

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 3 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 4 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 5 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information. 6 Net new money excludes interest and dividend income.

Regional breakdown of key figures[1, 2]

As of or for the year ended 31.12.13	Europe	Asia Pacific	Switzerland	Emerging markets	*of which: ultra high net worth*	*of which: Global Family Office*[3]
Net new money (CHF billion)[4]	**1.9**	**18.5**	**6.2**	**9.4**	**33.6**	**8.3**
Net new money growth (%)[4]	**0.6**	**9.4**	**4.3**	**7.4**	**9.3**	**19.3**
Invested assets (CHF billion)	**363**	**218**	**160**	**135**	**416**	**61**
Gross margin on invested assets (bps)	**88**	**80**	**95**	**93**	**54**	**36**[5]
Client advisors (full-time equivalents)	**1,620**	**1,032**	**761**	**688**	**892**[6]	

1 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 2 Based on the Wealth Management business area structure, and excluding minor functions with 63 client advisors, CHF 10 billion of invested assets, and CHF 0.1 billion of net new money outflows. 3 Joint venture between Wealth Management and the Investment Bank. Global Family Office is reported as a sub-segment of ultra high net worth and is included in the ultra high net worth figures. 4 Net new money excludes interest and dividend income. 5 Gross margin includes income booked in the Investment Bank. Gross margin only based on income booked in Wealth Management was 20 basis points. 6 Dedicated ultra high net worth units: 638 client advisors. Non-dedicated ultra high net worth units: 254 client advisors.

2013 compared with 2012

Results

Operating income

Total operating income was CHF 7,563 million compared with CHF 7,041 million in 2012, primarily due to higher net fee and commission income, as well as higher net interest income.

Net interest income increased by CHF 110 million to CHF 2,061 million, mainly due to revenues of CHF 110 million allocated from the repurchase agreement unit within Group Treasury in Corporate Center – Core Functions. Previously, such revenues were not allocated to the business divisions. The increase in net interest income was also due to lower costs related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury. These factors, together with higher income resulting from increased loan and client deposit volumes, more than offset the negative effect of a lower deposit margin resulting from the ongoing low interest rate environment.

Net fee and commission income increased by CHF 373 million to CHF 4,648 million, mainly due to higher recurring net fee and commission income, which primarily resulted from a 10% increase in average invested assets, pricing adjustments and sales efforts. These positive effects were partly offset by the negative effect of the migration to retrocession-free products for investment mandates during 2013, as well as lower income due to ongoing outflows of assets from cross-border clients. Non-recurring net fee and commission income increased due to higher client activity levels, particularly in Asia Pacific, in the first half of 2013.

Net trading income increased by CHF 29 million to CHF 807 million and included higher income from foreign exchange-related products and increased treasury-related income, partly offset by lower income from precious metals.

Other income increased to CHF 57 million from CHF 37 million and included higher revenues for other services, as well as a gain of CHF 25 million related to the divestment of our participation in Euroclear Plc. This was partly offset by impairments of CHF 10 million related to our global property fund compared with gains of CHF 4 million in 2012.

Operating expenses

Total operating expenses were CHF 5,316 million, an increase of CHF 682 million from the prior year. Restructuring charges were CHF 178 million compared with CHF 26 million in 2012. Adjusted for restructuring charges and the aforementioned credit related to changes to our pension and retiree benefit plans of CHF 358 million, operating expenses increased by CHF 172 million to CHF 5,138 million, mainly as 2013 included a charge in relation to the Swiss-UK tax agreement of CHF 107 million.

Personnel expenses increased to CHF 3,371 million from CHF 2,865 million. Excluding restructuring charges and the credit related to changes to our pension and retiree benefit plans, personnel expenses increased by CHF 102 million to CHF 3,300 million. This increase included CHF 120 million higher personnel expenses due to the centralization of our operations units and higher variable compensation expenses, partly offset by lower personnel expenses related to technology and control functions. The centralization of our operations units from the business divisions in the Corporate Center in July 2012 and the subsequent reallocation of the operations units resulted in increased personnel expenses and general and administrative expenses, offset by decreased net charges from other business divisions as Retail & Corporate previously provided significant services to Wealth Management, which are now provided by the Corporate Center.

➔ Refer to the "Significant accounting and financial reporting structure changes" section of our Annual Report 2012 for more information on changes related to the centralization of operations units

General and administrative expenses increased by CHF 290 million to CHF 1,650 million. This included restructuring charges of CHF 100 million compared with zero in the prior year. Excluding restructuring charges, general and administrative expenses increased by CHF 190 million, mainly due to the aforementioned CHF 107 million charge in relation to the Swiss-UK tax agreement, CHF 36 million higher expenses related to the aforementioned centralization of operations units as well as slightly higher marketing and branding expenses.

Charges for services from other business divisions decreased to CHF 97 million from CHF 243 million, mainly due to CHF 157 million lower allocations following the aforementioned centralization of operations units.

Depreciation was CHF 190 million compared with CHF 159 million, largely due to higher amortization of capitalized software, an impairment of capitalized software and restructuring charges of CHF 7 million compared with zero in the prior year. Amortization of intangible assets was CHF 8 million, a slight increase from CHF 7 million.

Cost / income ratio

The cost / income ratio was 70.2% compared with 65.8% in the prior year. Excluding restructuring charges and the effect from the credit related to changes to our pension and retiree benefit plans in 2012, the cost / income ratio improved to 67.8% from 70.5% and was within our target range of 60% to 70%.

Net new money growth

The net new money growth rate increased to 4.4% from 3.5% and was near the higher end of our target range of 3% to 5%. All regions contributed to net inflows of CHF 35.9 billion in 2013. The strongest net inflows were recorded in Asia Pacific followed by emerging markets, Switzerland and Europe. Net inflows in the European onshore and the Swiss-based Global Family Office business in Europe more than offset net outflows in the European cross-border business, which was negatively affected by ongoing asset out-

flows in the context of fiscal and regulatory concerns. On a global basis, net new money from ultra high net worth clients was CHF 33.6 billion compared with CHF 19.9 billion in the prior year.

Invested assets

Invested assets were CHF 886 billion as of 31 December 2013, representing an increase of CHF 65 billion from 31 December 2012. Net new money inflows of CHF 36 billion and positive market performance of CHF 34 billion were slightly offset by negative currency translation effects of CHF 4 billion.

Gross margin on invested assets

The gross margin on invested assets decreased by 1 basis point to 88 basis points, as the increase in average invested assets outpaced the increase in revenues. The gross margin was below our target range of 95 to 105 basis points. The calculation excludes any effect on profit or loss from a property fund.

Personnel

Wealth Management employed 16,414 personnel as of 31 December 2013 compared with 16,210 as of 31 December 2012, mainly reflecting an increase in non-client-facing staff.

The number of client advisors increased to 4,164 from 4,128, primarily in the key strategic growth areas of Asia Pacific and emerging markets, partly offset by reductions in Switzerland. The number of client advisors in Europe remained stable. The increase in non-client-facing staff was mainly recorded in Asia Pacific and emerging markets, in line with the increase in the number of client advisors.

2012 compared with 2011

Results

Profit before tax was CHF 2,407 million in 2012 compared with CHF 2,633 million in the prior year, which included a gain of CHF 433 million from the sale of our strategic investment portfolio in the third quarter of 2011. Operating expenses in 2012 included a credit to personnel expenses of CHF 358 million related to changes to our pension and retiree benefit plans. Adjusted for these two items and restructuring charges, profit before tax decreased by CHF 207 million to CHF 2,075 million, partly reflecting that the prior year benefited from CHF 103 million of accrued interest from the aforementioned strategic investment portfolio. Net new money was CHF 26.3 billion compared with CHF 23.5 billion.

Operating income

Total operating income was CHF 7,041 million in 2012 compared with CHF 7,645 million in 2011. Adjusted for the gain on the sale of our strategic investment portfolio, total operating income declined by CHF 171 million, mainly because 2011 included CHF 103 million of interest income stemming from the aforementioned strategic investment portfolio.

Net interest income decreased by CHF 17 million to CHF 1,951 million, mainly as the prior year included CHF 103 million of interest income stemming from the abovementioned strategic investment portfolio. Moreover, net interest income was negatively affected by increased costs of CHF 69 million related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury and CHF 22 million lower allocations related to investment proceeds from the firm's equity. These factors were largely offset by CHF 180 million higher product-related interest income, reflecting the beneficial effects of increases in client deposit and lending volumes.

Net fee and commission income declined by CHF 88 million to CHF 4,275 million, mainly due to lower recurring fees on discretionary business, investment funds and non-asset based fees, primarily resulting from the ongoing outflows of assets from cross-border clients. This was partly offset by 2% higher transaction-based fees due to increased client activity levels in Asia Pacific throughout the year.

Net trading income decreased by CHF 100 million to CHF 778 million, primarily due to lower treasury-related income and lower client activity levels following reduced volatility in the foreign exchange market.

Other income was CHF 37 million compared with CHF 425 million in 2011, mainly as the prior year included the abovementioned gain on the sale of our strategic investment portfolio.

Operating expenses

Total operating expenses were CHF 4,634 million, a decrease of CHF 378 million from the prior year. Restructuring charges were CHF 26 million, down from CHF 82 million in the previous year. Adjusted for these restructuring charges and the aforementioned credit related to changes to our pension and retiree benefit plans, operating expenses increased by CHF 36 million to CHF 4,966 million.

Personnel expenses decreased to CHF 2,865 million from CHF 3,300 million in the prior year. Excluding the abovementioned factors, personnel expenses decreased by CHF 38 million, primarily reflecting lower variable compensation expenses as well as reduced personnel expenses related to technology and operations costs. This was partly offset by higher personnel expenses of CHF 129 million due to the aforementioned centralization of operations units in July 2012. As Retail & Corporate previously provided significant services to Wealth Management, the centralization and subsequent reallocation of operations units had the effect of reducing net charges from other business divisions and increasing personnel and non-personnel costs in 2012.

General and administrative expenses were CHF 1,360 million compared with CHF 1,192 million in the prior year. This included higher investment in marketing and branding and increased charges for provisions for litigation, regulatory and similar matters. Further, the aforementioned centralization of operations units in 2012 led to increased expenses of CHF 45 million in 2012.

Charges for services from other business divisions decreased to CHF 243 million from CHF 318 million, mainly due to the CHF 175 million lower allocations from the aforementioned centralization of operations units, partly offset by higher allocations from other business transfers.

Depreciation was CHF 159 million compared with CHF 165 million in the prior year. Amortization of intangible assets was CHF 7 million, a decrease from CHF 37 million in 2011, which included the impairment of intangible assets related to a past acquisition in the UK.

Cost/income ratio

The cost/income ratio was 65.8% in 2012. On an adjusted basis excluding restructuring charges, the effect of the credit related to changes to our pension and retiree benefit plans in 2012 and the gain from the sale of the strategic investment portfolio in 2011, the cost/income ratio increased 2.0 percentage points to 70.5% and was above our target range of 60% to 70%.

Net new money growth

The net new money growth rate increased to 3.5% from 3.1% and remained within our target range of 3% to 5%. The strongest net inflows were recorded in Asia Pacific and emerging mar-

kets, as well as globally from ultra high net worth clients. Europe reported net outflows in the offshore business, mainly related to clients from countries neighboring Switzerland. This was partly offset by net inflows in the European onshore business. Swiss wealth management reported increased net inflows compared with the prior year.

Invested assets

Invested assets were CHF 821 billion as of 31 December 2012, representing an increase of CHF 71 billion from 31 December 2011. Positive market performance and net new money inflows were partly offset by negative currency translation effects, mainly resulting from a slight strengthening of the Swiss franc against the US dollar and the euro.

Gross margin on invested assets

In 2012, the gross margin on invested assets decreased 12 basis points to 89 basis points. Adjusted for the aforementioned gain on the sale of the strategic investment portfolio in the prior year, the gross margin declined 7 basis points to 89 basis points and was below our target range of 95 to 105 basis points. The gross margin calculation excludes any effect on profit or loss from a property fund.

Personnel

Wealth Management employed 16,210 personnel as of 31 December 2012 compared with 15,904 as of 31 December 2011. The aforementioned centralization and subsequent reallocation of personnel from operations units led to an increase of personnel. Excluding this effect, the number of non-client-advisor staff and client advisors decreased, mainly reflecting measures taken as a part of our cost reduction program announced in July 2011.

The number of client advisors decreased to 4,128 from 4,202 in the prior year due to reductions in more established markets, partly offset by further increases in the strategic growth areas of Asia Pacific and emerging markets.

Wealth Management Americas

Profit before tax was a record USD 927 million in 2013 compared with the prior record of USD 638 million in 2012. Adjusted for the effects of restructuring in both years as well as a credit in 2012 related to changes to our retiree benefit plans in the US, profit before tax increased to USD 991 million from USD 635 million. The adjusted result reflected a 12% increase in revenues due to higher recurring income and a 7% increase in operating expenses due to higher financial advisor related compensation, partly offset by lower charges for provisions for litigation, regulatory and similar matters. Net new money inflows were USD 19.0 billion compared with USD 22.1 billion in the prior year.

Business division reporting – in US dollars[1]

	As of or for the year ended			% change from
USD million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Net interest income	**1,014**	849	828	19
Net fee and commission income	**5,637**	4,925	4,559	14
Net trading income	**418**	507	509	(18)
Other income	**36**	32	25	13
Income	**7,105**	6,312	5,921	13
Credit loss (expense) / recovery	**(30)**	(15)	(6)	100
Total operating income	**7,075**	6,297	5,915	12
Personnel expenses	**4,949**	4,556	4,348	9
Financial advisor compensation[2]	**2,708**	2,399	2,249	13
Compensation commitments with recruited financial advisors[3]	**690**	679	609	2
Salaries and other personnel costs	**1,551**	1,477	1,490	5
General and administrative expenses	**1,001**	958	887	4
Services (to) / from other business divisions	**14**	(16)	(11)	
Depreciation and impairment of property and equipment	**130**	107	112	21
Amortization and impairment of intangible assets	**53**	55	54	(4)
Total operating expenses[4]	**6,147**	5,659	5,389	9
Business division operating profit / (loss) before tax	**927**	638	526	45
Key performance indicators[5]				
Pre-tax profit growth (%)[6]	**45.3**	21.3		
Cost / income ratio (%)	**86.5**	89.7	91.0	
Recurring income as a % of income (%)	**71.9**	67.6	66.2	
Net new money growth (%)[7]	**2.3**	2.9	1.9	
Gross margin on invested assets (bps)	**79**	78	79	1

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. 3 Compensation commitments with recruited financial advisors represents costs related to compensation commitments granted to financial advisors at the time of recruitment which are subject to vesting requirements. 4 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 5 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 6 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 7 Net new money excludes interest and dividend income.

Business division reporting – in US dollars[1] (continued)

	As of or for the year ended			% change from
USD million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Additional information				
Recurring income	**5,110**	4,265	3,921	20
Average attributed equity (USD billion)[2]	**3.0**	6.6	9.1	(55)
Return on attributed equity (RoAE) (%)	**30.9**	9.6	5.8	
Risk-weighted assets (phase-in, USD billion)[3]	**27.5**	25.6		7
Risk-weighted assets (fully applied, USD billion)[3]	**27.3**	25.3		8
Return on risk-weighted assets, gross (%)[4]	**30.0**	24.9		
Swiss SRB leverage ratio denominator (phase-in, USD billion)[5]	**64.1**			
Goodwill and intangible assets (USD billion)	**3.8**	3.9	3.9	(3)
Net new money (USD billion)[6]	**19.0**	22.1	14.1	
Net new money including interest and dividend income (USD billion)[7]	**44.2**	44.8	34.7	
Invested assets (USD billion)	**970**	843	756	15
Client assets (USD billion)	**1,025**	885	795	16
Loans, gross (USD billion)	**39.1**	34.1	29.7	15
Due to customers (USD billion)	**67.3**	56.6	41.4	19
Recruitment loans to financial advisors	**3,063**	3,241	3,098	(5)
Other loans to financial advisors	**401**	532	659	(25)
Personnel (full-time equivalents)	**16,344**	16,094	16,207	2
Financial advisors (full-time equivalents)	**7,137**	7,059	6,967	1

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 3 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 4 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 5 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information. 6 Net new money excludes interest and dividend income. 7 Presented in line with historical reporting practice in the US market.

Business division reporting – in Swiss francs[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Net interest income	**936**	792	729	18
Net fee and commission income	**5,209**	4,597	4,018	13
Net trading income	**387**	473	450	(18)
Other income	**33**	30	22	10
Income	**6,565**	5,891	5,219	11
Credit loss (expense) / recovery	**(27)**	(14)	(6)	93
Total operating income	**6,538**	5,877	5,213	11
Personnel expenses	**4,574**	4,252	3,830	8
Financial advisor compensation[2]	**2,503**	2,239	1,982	12
Compensation commitments with recruited financial advisors[3]	**638**	634	536	1
Salaries and other personnel costs	**1,433**	1,379	1,313	4
General and administrative expenses	**924**	893	783	3
Services (to) / from other business divisions	**13**	(15)	(9)	
Depreciation and impairment of property and equipment	**121**	100	99	21
Amortization and impairment of intangible assets	**49**	51	48	(4)
Total operating expenses[4]	**5,680**	5,281	4,750	8
Business division operating profit / (loss) before tax	**858**	597	463	44

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. 3 Compensation commitments with recruited financial advisors represents costs related to compensation commitments granted to financial advisors at the time of recruitment which are subject to vesting requirements. 4 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges.

Business division reporting – in Swiss francs[1] (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	31.12.13	31.12.12	31.12.11	31.12.12
Key performance indicators[2]				
Pre-tax profit growth (%)[3]	43.7	28.9		
Cost / income ratio (%)	86.5	89.6	91.0	
Recurring income as a % of income (%)	71.9	67.6	66.2	
Net new money growth (%)[4]	2.3	2.9	1.8	
Gross margin on invested assets (bps)	79	78	77	1
Additional information				
Recurring income	4,721	3,980	3,454	19
Average attributed equity (CHF billion)[5]	2.8	6.2	8.0	(55)
Return on attributed equity (RoAE) (%)	30.9	9.7	5.8	
Risk-weighted assets (phase-in, CHF billion)[6]	24.5	23.5		4
Risk-weighted assets (fully applied, CHF billion)[6]	24.3	23.2		5
Return on risk-weighted assets, gross (%)[7]	30.0	25.0		
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[8]	57.2			
Goodwill and intangible assets (CHF billion)	3.4	3.5	3.7	(3)
Net new money (CHF billion)[4]	17.6	20.6	12.1	
Net new money including interest and dividend income (CHF billion)[9]	40.8	41.7	30.5	
Invested assets (CHF billion)	865	772	709	12
Client assets (CHF billion)	914	810	746	13
Loans, gross (CHF billion)	34.8	31.2	27.9	12
Due to customers (CHF billion)	60.0	51.8	38.9	16
Recruitment loans to financial advisors	2,733	2,967	2,907	(8)
Other loans to financial advisors	358	487	618	(26)
Personnel (full-time equivalents)	16,344	16,094	16,207	2
Financial advisors (full-time equivalents)	7,137	7,059	6,967	1

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 3 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 4 Net new money excludes interest and dividend income. 5 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 6 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 7 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 8 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information. 9 Presented in line with historical reporting practice in the US market.

2013 compared with 2012

Results

Operating income

Total operating income increased to USD 7,075 million from USD 6,297 million in 2012.

Net fee and commission income increased by USD 712 million to USD 5,637 million, mainly due to a 20% increase in recurring fees resulting from higher managed account fees calculated on higher invested asset levels. Transaction-based revenues increased 2%, primarily due to higher income from equities and structured products, partly offset by lower income from annuity products.

Net interest income increased by USD 165 million to USD 1,014 million, primarily due to higher client balances in securities-backed lending and mortgages. The average securities-backed lending portfolio balance increased 14% and the average mortgage portfolio balance nearly doubled from 2012. Furthermore, net funding costs related to the goodwill and intangible assets that arose from the PaineWebber acquisition are retained in Corporate Center – Core Functions with effect from 1 January 2013. These increases were partly offset by lower net interest income from the available-for-sale portfolio, primarily due to lower average balances.

Net trading income decreased by USD 89 million to USD 418 million, mainly due to trading losses related to the Puerto Rico municipal market as well as lower income from taxable fixed income and US municipal bond trading.

Other income increased by USD 4 million to USD 36 million.

Recurring income, the combination of recurring fees and net interest income, increased by USD 845 million to USD 5,110 million due to higher managed account fees as well as higher interest income. Recurring income comprised 72% of income compared with 68% in the prior year. Non-recurring income decreased by USD 53 million to USD 1,994 million, primarily due to the above-mentioned decrease in trading income.

Net credit loss expenses were USD 30 million compared with net credit loss expenses of USD 15 million in the prior year. The 2013 expenses were largely due to loan loss allowances on securities-backed lending facilities collateralized by Puerto Rico municipal securities and related funds.

➔ Refer to the "Risk management and control" section of this report for more information on our exposure to Puerto Rico municipal securities and related funds

Operating expenses

Operating expenses increased by USD 488 million to USD 6,147 million from USD 5,659 million, primarily due to higher financial advisor compensation corresponding to higher compensable revenues. In 2013, we recorded restructuring charges of USD 64 million, compared with restructuring provision releases of USD 1 million in 2012.

Excluding the effects of restructuring in both years as well as a credit to personnel expenses of USD 2 million related to changes to our retiree benefit plans in the US in 2012, adjusted personnel expenses were USD 4,933 million, an increase of USD 379 million from USD 4,554 million due to a 13% increase in financial advisor compensation corresponding to higher compensable revenues, and a 2% increase in expenses for compensation commitments with recruited financial advisors. Recruitment loans to financial advisors were USD 3,063 million as of 31 December 2013, a decrease of USD 178 million from 31 December 2012. On an adjusted basis, salaries and other personnel costs increased 4% due to higher other variable compensation expenses and USD 20 million of costs related to the partial settlement of a previously discontinued US defined benefit pension plan.

Excluding restructuring charges, non-personnel expenses increased by USD 42 million to USD 1,150 million from USD 1,108 million, mainly due to higher Corporate Center shared services costs and lower net charges to the Investment Bank after the discontinuation of an interdivisional joint venture effective 1 January 2013. These increases were partly offset by USD 70 million lower charges for provisions for litigation, regulatory and similar matters.

Cost/income ratio

The cost/income ratio improved to 86.5% from 89.7% in 2012. On an adjusted basis, the cost/income ratio improved to 85.6% from 89.7% and remained within our target range of 80% to 90%.

Net new money

The net new money growth rate was 2.3% compared with 2.9% in 2012, and was within the target range of 2% to 4%. Net new money totaled USD 19.0 billion compared with USD 22.1 billion in the prior year due to lower inflows from financial advisors employed with UBS for more than one year as well as lower inflows from net recruiting of financial advisors, partly offset by higher inflows from the Global Family Office. Including interest and dividend income, net new money inflows were USD 44.2 billion compared with USD 44.8 billion in the prior year.

Invested assets

Invested assets were USD 970 billion as of 31 December 2013, an increase of USD 127 billion from USD 843 billion as of 31 December 2012, reflecting positive market performance of USD 108 billion and continued strong net new money inflows. During 2013, managed account assets increased by USD 60 billion to USD 308 billion as of 31 December 2013, and comprised 32% of invested assets compared with 29% as of 31 December 2012.

Gross margin on invested assets

The gross margin on invested assets was 79 basis points in 2013, an increase of 1 basis point from 78 basis points in 2012, and remained within our target range of 75 to 85 basis points. This reflected a 13% increase in income compared with a 12% increase in average invested assets. The gross margin from recurring income increased by 4 basis points due to higher managed account fees and higher net interest income, while the gross margin from non-recurring income decreased by 3 basis points, primarily due to lower trading income.

Personnel

As of 31 December 2013, Wealth Management Americas employed 16,344 personnel, an increase of 250 from 31 December 2012. Financial advisor headcount increased by 78 to 7,137, mainly reflecting the hiring of experienced financial advisors and trainees as well as continued low financial advisor attrition. The number of non-financial advisor employees increased by 172 to 9,207, mainly due to hiring of wealth strategy associates to further enhance advice-based wealth management solutions offered to target client segments.

2012 compared with 2011

Results

Profit before tax was USD 638 million in 2012 compared with USD 526 million in 2011. This improved performance resulted from a 6% increase in revenue due to increases in fees and commissions. Operating expenses increased 5% due to higher financial advisor related compensation and higher charges for provisions for litigation, regulatory and similar matters, partly offset by lower restructuring charges. In addition, 2012 included a pre-tax gain of USD 53 million net of compensation charges related to a change in accounting estimates for certain mutual fund and annuity fee income, compared with USD 32 million related to a change in accounting estimates for certain mutual fund fees in 2011. Net new money inflows of USD 22.1 billion were the highest full year total since 2007.

Operating income

Total operating income increased 6% to USD 6,297 million from USD 5,915 million in 2011.

Net fee and commission income increased by USD 366 million to USD 4,925 million. Recurring fees increased 10% due to higher fees on managed accounts corresponding to higher invested asset levels. In addition, recurring fees included USD 59 million related to a change to accrual-based accounting estimates from a cash basis for certain mutual fund and annuity fee income, compared with USD 48 million related to the prior year. Transaction-based revenues increased 3%, primarily due to higher income from taxable fixed income products.

Net interest income increased by USD 21 million to USD 849 million, primarily due to higher client balances in securities-backed lending and mortgages. The securities-backed lending average portfolio balance increased 12% and the mortgage average portfolio balance nearly doubled from 2011. In addition, 2012 included lower income from mortgage-backed securities in the available-for-sale portfolio due to yield adjustments arising from updated cash flow estimates compared with an upward adjustment reclassifying USD 22 million from other comprehensive income in 2011.

Net trading income decreased by USD 2 million to USD 507 million due to lower municipal securities trading, mostly offset by higher income from taxable fixed income, unit investment trusts and emerging market products.

Other income increased by USD 7 million to USD 32 million.

Recurring income, the combination of recurring fees and net interest income, increased by USD 344 million to USD 4,265 million due to higher managed account and annuity fees as well as higher interest income. Recurring income for 2012 comprised 68% of income, compared with 66% in 2011. Non-recurring income increased by USD 47 million to USD 2,047 million, primarily due to higher transaction-based activity.

Credit loss expenses were USD 15 million compared with USD 6 million in 2011, and primarily related to a loan loss allowance for a single client.

Operating expenses

Operating expenses increased by USD 270 million to USD 5,659 million from USD 5,389 million due to higher financial advisor compensation corresponding to higher revenues. In 2012, Wealth Management Americas recognized restructuring provision releases of USD 1 million, while 2011 included restructuring charges of USD 10 million.

Excluding the effects of restructuring as well as a credit related to changes to our retiree benefit plans in the US, personnel expenses were USD 4,554 million, up USD 211 million from USD 4,343 million due to a 7% increase in financial advisor compensation corresponding to higher revenue production, and an 11% increase in expenses for compensation commitments with recruited financial advisors. On an adjusted basis, salaries and other personnel costs declined 1%. Recruitment loans to financial advisors were USD 3,241 million as of 31 December 2012, an increase of USD 143 million from 31 December 2011.

Excluding restructuring charges, non-personnel expenses increased USD 70 million to USD 1,108 million from USD 1,038 million. General and administrative costs increased 9% on an adjusted basis to USD 963 million from USD 883 million in 2011 due to higher Corporate Center shared services costs and higher charges for provisions for litigation, regulatory and similar matters. This increase was partly offset by lower professional legal fees.

Cost/income ratio

The cost/income ratio improved to 89.7% from 91.0% in 2011. On an adjusted basis, the cost/income ratio was 89.7% compared with 90.8% in 2011 and moved within our target range of 80% to 90%.

Net new money growth

Net new money growth rate for 2012 improved to 2.9% from 1.9% in 2011, moving within the target range of 2% to 4%. Net new money inflows improved to USD 22.1 billion compared with USD 14.1 billion in 2011 due to stronger inflows from net recruiting of financial advisors as well as financial advisors employed with UBS for more than one year. Including interest and dividend income, Wealth Management Americas had net new money inflows of USD 44.8 billion in 2012 compared with USD 34.7 billion in 2011.

Invested assets

Invested assets were USD 843 billion as of 31 December 2012, an increase of 12% from USD 756 billion as of 31 December 2011, reflecting positive market performance and strong net new money inflows. As of 31 December 2012, managed account assets had increased by USD 40 billion to USD 248 billion, and comprised 29% of invested assets compared with 28% as of 31 December 2011.

Gross margin on invested assets

The gross margin on invested assets was 78 basis points in 2012, a decline of 1 basis point from 79 basis points in 2011, and remained within our target range of 75 to 85 basis points. This reflected a 7% increase in income compared with an 8% increase in average invested assets. The gross margin from recurring income increased by 1 basis point as a result of higher managed account fees and higher annuities fees, while the gross margin from non-recurring income decreased by 2 basis points from 2011 mainly due to transaction-based revenue.

Personnel

As of 31 December 2012, Wealth Management Americas employed 16,094 personnel, a decrease of 113 from 31 December 2011. Financial advisor headcount of 7,059 increased by 92 from the prior year, mainly reflecting the hiring of experienced financial advisors and continued low financial advisor attrition. The number of non-financial advisor employees decreased by 205 to 9,035, reflecting staff reductions related to our cost reduction programs.

Retail & Corporate

Profit before tax decreased to CHF 1,458 million in 2013 from CHF 1,827 million in the prior year, mainly as 2012 included a credit to personnel expenses of CHF 287 million related to changes to our Swiss pension plan. Adjusted for this and restructuring charges of CHF 54 million in 2013 and CHF 3 million in 2012, profit before tax decreased by CHF 31 million to CHF 1,512 million, as higher operating expenses were only partly offset by higher operating income. The annualized net new business volume growth rate was 1.8% in 2013.

Business division reporting[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Net interest income	**2,144**	2,186	2,328	(2)
Net fee and commission income	**1,203**	1,198	1,175	0
Net trading income	**341**	281	333	21
Other income	**86**	90	350	(4)
Income	**3,774**	3,756	4,186	0
Credit loss (expense) / recovery	**(18)**	(27)	(101)	(33)
Total operating income	**3,756**	3,728	4,085	1
Personnel expenses	**1,442**	1,287	1,702	12
General and administrative expenses	**875**	857	834	2
Services (to) / from other business divisions	**(162)**	(370)	(470)	(56)
Depreciation and impairment of property and equipment	**143**	128	136	12
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses[2]	**2,298**	1,901	2,201	21
Business division operating profit / (loss) before tax	**1,458**	1,827	1,884	(20)
Key performance indicators[3]				
Pre-tax profit growth (%)	**(20.2)**	(3.0)	10.2	
Cost / income ratio (%)	**60.9**	50.6	52.6	
Net interest margin (%)	**1.56**	1.60	1.71	
Net new business volume growth (%)	**1.8**	4.9	3.5	
Impaired loan portfolio as a % of total loan portfolio, gross (%)[4]	**0.7**	0.7	0.7	
Additional information				
Average attributed equity (CHF billion)[5]	**4.1**	4.5	5.0	(9)
Return on attributed equity (RoAE) (%)	**35.6**	40.6	37.7	
Risk-weighted assets (phase-in, CHF billion)[6]	**31.4**	31.9		(2)
Risk-weighted assets (fully applied, CHF billion)[6]	**29.7**	30.2		(2)
Return on risk-weighted assets, gross (%)[7]	**11.7**	13.8		
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[8]	**164.7**			
Goodwill and intangible assets (CHF billion)	**0.0**	0.0	0.0	
Business volume (CHF billion)	**540**	518	468	4
Client assets (CHF billion)	**404**	381	333	6
Loans, gross (CHF billion)	**136.5**	137.3	135.3	(1)
Due to customers (CHF billion)	**133.2**	131.1	117.9	2
Secured loan portfolio as a % of total loan portfolio, gross (%)	**93.1**	91.7	90.9	
Personnel (full-time equivalents)	**9,463**	10,156	11,430	(7)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 4 Refer to the "Risk management and control" section of this report for more information on impairment ratios. 5 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 6 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 7 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 8 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information.

2013 compared with 2012

Results

Operating income

Total operating income increased by CHF 28 million to CHF 3,756 million.

Net interest income was CHF 2,144 million compared with CHF 2,186 million. The ongoing low interest rate environment continued to adversely affect the deposit margin. The resulting lower interest income was partly offset by pricing adjustments and substantial growth in average deposit volumes. Interest income from loans increased, reflecting slightly higher average volume and an improved margin. Furthermore, costs related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury decreased.

Net fee and commission income was CHF 1,203 million, almost unchanged from CHF 1,198 million, mainly due to higher custody fee income.

Net trading income increased to CHF 341 million from CHF 281 million, reflecting higher treasury-related income as well as higher client activity levels in 2013.

Other income was CHF 86 million, broadly unchanged from CHF 90 million in the prior year, and included a CHF 27 million gain related to the divestment of our participation in Euroclear Plc., almost entirely offset by lower income related to our participation in the SIX Group.

Credit loss expenses were CHF 18 million in 2013 compared with CHF 27 million in the prior year. 2013 included net specific loan loss allowances of CHF 113 million, reflecting a number of new workout cases that were individually reviewed, downgraded and impaired as well as adjustments on existing positions. This was largely offset by a net release of CHF 95 million of collective loan loss allowances based on the ongoing review of the portfolio, as well as the overall improved outlook for relevant industries. The prior year included net specific loan loss allowances of CHF 43 million, partly offset by a net decrease in collective loan loss allowances of CHF 16 million. The remaining balance of the collective loan loss allowances amounted to CHF 15 million as of 31 December 2013.

➔ Refer to "Note 1a) 11) Allowances and provisions for credit losses" in the "Financial information" section of this report for more information on collective loan loss allowances

Operating expenses

Operating expenses increased to CHF 2,298 million from CHF 1,901 million, mainly as 2012 included a credit to personnel expenses of CHF 287 million related to changes to our Swiss pension plan. Adjusted for this and restructuring charges of CHF 54 million in 2013 and CHF 3 million in the prior year, operating expenses increased by CHF 59 million to CHF 2,244 million, mainly as a result of CHF 45 million higher charges for provisions for litigation, regulatory and similar matters.

Personnel expenses increased by CHF 155 million to CHF 1,442 million, due to the aforementioned credit in 2012 related to changes to our Swiss pension plan. Adjusted for this item and restructuring charges, personnel expenses decreased by CHF 148 million to CHF 1,423 million, mainly due to the centralization of operations units in Corporate Center in July 2012. This centralization and subsequent reallocation of the operations units had the effect of reducing personnel expenses as well as general and administrative expenses, and decreasing net charges to other business divisions. Moreover, personnel expenses decreased as 2013 included a credit from the release of accruals for untaken vacation compared with a charge in 2012 when accruals for untaken vacation were increased. These decreases were partly offset by higher variable compensation expenses.

General and administrative expenses were CHF 875 million compared with CHF 857 million in 2012. Adjusted for restructuring charges, general and administrative expenses decreased by CHF 15 million to CHF 842 million, reflecting the abovementioned centralization of operations units. This was partly offset by CHF 45 million higher net charges for provisions for litigation, regulatory and similar matters. Moreover, costs rose as a result of increased expenses related to the refurbishment of our branch network and our multi-channel offering, as well as due to higher marketing expenses.

Net charges to other business divisions were CHF 162 million, a decrease from CHF 370 million in the prior year, primarily as a result of the abovementioned centralization of operations units in 2012.

Depreciation was CHF 143 million, an increase of CHF 15 million from the prior year, reflecting higher software depreciation expenses.

Cost/income ratio

The cost/income ratio was 60.9% compared with 50.6% in the prior year. On an adjusted basis excluding the credit related to changes to our Swiss pension plan in 2012 as well as restructuring charges, the cost/income ratio was 59.5% compared with 58.2% in the prior year and was within our target range of 50% to 60%.

Net interest margin

The net interest margin decreased 4 basis points to 156 basis points, reflecting the aforementioned reduction in net interest income on a slightly higher average loan volume. The net interest margin remained within the target range of 140 to 180 basis points.

Net new business volume growth

The growth rate for net new business volume was 1.8% compared with 4.9% in 2012. Our retail business recorded a net new business volume growth rate of 1.9% in 2013 compared with 3.3% in the prior year. Both our retail and corporate businesses recorded positive net new client assets. Net new loan inflows were slightly positive for retail clients and slightly negative for corporate clients, reflecting our strategy to grow our business in high-quality loans moderately and selectively. Net new business volume growth was within the target range of 1% to 4%.

Personnel

Retail & Corporate employed 9,463 personnel as of 31 December 2013, a decrease of 693 compared with 10,156 as of 31 December 2012, mainly reflecting changes to allocations of centralized shared services units' personnel, which led to a decrease of approximately 500 personnel.

2012 compared with 2011

Results

Profit before tax decreased by CHF 57 million to CHF 1,827 million from CHF 1,884 million in the prior year. In 2012, personnel expenses benefited from a CHF 287 million credit related to changes to our Swiss pension plan. In 2011, there was a gain of CHF 289 million from the sale of our strategic investment portfolio. Adjusted for these items and restructuring charges of CHF 3 million in 2012 and CHF 32 million in 2011, profit before tax decreased by CHF 84 million to CHF 1,543 million, mainly as the prior year benefited from CHF 68 million of accrued interest from the abovementioned strategic investment portfolio sold in the third quarter of 2011.

Operating income

Total operating income decreased by CHF 357 million to CHF 3,728 million, mainly due to the abovementioned gain from the sale of our strategic investment portfolio in 2011. Adjusted for this gain, operating income decreased by CHF 68 million to CHF 3,728 million from CHF 3,796 million.

Net interest income decreased by CHF 142 million to CHF 2,186 million, as the prior year included interest income of CHF 68 million related to our strategic investment portfolio. Net interest income was also negatively affected by increased costs related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury and lower allocations related to investment proceeds from the firm's equity. The loan margin was stable, but the historically low interest rate environment continued to negatively affect the deposit margin. This was partly offset by growth in average deposit and, to a lesser extent, loan volumes, as well as a number of pricing adjustments.

Net fee and commission income was CHF 1,198 million, an increase of CHF 23 million from CHF 1,175 million in 2011, reflecting strong corporate finance activity related to our continued focus on our fee-based advisory offering.

Net trading income decreased to CHF 281 million from CHF 333 million due to lower treasury-related income and lower valuation income in 2012 related to credit default swaps to hedge certain loans.

Other income decreased to CHF 90 million from CHF 350 million, reflecting the abovementioned gain of CHF 289 million from the sale of our strategic investment portfolio in 2011, partly offset by higher income in 2012 related to our participation in the SIX Group.

Credit loss expenses were CHF 27 million in 2012 compared with CHF 101 million in 2011, mainly reflecting a CHF 16 million decrease in 2012 and an increase of CHF 82 million in 2011 in collective loan loss allowances.

➔ Refer to "Note 1a) 11) Allowances and provisions for credit losses" in the "Financial information" section of this report for more information on collective loan loss allowances

Operating expenses

Total operating expenses were CHF 1,901 million compared with CHF 2,201 million, mainly reflecting the CHF 287 million credit related to changes to our Swiss pension plan in 2012. Excluding this credit and restructuring charges, adjusted operating expenses increased by CHF 16 million to CHF 2,185 million.

Personnel expenses decreased to CHF 1,287 million from CHF 1,702 million. Excluding the abovementioned credit and restructuring charges, adjusted personnel expenses were CHF 1,571 million, a decrease of CHF 102 million from CHF 1,673 million in 2011 due to the centralization of operations units in 2012, which decreased personnel expenses by CHF 176 million. As Retail & Corporate previously provided significant services to other business divisions, this centralization and subsequent reallocation of the operations units had the effect of reducing personnel expenses as well as general and administrative expenses, and decreasing net charges to other business divisions. This was partly offset by higher personnel expenses resulting from other business transfers.

General and administrative expenses were CHF 857 million compared with CHF 834 million in 2011, reflecting higher net charges for provisions for litigation, regulatory and similar matters as well as increased marketing expenses related to our 150th anniversary in 2012. The abovementioned centralization of operations units led to a decrease in costs, which was partly offset by the effects of other business transfers.

Net charges to other business divisions were CHF 370 million, a decrease compared with CHF 470 million in the prior year, primarily as a result of the abovementioned centralization of operations units in 2012, which reduced net charges for services provided to other business divisions. This was partly offset by the effects of other business transfers.

Depreciation was CHF 128 million compared with CHF 136 million, reflecting a change in the depreciation period of certain information technology equipment.

Cost/income ratio

The cost/income ratio improved to 50.6% from 52.6%, reflecting lower expenses partly offset by lower income. On an adjusted basis excluding the credit related to changes to our Swiss pension plan in 2012, the gain from the sale of our strategic investment

portfolio as well as restructuring charges, the cost/income ratio was 58.2% compared with 55.7% and was within of our target range of 50% to 60%.

Net interest margin

The net interest margin decreased 11 basis points to 160 basis points, reflecting lower interest income as detailed above and a slightly higher average loan volume. The net interest margin remained within the target range of 140 to 180 basis points.

Net new business volume growth

The growth rate for net new business volume was 4.9% compared with 3.5% in the prior year. Both our retail and corporate businesses recorded strong net inflows, reflecting high net new client assets. Net new loan inflows were also slightly positive, in line with our strategy to grow our business selectively in high-quality loans. Net new business volume growth exceeded the target range of 1% to 4%.

Personnel

Retail & Corporate employed 10,156 personnel as of 31 December 2012 compared with 11,430 as of 31 December 2011, mainly reflecting the aforementioned centralization and subsequent reallocation of operations units personnel. We continued to adapt our cost base to the challenging business environment.

Global Asset Management

Profit before tax was CHF 576 million in 2013 compared with CHF 569 million in 2012. Adjusted for a gain on the sale of our Canadian domestic business in 2013, restructuring charges in 2013 and 2012 as well as credits related to changes to pension and benefit plans in 2012, profit before tax was CHF 585 million compared with CHF 543 million in the prior year. This increase was due to higher performance fees coupled with lower operating expenses. Excluding money market flows, net new money outflows were CHF 4.8 billion compared with CHF 5.9 billion in the prior year.

Business division reporting[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Net management fees[2]	**1,739**	1,721	1,704	1
Performance fees	**196**	162	99	21
Total operating income	**1,935**	1,883	1,803	3
Personnel expenses	**873**	885	954	(1)
General and administrative expenses	**448**	395	375	13
Services (to)/from other business divisions	**(17)**	(10)	(1)	70
Depreciation and impairment of property and equipment	**47**	37	38	27
Amortization and impairment of intangible assets	**8**	8	8	0
Total operating expenses[3]	**1,359**	1,314	1,373	3
Business division operating profit/(loss) before tax	**576**	569	430	1
Key performance indicators[4]				
Pre-tax profit growth (%)	**1.2**	32.3	(16.5)	
Cost/income ratio (%)	**70.2**	69.8	76.2	
Net new money growth (%)[5]	**(3.4)**	(2.3)	0.8	
Information by business line				
Operating Income				
Traditional investments	**1,144**	1,119	1,097	2
O'Connor and A&Q	**266**	268	253	(1)
Global real estate	**317**	293	263	8
Infrastructure and private equity	**38**	35	24	9
Fund services	**171**	169	165	1
Total operating income	**1,935**	1,883	1,803	3
Gross margin on invested assets (bps)				
Traditional investments	**22**	23	23	(4)
O'Connor and A&Q	**95**	91	76	4
Global real estate	**76**	74	72	3
Infrastructure and private equity	**48**	44	83	9
Total gross margin	**33**	33	33	0

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Net management fees include transaction fees, fund administration revenues (including interest and trading income from lending business and foreign exchange hedging as part of the fund services offering), gains or losses from seed money and co-investments, funding costs and other items that are not performance fees. 3 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 5 Net new money excludes interest and dividend income.

Business division reporting[1] (continued)

CHF million, except where indicated	As of or for the year ended 31.12.13	31.12.12	31.12.11	% change from 31.12.12
Net new money (CHF billion)[2]				
Traditional investments	**(18.5)**	(11.6)	0.0	
O'Connor and A&Q	**(2.5)**	(2.7)	(0.8)	
Global real estate	**1.2**	1.3	1.6	
Infrastructure and private equity	**0.0**	(0.2)	3.5	
Total net new money	**(19.9)**	(13.3)	4.3	
Net new money excluding money market flows	**(4.8)**	(5.9)	9.0	
of which: from third parties	***0.7***	*(0.6)*	*12.2*	
of which: from UBS's wealth management businesses	***(5.5)***	*(5.2)*	*(3.1)*	
Money market flows	**(15.1)**	(7.4)	(4.7)	
of which: from third parties	***(1.5)***	*0.9*	*0.2*	
of which: from UBS's wealth management businesses	***(13.6)***	*(8.3)*	*(5.0)*	
Invested assets (CHF billion)				
Traditional investments	**506**	504	497	0
of which: money market funds	***65***	*83*	*92*	*(22)*
O'Connor and A&Q	**27**	28	31	(4)
Global real estate	**42**	40	38	5
Infrastructure and private equity	**8**	8	8	0
Total invested assets	**583**	581	574	0
Assets under administration by fund services				
Assets under administration (CHF billion)[3]	**432**	410	375	5
Net new assets under administration (CHF billion)[4]	**3.8**	7.7	(5.5)	
Gross margin on assets under administration (bps)	**4**	4	4	0
Additional information				
Average attributed equity (CHF billion)[5]	**1.8**	2.2	2.5	(18)
Return on attributed equity (RoAE) (%)	**32.0**	25.9	17.2	
Risk-weighted assets (phase-in, CHF billion)[6]	**3.8**	3.7		3
Risk-weighted assets (fully applied, CHF billion)[6]	**3.7**	3.6		3
Return on risk-weighted assets, gross (%)[7]	**51.1**	54.4		
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[8]	**14.0**			
Goodwill and intangible assets (CHF billion)	**1.4**	1.5	1.5	(7)
Personnel (full-time equivalents)	**3,729**	3,781	3,750	(1)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Net new money excludes interest and dividend income. 3 This includes UBS and third-party fund assets, for which the fund services unit provides professional services, including fund set-up, accounting and reporting for traditional investment funds and alternative funds. 4 Inflows of assets under administration from new and existing funds less outflows from existing funds or fund exits. 5 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 6 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 7 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 8 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information.

2013 compared with 2012

Results

Operating income

Total operating income was CHF 1,935 million compared with CHF 1,883 million in 2012. Performance fees were higher at CHF 196 million compared with CHF 162 million, mainly due to strong investment performance in O'Connor and A&Q. Net management fees included a gain of CHF 34 million on the sale of our Canadian domestic business. Excluding this gain, net management fees were CHF 16 million lower, as lower fees in O'Connor and A&Q more than offset higher fees in global real estate.

Operating expenses

Total operating expenses were CHF 1,359 million in 2013 compared with CHF 1,314 million in 2012. Adjusted for restructuring charges of CHF 43 million in 2013 and CHF 20 million in 2012, as well as credits of CHF 30 million and CHF 16 million in 2012 related to changes to our Swiss pension plan and our retiree benefit plans in the US respectively, operating expenses were lower at CHF 1,316 million compared with CHF 1,340 million.

Personnel expenses were CHF 873 million compared with CHF 885 million. Adjusted for restructuring charges and the abovementioned credits related to our Swiss pension plan and US retiree benefit plans, personnel expenses were lower at CHF 863 million compared with CHF 911 million, mainly due to lower variable compensation expenses.

General and administrative expenses were CHF 448 million in 2013 compared with CHF 395 million. Adjusted for restructuring charges of CHF 26 million in 2013, general and administrative expenses were CHF 422 million compared with CHF 395 million. This increase was mainly due to higher professional fees, higher ETF-related index licensing fees, and higher fund promotion activity. Restructuring charges in 2013 included CHF 19 million real estate-related provisions for onerous lease contracts as we rationalized our office space in some principal locations.

Depreciation and impairment of property and equipment increased to CHF 47 million from CHF 37 million in the prior year, primarily due to asset impairments related to the abovementioned office space rationalization and higher depreciation of software and information technology equipment.

Cost/income ratio

The cost/income ratio was 70.2% compared with 69.8% in the prior year. Adjusted for restructuring charges, the gain on sale of our Canadian domestic business and credits related to our Swiss pension plan and US retiree benefit plans, the cost/income ratio improved to 69.2% from 71.2% and was within our target range of 60% to 70%.

Net new money

Excluding money market flows, net new money inflows from third parties were CHF 0.7 billion compared with net outflows of CHF 0.6 billion in 2012. Net inflows, notably from clients serviced from Europe, Middle East and Africa and from Switzerland, were partly offset by net outflows from clients serviced from the Americas. Excluding money market flows, net new money outflows from clients of UBS's wealth management businesses were CHF 5.5 billion compared with CHF 5.2 billion in the prior year. Net outflows, mainly from clients serviced from Switzerland, were partly offset by net inflows from clients serviced from the Americas.

Money market net outflows from third parties were CHF 1.5 billion compared with net inflows of CHF 0.9 billion in the prior year and were mainly from clients serviced from the Americas. Money market net outflows from clients of UBS's wealth management businesses were CHF 13.6 billion compared with CHF 8.3 billion in the prior year. In both years, net outflows were primarily due to an ongoing initiative by Wealth Management Americas to increase deposit account balances in UBS banking entities. This led to CHF 8.3 billion in outflows from money market funds managed by Global Asset Management in 2013 and CHF 6.2 billion in 2012.

Total net new money outflows were CHF 19.9 billion compared with CHF 13.3 billion in the prior year. The net new money growth rate was negative 3.4% compared with negative 2.3%. Our target net new money growth rate range is 3% to 5%.

Invested assets

Invested assets were CHF 583 billion as of 31 December 2013 compared with CHF 581 billion as of 31 December 2012. Net new money outflows, combined with negative currency translation effects of CHF 15 billion and a reduction of CHF 7 billion related to the aforementioned sale of our Canadian domestic business, were more than offset by positive market performance of CHF 44 billion.

As of 31 December 2013, CHF 65 billion, or 11%, of invested assets were money market assets and CHF 166 billion, or 28%, were in indexed strategies. On a regional basis, 34% of invested assets related to clients serviced from Switzerland, 24% from the Americas, 22% from Europe, Middle East and Africa, and 20% from Asia Pacific.

Gross margin on invested assets

The gross margin of 33 basis points was in line with 2012 and within our target range of 32 to 38 basis points.

Results by business line

Traditional investments

Operating income was CHF 1,144 million compared with CHF 1,119 million in 2012. Excluding the abovementioned gain on sale of our Canadian domestic business, net management fees were in line with the prior year, while performance fees were lower.

The gross margin was 22 basis points compared with 23 basis points, reflecting lower performance fees.

Net new money outflows were CHF 18.5 billion compared with CHF 11.6 billion in the prior year. Excluding money market flows, net new money outflows were CHF 3.5 billion compared with CHF 4.3 billion. Equities net inflows, notably to indexed strategies, were CHF 2.6 billion compared with net outflows of CHF 1.3 billion. Fixed income net outflows were CHF 6.0 billion compared with net inflows of CHF 2.4 billion. Multi-asset net outflows (which included flows related to alternative investments not managed by the O'Connor and A&Q, global real estate or infrastructure and private equity investment areas) were CHF 0.1 billion compared with CHF 5.4 billion.

Invested assets were CHF 506 billion as of 31 December 2013 compared with CHF 504 billion as of 31 December 2012. By mandate type, CHF 196 billion of invested assets related to equities, CHF 135 billion to fixed income, CHF 65 billion to money markets and CHF 109 billion to multi-asset mandates (including CHF 5 billion of alternative investments not managed by the O'Connor and A&Q, global real estate or infrastructure and private equity investment areas).

O'Connor and A&Q

During 2013, the management of the former alternative and quantitative investments business line was split into its two constituent parts – O'Connor, the single-manager hedge funds business, and A&Q hedge fund solutions (A&Q), the multi-manager hedge funds business. The two businesses continue to be reported together as O'Connor and A&Q.

Operating income was CHF 266 million compared with CHF 268 million in the prior year. Higher performance fees as a result of strong investment performance, in both A&Q multi-manager funds and O'Connor single-manager funds, were offset by lower net management fees as a result of net new money outflows.

The gross margin increased to 95 basis points from 91 basis points due to higher performance fees.

Net new money outflows were CHF 2.5 billion compared with CHF 2.7 billion in the prior year.

Invested assets were CHF 27 billion as of 31 December 2013 compared with CHF 28 billion as of 31 December 2012.

Global real estate

Operating income was CHF 317 million compared with CHF 293 million, due to higher net management and performance fees. The gross margin increased to 76 basis points compared with 74 basis points in 2012, due to higher operating income. Net new money inflows were CHF 1.2 billion compared with CHF 1.3 billion in 2012. Invested assets were CHF 42 billion as of 31 December 2013 compared with CHF 40 billion as of 31 December 2012.

Infrastructure and private equity

Operating income was CHF 38 million compared with CHF 35 million, with the increase reflecting higher net management fees. The gross margin was 48 basis points compared with 44 basis points. Net new money flows were zero compared with net outflows of CHF 0.2 billion in the prior year. Invested assets were CHF 8 billion as of 31 December 2013, in line with the prior year-end.

Fund services

Operating income was CHF 171 million compared with CHF 169 million, due to higher administration fees resulting from higher average assets under administration. The gross margin on assets under administration was 4 basis points, in line with the prior year. Net new assets under administration inflows were CHF 3.8 billion compared with CHF 7.7 billion in the prior year. Total assets under administration increased to CHF 432 billion as of 31 December 2013 from CHF 410 billion as of 31 December 2012, mainly due to positive market performance and net new assets under administration inflows.

Personnel

Global Asset Management employed 3,729 personnel as of 31 December 2013 compared with 3,781 as of 31 December 2012, a net decrease of 52 personnel. The decrease was primarily due to cost reduction programs in centralized support functions, and a net reduction in O'Connor and A&Q, partly offset by headcount increases in fund services and global real estate.

Investment performance

A majority of our active equities strategies performed well versus their benchmarks in 2013, as the equity market focus continued to be on company fundamentals. Across core and growth teams, the performance of global, US and other developed market single-country strategies was generally strong versus benchmarks and ahead of peer averages. Performance was similarly strong in European concentrated alpha strategies, but core European strategies underperformed benchmarks and peers due to generally cautious positioning in favor of quality stocks. Core Asian and emerging markets strategies also underperformed, largely as a result of portfolio positioning in the financial sector which was adversely affected by market reaction to the US Federal Reserve's tapering announcements. Nevertheless, other Asian and emerging markets strategies performed well, including growth, small cap and China equity. On a longer-term basis, most active strategies were close to or ahead of benchmarks over three and five years. Indexed strategies met their objectives in 2013 by closely tracking benchmarks.

2013 was a solid year for fixed income, even in the volatile markets resulting from major political and macroeconomic developments. A majority of key traditional bond strategies, such as Australian, Asian, Global, Swiss and US, outperformed their respective benchmarks. Higher alpha strategies, such as high yield and total return, also performed well. Liquidity and money market funds continued to achieve their capital preservation objectives.

In global investment solutions, most key multi-asset strategies managed versus benchmarks were close to those benchmarks for the year, with some outperforming and some underperforming. Security selection was the main detracting factor. Key mutual funds performed strongly versus peers with many in the top quartile. Global convertible strategies maintained their long-term track record but were marginally below benchmark for the year, having not held a small number of highly equity-sensitive benchmark bonds that performed strongly mid-year.

The O'Connor core single-manager hedge funds posted positive returns and outperformed many peers on an absolute and risk-adjusted basis. For A&Q's funds of hedge funds, it was a strongly positive year for investment performance, both in absolute terms and versus industry benchmarks. Performance was particularly strong in the broad-based diversified funds that comprise the majority of A&Q's assets. The highest-returning funds were in equity hedged-oriented mandates.

Global real estate's pan-European direct strategies produced mixed results in 2013, while the German core logistics fund performed positively for the year. The UK core fund produced a positive absolute return but underperformed its benchmark, while the UK value-add strategy produced double-digit absolute returns. The Swiss composite outperformed its benchmark for the year. US real estate and farmland strategies delivered strong positive absolute returns in 2013. In Japan, both J-REITs underperformed their benchmarks yet produced very strong absolute returns for the year. Multi-manager strategies had positive absolute returns for the year and the Swiss real estate securities composite's performance was positive relative to benchmark.

In infrastructure and private equity, the direct infrastructure portfolio continued to deliver above target cash distributions, while continuing to track longer-term total return targets. From private equity portfolios, it was a year of very high distributions for both institutional and private banking clients. Infrastructure multi-manager portfolios continued to be built out, with investors benefiting from increased distributions from portfolio companies.

2012 compared with 2011

Results

Profit before tax was CHF 569 million in 2012 compared with CHF 430 million in 2011. Performance fees were significantly higher, mainly in O'Connor and A&Q. Net management fees were also higher. Operating expenses were lower due to lower personnel costs, which resulted from lower variable compensation expenses and from credits related to changes to pension and benefit plans.

Operating income

Total operating income was CHF 1,883 million compared with CHF 1,803 million in 2011. Performance fees were significantly higher at CHF 162 million compared with CHF 99 million, mainly due to stronger investment performance in O'Connor and A&Q as well as in traditional investments. Net management fees were also higher, notably in global real estate.

Operating expenses

Total operating expenses were CHF 1,314 million in 2012 compared with CHF 1,373 million in 2011. Lower personnel costs were partly offset by higher general and administrative expenses. Restructuring charges were CHF 20 million in 2012, mainly associated with our cost reduction programs but also including CHF 3 million related to the acquisition of the ING Investment Management business in Australia, which was completed in late 2011 and fully integrated in early 2012. The prior year's restructuring charges were CHF 26 million, of which CHF 7 million related to the same acquisition.

After adjusting for restructuring charges in 2012 and 2011, as well as credits of CHF 30 million and CHF 16 million in 2012 related to changes to our Swiss pension plan and our retiree benefit plans in the US respectively, operating expenses were marginally lower at CHF 1,340 million in 2012 compared with CHF 1,347 million in 2011.

Personnel expenses were CHF 885 million in 2012 compared with CHF 954 million in 2011. The decrease was mainly due to lower variable compensation expenses, partly offset by higher base salaries, and the abovementioned pension and benefit-related credits.

General and administrative expenses were CHF 395 million in 2012 compared with CHF 375 million in 2011. CHF 5 million of the increase related to a charge for provisions for litigation, regulatory and similar matters, and although 2012 included a reversal of previously recognized expenses related to a past business closure of CHF 5 million, there was also a similar reversal of CHF 9 million in 2011.

Net charges to other business divisions increased to CHF 10 million in 2012 from CHF 1 million in 2011. The increase was mainly due to the centralization of operations units from the business divisions in the Corporate Center during the year, which also had the effect of increasing personnel costs by CHF 4 million and general and administrative expenses by CHF 2 million.

Cost/income ratio

The cost/income ratio was 69.8% in 2012 compared with 76.2% in 2011. On an adjusted basis, the cost/income ratio was 71.2% compared with 74.7%. Our target cost/income ratio range is 60% to 70%.

Net new money

Excluding money market flows, net new money outflows from third parties were CHF 0.6 billion in 2012 compared with net inflows of CHF 12.2 billion in 2011. Net inflows, notably from sovereign clients, were more than offset by net outflows, particularly from clients serviced from the Americas and Asia Pacific. Excluding money market flows, net new money outflows from clients of UBS's wealth management businesses were CHF 5.2 billion compared with CHF 3.1 billion in 2011. The net outflows in 2012 were mainly from clients serviced from Switzerland and from O'Connor and A&Q.

Money market net inflows from third parties were CHF 0.9 billion compared with CHF 0.2 billion in 2011 and were mainly from sovereign clients. Money market net outflows from clients of UBS's wealth management businesses were CHF 8.3 billion compared with CHF 5.0 billion in 2011. Net outflows in 2012 were mainly from clients serviced from the Americas, where an initiative by Wealth Management Americas to deposit client cash in UBS banking entities led to outflows of CHF 6.2 billion from money market funds managed by Global Asset Management, and from clients serviced from Switzerland.

Total net new money outflows were CHF 13.3 billion compared with net inflows of CHF 4.3 billion in the prior year. The net new money growth rate was negative 2.3% in 2012 compared with positive 0.8% in 2011. Our target net new money growth rate range is 3% to 5%.

Invested assets

Invested assets increased to CHF 581 billion as of 31 December 2012 from CHF 574 billion as of 31 December 2011, mainly due to positive market performance, partly offset by net new money outflows and negative currency translation effects. The sale, as agreed prior to the acquisition, of parts of the ING Investment Management business acquired in Australia in 2011 resulted in a net divestment of CHF 14 billion of invested assets in 2012.

Gross margin on invested assets

The gross margin of 33 basis points in 2012 was in line with 2011 and within our target range of 32 to 38 basis points.

Results by business line

Traditional investments

Operating income increased to CHF 1,119 million in 2012 from CHF 1,097 million in 2011, mainly due to higher performance fees as a result of stronger investment performance.

The gross margin of 23 basis points was in line with the prior year.

Net new money outflows were CHF 11.6 billion compared with zero net flows in the prior year. Excluding money market flows, net new money outflows were CHF 4.3 billion compared with net inflows of CHF 4.7 billion. Equities net outflows were CHF 1.3 billion compared with net inflows of CHF 4.7 billion. Fixed income net inflows were CHF 2.4 billion compared with CHF 5.7 billion. Multi-asset net outflows (which included flows related to alternative investments not managed by the O'Connor and A&Q, global real estate or infrastructure and private equity investment areas) were CHF 5.4 billion compared with CHF 5.7 billion.

Invested assets were CHF 504 billion as of 31 December 2012 compared with CHF 497 billion as of 31 December 2011. By mandate type, CHF 163 billion of invested assets related to equities, CHF 154 billion to fixed income, CHF 83 billion to money markets and CHF 103 billion to multi-asset mandates (including CHF 7 billion of alternative investments not managed by the O'Connor and A&Q, global real estate or infrastructure and private equity investment areas).

O'Connor and A&Q

Operating income was CHF 268 million compared with CHF 253 million. Higher performance fees as a result of strong investment performance, notably in O'Connor single-manager funds, were partly offset by the full year impact of the transfer of the infrastructure and private equity funds of funds businesses from A&Q to infrastructure and private equity in mid-2011.

The gross margin increased from 76 basis points to 91 basis points, primarily due to the higher performance fees.

Net new money outflows were CHF 2.7 billion compared with CHF 0.8 billion in the prior year.

Invested assets were CHF 28 billion as of 31 December 2012 compared with CHF 31 billion as of 31 December 2011, mainly due to the net new money outflows.

Global real estate

Operating income was CHF 293 million compared with CHF 263 million, mainly due to higher net management and performance fees. The gross margin increased to 74 basis points compared with 72 basis points in 2011, primarily due to higher performance fees. Net new money inflows were CHF 1.3 billion compared with CHF 1.6 billion in 2011. Invested assets were CHF 40 billion as of 31 December 2012 compared with CHF 38 billion as of 31 December 2011. The increase was mainly due to positive market performance.

Infrastructure and private equity

Operating income was CHF 35 million compared with CHF 24 million, with the increase reflecting the full year impact of the transfer of the infrastructure and private equity funds of funds businesses from A&Q in mid-2011. The gross margin decreased to 44 basis points from 83 basis points, largely due to the aforementioned business transfer and resulting changes in the business mix. Net new money outflows were CHF 0.2 billion compared with net inflows of CHF 3.5 billion in 2011. Invested assets were CHF 8 billion as of 31 December 2012, in line with the prior year-end.

Fund services

Operating income was CHF 169 million compared with CHF 165 million, mainly due to higher administration fees resulting from higher average assets under administration. The gross margin on assets under administration was 4 basis points, in line with the prior year. Net new assets under administration inflows were CHF 7.7 billion compared with net outflows of CHF 5.5 billion in the prior year. Total assets under administration increased to CHF 410 billion as of 31 December 2012 from CHF 375 billion as of 31 December 2011, mainly due to positive market performance and net new assets under administration inflows.

Personnel

Global Asset Management employed 3,781 personnel as of 31 December 2012 compared with 3,750 as of 31 December 2011, a net increase of 31 personnel. Increases in personnel resulted from an increased allocation from the Corporate Center following the centralization of operations units (approximately 50 personnel) and the transfer of the Jersey fund services business from Wealth Management to Global Asset Management. These increases were partly offset by our cost reduction programs, mainly in the business acquired from ING Investment Management in Australia.

Investment Bank

Profit before tax was CHF 2,300 million in 2013 compared with CHF 267 million in 2012. Adjusted for a gain from the sale of our remaining proprietary trading business in 2013 and restructuring charges in both years as well as prior year credits related to changes to our retiree benefit plans in the US and our Swiss pension plan, profit before tax was CHF 2,455 million compared with CHF 398 million. This increase was largely due to higher revenues in Investor Client Services and lower operating expenses. Fully applied risk-weighted assets (RWA) decreased by CHF 2 billion to CHF 62 billion.

Business division reporting[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Corporate Client Solutions	**2,979**	2,826	2,636	5
Advisory	**588**	638	964	(8)
Equity Capital Markets	**1,142**	777	574	47
Debt Capital Markets	**888**	1,009	791	(12)
Financing Solutions	**599**	685	600	(13)
Risk Management	**(239)**	(283)	(294)	(16)
Investor Client Services	**5,619**	4,319	4,177	30
Equities	**4,030**	2,532	2,000	59
Foreign Exchange, Rates and Credit	**1,590**	1,787	2,177	(11)
Income	**8,599**	7,144	6,813	20
Credit loss (expense) / recovery	**2**	0	(10)	
Total operating income	**8,601**	7,144	6,802	20
Personnel expenses	**3,984**	4,539	5,026	(12)
General and administrative expenses	**2,040**	2,312	2,129	(12)
Services (to) / from other business divisions	**3**	(202)	(358)	
Depreciation and impairment of property and equipment	**260**	214	208	21
Amortization and impairment of intangible assets	**14**	13	15	8
Total operating expenses[2]	**6,300**	6,877	7,019	(8)
Business division operating profit / (loss) before tax	**2,300**	267	(217)	761
Key performance indicators[3]				
Pre-tax profit growth (%)[4]	**761.4**			
Cost / income ratio (%)	**73.3**	96.3	103.0	
Return on attributed equity (RoAE) (%)	**28.7**	2.4		
Return on assets, gross (%)	**3.3**	2.4	1.8	
Average VaR (1-day, 95% confidence, 5 years of historical data)[5]	**13**	30	75	(57)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or due to a change to report own credit gains and losses as part of Corporate Center – Core Functions. 2 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 4 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 5 Average VaR has not been restated for periods prior to 2013.

Business division reporting[1] (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Additional information				
Total assets (CHF billion)[2]	**241.1**	261.5	403.5	(8)
Average attributed equity (CHF billion)[3]	**8.0**	10.9		(27)
Risk-weighted assets (phase-in, CHF billion)[4]	**62.6**	64.9		(4)
Risk-weighted assets (fully applied, CHF billion)[4]	**62.3**	64.3		(3)
Return on risk-weighted assets, gross (%)[5]	**13.2**	12.8		
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[6]	**275.3**			
Goodwill and intangible assets (CHF billion)	**0.1**	0.1	0.1	0
Compensation ratio (%)	**46.3**	63.5	73.8	
Impaired loan portfolio as a % of total loan portfolio, gross (%)[7]	**0.2**	0.3	1.8	
Personnel (full-time equivalents)	**11,615**	13,595	14,685	(15)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or due to a change to report own credit gains and losses as part of Corporate Center – Core Functions. 2 Based on third-party view, i.e., without intercompany balances. Refer to "Note 2 Segment reporting" in the "Financial information" section of this report for more information. 3 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 4 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 5 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 6 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information. 7 Refer to the "Risk management and control" section of this report for more information on impairment ratios.

2013 compared with 2012

Results

Operating income

Total operating income increased 20% to CHF 8,601 million from CHF 7,144 million, mainly as a result of higher equities revenues within Investor Client Services. On an adjusted basis, excluding a gain from the sale of our remaining proprietary trading business in the first half of 2013, total operating income increased 20% to CHF 8,546 million from CHF 7,144 million. In US dollar terms, adjusted operating income increased 21%.

Operating expenses

Total operating expenses decreased 8% to CHF 6,300 million compared with CHF 6,877 million. Adjusted for restructuring charges of CHF 210 million in 2013 and CHF 273 million in 2012, a credit of CHF 91 million related to changes to our retiree benefit plans in the US and a credit of CHF 51 million related to changes to our Swiss pension plan in 2012, total operating expenses decreased 10% to CHF 6,090 million compared with CHF 6,746 million. This reduction was mainly due to our ongoing cost reduction programs and CHF 241 million lower charges for provisions for litigation, regulatory and similar matters. These decreases were partly offset by higher variable compensation expenses, reflecting improved business performance. In US dollar terms, adjusted operating expenses decreased 9%.

Personnel expenses declined to CHF 3,984 million from CHF 4,539 million. Adjusted for restructuring charges of CHF 9 million in 2013 and CHF 250 million in 2012, as well as the abovementioned credits related to changes to our retiree benefit plans in the US and our Swiss pension plan in 2012, personnel expenses decreased to CHF 3,975 million from CHF 4,431 million, largely due to savings resulting from our ongoing cost reduction programs, partly offset by higher variable compensation expenses, in line with improved business performance.

General and administrative expenses decreased to CHF 2,040 million from CHF 2,312 million. Adjusted for restructuring charges of CHF 177 million in 2013 and CHF 11 million in 2012, general and administrative expenses decreased to CHF 1,863 million from CHF 2,301 million, largely due to CHF 241 million lower charges for provisions for litigation, regulatory and similar matters and lower professional fees.

Cost/income ratio

The cost/income ratio improved to 73.3% from 96.3%. On an adjusted basis, the cost/income ratio improved to 71.3% from 94.4%, within our target range of 65% to 85%.

Risk-weighted assets

Fully applied RWA decreased to CHF 62 billion as of 31 December 2013 from CHF 64 billion as of 31 December 2012, primarily due to a reduction in credit risk RWA, partly offset by the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA. Year-end 2013 RWA were within our target of less than CHF 70 billion.

➔ **Refer to the "Capital management" section of this report for more information**

Funded assets

Funded assets decreased to CHF 162 billion as of 31 December 2013 from CHF 185 billion as of 31 December 2012 and were within our target of less than CHF 200 billion. This decline was largely due to lower collateral trading assets across businesses as well as due to a reduction in trading portfolio assets in our foreign exchange, rates and credit business and a reduction in lending assets in Corporate Client Solutions.

➔ **Refer to the "Balance sheet" section of this report for more information**

Return on attributed equity

Return on attributed equity for 2013 was 28.7%, and 30.6% on an adjusted basis, consistent with our target of more than 15%.

➔ **Refer to "Equity attribution framework" in the "Capital management" section of this report for more information**

Operating income by business area

Corporate Client Solutions

Corporate Client Solutions revenues increased 5% to CHF 2,979 million from CHF 2,826 million, largely due to higher revenues in equity capital markets. In US dollar terms, revenues increased 6%.

Advisory revenues declined 8% to CHF 588 million from CHF 638 million, mainly as the market fee pool decreased 11%.

Equity capital markets revenues increased 47% to CHF 1,142 million from CHF 777 million. This increase was mainly due to a large private transaction recorded in the first half of 2013.

Debt capital markets revenues decreased 12% to CHF 888 million from CHF 1,009 million, largely due to a decline in investment grade revenues. Leveraged finance revenues were broadly in line with the prior year.

Financing solutions revenues decreased 13% to CHF 599 million compared with CHF 685 million, mainly due to a reduction in revenues in both the structured financing and real estate finance businesses.

Risk management revenues improved to negative CHF 239 million from negative CHF 283 million, mainly due to lower mark-to-market losses.

Investor Client Services

Investor Client Services revenues increased 30% to CHF 5,619 million from CHF 4,319 million, due to higher revenues in the equities businesses. In US dollar terms, revenues also increased 30%.

Equities

Equities revenues increased to CHF 4,030 million from CHF 2,532 million, as a result of higher revenues across all businesses and regions.

Cash revenues increased to CHF 1,374 million compared with CHF 879 million. Revenues increased due to higher commission income and an improvement in client trading revenues. In addition, 2012 included a loss of CHF 349 million related to the Facebook initial public offering.

Derivatives revenues increased to CHF 1,350 million from CHF 660 million, mainly as a result of higher revenues in Asia Pacific and Europe, Middle East and Africa. In addition, 2012 included negative adjustments related to the refinement of our own credit calculation methodology.

In financing services, formerly called prime services, revenues increased to CHF 1,199 million from CHF 1,036 million, as a result of higher trading revenues in equity finance and increased commissions in clearing and execution.

Other equities revenues increased to CHF 107 million from negative CHF 44 million. Adjusted for a gain from the sale of our former proprietary trading business in 2013, other equities revenues increased to CHF 52 million from negative CHF 44 million. This improvement was mainly due to both higher revenues on equity investments prior to their transfer to Corporate Center – Non-core and Legacy Portfolio, and a gain related to the divestment of our participation in Euroclear Plc.

Foreign exchange, rates and credit

Foreign exchange, rates and credit revenues decreased to CHF 1,590 million from CHF 1,787 million, mainly due to lower rates and credit revenues.

Foreign exchange revenues declined slightly, primarily due to a decrease in revenues from the emerging market short-term interest rate business, partly offset by an increase in electronic trading revenues as volumes rose.

Rates and credit revenues declined, primarily due to weaker trading performance in the flow businesses. This was partly offset by negative debit valuation adjustments of CHF 18 million in 2013 compared with negative debit valuation adjustments of CHF 115 million in the prior year.

Personnel

The Investment Bank employed 11,615 personnel as of 31 December 2013, a decrease of 1,980 compared with 13,595 as of 31 December 2012, mainly as a result of our ongoing cost reduction programs.

2012 compared with 2011

Results

The Investment Bank recorded a profit before tax of CHF 267 million in 2012 compared with a loss before tax of CHF 217 million in 2011. Adjusted for restructuring charges as well as credits related to our retiree benefit plans in the US and our Swiss pension plan, profit before tax was CHF 398 million in 2012 compared with a loss before tax of CHF 15 million in 2011, which included a loss of CHF 1,849 million related to the unauthorized trading incident.

Operating income

Total operating income increased 5% to CHF 7,144 million in 2012 from CHF 6,802 million in 2011. Investor Client Services revenues, excluding the unauthorized trading incident, decreased significantly, also as 2012 included a loss of CHF 349 million related to the Facebook initial public offering. This decline in Investor Client Services revenues was partly offset by higher equity capital markets and debt capital markets revenues within Corporate Client Solutions.

Operating expenses

Total operating expenses decreased 2% to CHF 6,877 million in 2012 compared with CHF 7,019 million in 2011. Adjusted for restructuring charges of CHF 273 million in 2012 and CHF 202 million in 2011, a credit of CHF 91 million related to changes to our retiree benefit plans in the US and a credit of CHF 51 million related to changes to our Swiss pension plan in 2012, total operating expenses decreased 1% to CHF 6,746 million compared with CHF 6,817 million. This reduction was mainly due to lower personnel expenses, which were almost entirely offset by higher general and administrative expenses and lower charges for services to other business divisions.

Personnel expenses declined to CHF 4,539 million from CHF 5,026 million. Adjusted for restructuring charges of CHF 250 million in 2012 and CHF 129 million in 2011 and the aforementioned credits related to changes to our retiree benefit plans in the US and our Swiss pension plan in 2012, personnel expenses decreased to CHF 4,431 million from CHF 4,897 million, largely due to lower variable compensation expenses.

General and administrative expenses increased to CHF 2,312 million from CHF 2,129 million. Adjusted for restructuring charges of CHF 11 million in 2012 and CHF 55 million in 2011, general and administrative expenses increased to CHF 2,301 million from CHF 2,074 million, largely due to increased charges for provisions for litigation, regulatory and similar matters and higher professional fees.

Cost/income ratio

The cost/income ratio improved to 96.3% from 103.0%. On an adjusted basis, the cost/income ratio improved to 94.4% from 100.1%.

Operating income by business area

Corporate Client Solutions

Corporate Client Solutions revenues increased 7% to CHF 2,826 million from CHF 2,636 million, largely due to higher revenues in equity capital markets and debt capital markets which more than offset lower advisory revenues. In US dollar terms, revenues increased 2%.

Advisory revenues declined 34% to CHF 638 million from CHF 964 million, as our market share declined against a 7% reduction in the fee pool in US dollar terms.

Equity capital markets revenues increased 35% to CHF 777 million from CHF 574 million, mainly as our market share improved against a 15% decline in the fee pool in US dollar terms. In addition, we increased our participation in private and structured transactions.

Debt capital markets revenues increased 28% to CHF 1,009 million from CHF 791 million, as our market share improved in both debt and leveraged capital markets, and the global fee pool increased 6% in US dollar terms.

Financing solutions revenues increased 14% to CHF 685 million compared with CHF 600 million, as revenues in 2011 were negatively affected by mark-to-market trading losses, mainly in the second half of the year, as trading conditions were challenging due to uncertainty surrounding the eurozone and the global economic outlook.

Risk management revenues improved to negative CHF 283 million from negative CHF 294 million, primarily due to a decrease in risk management premiums.

Investor Client Services

Investor Client Services revenues increased 3% to CHF 4,319 million from CHF 4,177 million, due to higher revenues in the equities businesses. In US dollar terms, revenues decreased 2%.

Equities

Equities revenues increased by 27% to CHF 2,532 million from CHF 2,000 million, mainly as 2011 included a loss of CHF 1,849 million related to the unauthorized trading incident.

Cash revenues decreased to CHF 879 million compared with CHF 1,441 million, due to lower commission revenues resulting from lower market activity levels as well as a CHF 349 million loss related to the Facebook initial public offering.

Derivatives revenues decreased to CHF 660 million from CHF 1,060 million. During the year, client activity levels were lower across all regions, and trading revenues, particularly in Asia Pacific and Europe, Middle East and Africa, were affected by lower volatility levels.

In financing services revenues increased to CHF 1,036 million from negative CHF 680 million, mainly as the prior year included the loss resulting from the unauthorized trading incident. This was partly offset by lower revenues in 2012, primarily in the clearing business due to lower client activity levels.

Other equities revenues decreased to negative CHF 44 million from CHF 180 million, primarily reflecting a reduced contribution from proprietary trading as we continued to exit the business.

Foreign exchange, rates and credit

Foreign exchange, rates and credit revenues decreased 18% to CHF 1,787 million from CHF 2,177 million, mainly due to lower rates and credit revenues.

Foreign exchange revenues declined, mainly within foreign exchange spot and foreign exchange options as volatility decreased from the high levels seen in 2011 resulting from eurozone uncertainty. This decrease was partly offset by higher revenues from the emerging market short-term interest rate business, and electronic trading revenues as volumes rose.

Rates and credit revenues also declined, primarily due to increased negative debit valuation adjustments and lower revenues from flow businesses, partly offset by higher revenues from solutions businesses.

Personnel

The Investment Bank employed 13,595 personnel as of 31 December 2012, a decrease of 1,090 compared with 14,685 as of 31 December 2011, mainly as a result of our ongoing cost reduction programs.

Corporate Center

Corporate Center reporting – Total[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Income excluding own credit	**(380)**	2,029	681	
Own credit[2]	**(283)**	(2,202)	1,537	(87)
Credit loss (expense) / recovery[3]	**3**	(78)	22	
Total operating income	**(660)**	(251)	2,240	163
Personnel expenses	**939**	910	822	3
General and administrative expenses	**2,443**	2,837	647	(14)
Services (to) / from other business divisions	**67**	355	521	(81)
Depreciation and impairment of property and equipment	**55**	51	117	8
Impairment of goodwill	**0**	3,030	0	(100)
Amortization and impairment of intangible assets	**3**	28	19	(89)
Total operating expenses[4]	**3,507**	7,210	2,126	(51)
Operating profit / (loss) before tax	**(4,167)**	(7,461)	114	(44)
Additional information				
Average attributed equity (CHF billion)[5]	**23.3**	23.1		1
Total assets (CHF billion)[6]	**457.9**	691.5	708.6	(34)
Risk-weighted assets (phase-in, CHF billion)[7]	**84.9**	119.3		(29)
Risk-weighted assets (fully applied, CHF billion)[7]	**84.2**	118.7		(29)
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[8]	**394.5**			
Personnel before allocations (full-time equivalents)	**24,082**	25,892	26,974	(7)
Allocations to business divisions (full-time equivalents)	**(21,441)**	(23,100)	(24,130)	(7)
Personnel after allocations (full-time equivalents)	**2,640**	2,792	2,845	(5)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or due to a change to report own credit gains and losses as part of Corporate Center – Core Functions. 2 Represents own credit changes on financial liabilities designated at fair value through profit or loss. The cumulative own credit loss for such debt held as of 31 December 2013 amounted to CHF 0.6 billion. This loss has increased the fair value of financial liabilities designated at fair value recognized on our balance sheet. Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information. 3 Includes credit loss (expense) / recovery on reclassified and acquired securities. 4 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 5 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 6 Based on third-party view, i.e., without intercompany balances. Refer to "Note 2 Segment reporting" in the "Financial information" section of this report for more information. 7 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 8 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information.

Corporate Center – Core Functions

Corporate Center – Core Functions recorded a loss before tax of CHF 1,854 million in 2013 compared with CHF 3,698 million in the prior year. The 2013 loss was mainly due to treasury income remaining in Corporate Center – Core Functions of negative CHF 902 million, an own credit loss of CHF 283 million and operating expenses remaining in Corporate Center – Core Functions of CHF 847 million. These negative effects were partly offset by gains on sales of real estate of CHF 288 million.

Corporate Center reporting – Core Functions[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Treasury income remaining in Corporate Center – Core Functions	**(902)**	688	386	
Own credit[2]	**(283)**	(2,202)	1,537	(87)
Other	**178**	(175)	8	
Total operating income	**(1,007)**	(1,689)	1,931	(40)
Personnel expenses	**424**	282	116	50
General and administrative expenses	**422**	1,696	161	(75)
Services (to)/from other business divisions	**1**	21	19	(95)
Depreciation and impairment of property and equipment	**0**	9	73	(100)
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses[3]	**847**	2,008	369	(58)
Operating profit/(loss) before tax	**(1,854)**	(3,698)	1,562	(50)
Additional information				
Average attributed equity (CHF billion)[4]	**12.5**	6.6		89
Total assets (CHF billion)[5]	**247.4**	262.9	183.8	(6)
Risk-weighted assets (phase-in, CHF billion)[6]	**21.3**	16.7		28
Risk-weighted assets (fully applied, CHF billion)[6]	**20.7**	16.2		28
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[7]	**234.5**			
Personnel before allocations (full-time equivalents)	**23,860**	25,351	26,374	(6)
Allocations to business divisions and CC – Non-core and Legacy Portfolio (full-time equivalents)	**(22,804)**	(24,863)	(25,969)	(8)
Personnel after allocations (full-time equivalents)	**1,055**	488	405	116
Corporate Center – Core Functions – expenses before service allocation to business divisions and CC – Non-core and Legacy Portfolio				
Personnel expenses	**4,199**	4,110	4,658	2
General and administrative expenses	**4,327**	5,302	3,608	(18)
Depreciation and impairment of property and equipment	**761**	647	731	18
Amortization and impairment of intangible assets	**4**	2	0	100
Total operating expenses before service allocation to business divisions and CC – Non-core and Legacy Portfolio[3]	**9,291**	10,060	8,997	(8)
Net allocations to business divisions	**(8,444)**	(8,052)	(8,628)	5
Total operating expenses[3]	**847**	2,008	369	(58)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or due to a change to report own credit gains and losses as part of Corporate Center – Core Functions. 2 Represents own credit changes on financial liabilities designated at fair value through profit or loss. The cumulative own credit loss for such debt held as of 31 December 2013 amounted to CHF 0.6 billion. This loss has increased the fair value of financial liabilities designated at fair value recognized on our balance sheet. Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information. 3 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 5 Based on third-party view, i.e., without intercompany balances. Refer to "Note 2 Segment reporting" in the "Financial information" section of this report for more information. 6 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 7 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information.

2013 compared with 2012

Results

Operating income

Total operating income was negative CHF 1,007 million in 2013. Treasury income remaining in Corporate Center – Core Functions of negative CHF 902 million and an own credit loss on financial liabilities designated at fair value of CHF 283 million were partly offset by income related to other items of CHF 178 million. Total operating income in the prior year was negative CHF 1,689 million.

➔ **Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information on own credit**

Treasury income remaining in Corporate Center – Core Functions, after allocations to the business divisions, was negative CHF 902 million. This was mainly due to central funding costs of CHF 510 million, which were retained in Group Treasury, losses of CHF 222 million from cross-currency basis swaps which are held as economic hedges and net losses of CHF 194 million related to the buyback of debt in public tender offers. Furthermore, we recorded losses of CHF 153 million related to our macro cash flow hedge models. These negative effects were partly offset by trading gains of CHF 47 million on derivative instruments which are used to economically hedge financial investments available-for-sale.

Compared with the prior year, treasury income remaining in Corporate Center – Core Functions decreased to negative CHF 902 million from positive CHF 688 million. The 2012 result included gains of CHF 152 million related to our macro cash flow hedge models, as opposed to the abovementioned losses in 2013, and central funding costs retained in Group Treasury of CHF 268 million compared with CHF 510 million. Furthermore, 2013 included the aforementioned losses from cross-currency basis swaps and net losses related to the buyback of debt as well as a decline in revenues to CHF 22 million from CHF 245 million in the repurchase agreement unit, which was transferred from the Investment Bank to Corporate Center – Core Functions in 2013 and for which prior period information was restated. Whereas restated results reflected no allocation of revenues from the repurchase agreement unit to the business divisions, from 2013 onwards revenues from this unit are allocated to the business divisions, mainly to Wealth Management. 2013 also included CHF 206 million lower realized gains on sales of financial investments held in the available-for-sale portfolio which was transferred from Wealth Management Americas to Group Treasury during 2013.

➔ **Refer to the "Treasury management" section of this report for more information on funding costs**

We recorded an own credit loss on financial liabilities designated at fair value of CHF 283 million, primarily due to tightening of our funding spreads. The prior year included an own credit loss of CHF 2,202 million when our funding spreads tightened significantly.

Operating income excluding own credit and treasury income was CHF 178 million, largely due to gains on sales of real estate of CHF 288 million, partly offset by CHF 102 million in net funding costs related to the goodwill and intangible assets that arose from the PaineWebber acquisition which are retained in Corporate Center – Core Functions with effect from 1 January 2013. In 2012, income related to other items was negative CHF 175 million, mainly due to charges related to our multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury and charges for certain provisions for litigation, regulatory and similar matters which were recorded within other income, partly offset by gains on sales of real estate of CHF 112 million.

Operating expenses before service allocations

On a gross basis, before service allocations to the business divisions and Corporate Center – Non-core and Legacy Portfolio, total operating expenses decreased by CHF 769 million to CHF 9,291 million, including net restructuring charges of CHF 707 million compared with CHF 37 million in the prior year. The prior year included the positive effects from changes to our Swiss pension plan and our retiree benefit plans in the US of CHF 276 million and CHF 16 million, respectively. Adjusted for these items, operating expenses before allocations to the business divisions and Non-core and Legacy Portfolio were CHF 8,584 million compared with CHF 10,315 million in the prior year. This decrease of CHF 1,731 million was mainly due to CHF 1,283 million lower charges for provisions for litigation, regulatory and similar matters, our ongoing cost reduction programs and lower marketing costs.

Personnel expenses increased by CHF 89 million to CHF 4,199 million. Adjusted for net restructuring charges of CHF 129 million compared with CHF 24 million in 2012, as well as the abovementioned positive effects from changes to our Swiss pension plan and our retiree benefit plans in the US, personnel expenses were CHF 4,070 million in 2013 compared with CHF 4,378 million in the prior year. This decrease of CHF 308 million was mainly due to further headcount reductions related to our ongoing cost reduction programs.

General and administrative expenses decreased by CHF 975 million to CHF 4,327 million. On an adjusted basis, excluding net restructuring charges of CHF 513 million in 2013 and restructuring releases of CHF 1 million in 2012, general and administrative expenses decreased by CHF 1,489 million, mainly due to CHF 1,283 million lower charges for provisions for litigation, regulatory and similar matters and lower marketing costs.

Depreciation and impairment of property and equipment increased to CHF 761 million from CHF 647 million, mainly due to real estate-related restructuring charges of CHF 65 million compared with CHF 14 million as well as higher amortization and an impairment of capitalized software.

The business divisions and Non-core and Legacy Portfolio were charged CHF 8,444 million for shared services costs, an increase of CHF 392 million, mainly related to higher restructuring charges, partly offset by lower cost allocations following reduced personnel expenses incurred.

Operating expenses after service allocations

Total operating expenses remaining after allocations to the business divisions and Non-core and Legacy Portfolio decreased to CHF 847 million from CHF 2,008 million. This decrease of CHF 1,161 million was mainly due to CHF 1,283 million lower charges for provisions for litigation, regulatory and similar matters.

Operating expenses remaining in Corporate Center – Core Functions are related to Group governance functions and other corporate activities.

Risk-weighted assets

Fully applied risk-weighted assets (RWA) were CHF 21 billion as of 31 December 2013, CHF 5 billion higher than at the end of the prior year, mainly due to incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

➔ **Refer to the "Capital management" section of this report for more information**

Personnel

As of 31 December 2013, Corporate Center – Core Functions employed 23,860 personnel compared with 25,351 as of 31 December 2012. This decrease of 1,491 personnel was mainly related to our ongoing cost reduction programs. As of 31 December 2013, 22,804 personnel were allocated to the business divisions as well as Non-core and Legacy Portfolio, based on services consumed. The 1,055 personnel remaining in Corporate Center – Core Functions after allocations were related to Group governance functions and other corporate activities.

2012 compared with 2011

Results

Corporate Center – Core Functions recorded a loss before tax of CHF 3,698 million in 2012 compared with profit before tax of CHF 1,562 million in 2011. 2012 included charges for provisions for litigation, regulatory and similar matters of CHF 1,470 million, mainly arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates, as well as an own credit loss of CHF 2,202 million. Treasury income remaining in Corporate Center – Core Functions was CHF 688 million.

Operating income

Total operating income was negative CHF 1,689 million, mainly due to an own credit loss on financial liabilities designated at fair value of CHF 2,202 million and negative income related to other items of CHF 175 million, partly offset by treasury income remaining in Corporate Center – Core Functions of CHF 688 million. Total operating income in 2011 was CHF 1,931 million.

Treasury income remaining in Corporate Center – Core Functions, after allocations to the business divisions, was CHF 688 million. 2012 included revenues of CHF 245 million in the repurchase agreement unit, which was transferred from the Investment Bank to Corporate Center – Core Functions in 2013 and for which prior period information was restated, realized gains of CHF 219 million on sales of financial investments held in the available-for-sale portfolio and gains of CHF 152 million related to our macro cash flow hedge models.

Compared with the prior year, treasury income remaining in Corporate Center – Core Functions increased to CHF 688 million from CHF 386 million. This increase was mainly due to gains of CHF 152 million related to our macro cash flow hedge models compared with losses of CHF 52 million and increased realized gains of CHF 219 million on sales of financial investments held in the available-for-sale portfolio compared with CHF 81 million.

In 2012, we recorded an own credit loss on financial liabilities designated at fair value of CHF 2,202 million, primarily due to tightening of our funding spreads. 2011 included an own credit gain on financial liabilities of CHF 1,537 million.

Operating income excluding own credit and treasury income was negative CHF 175 million in 2012, mainly due to charges of CHF 196 million related to our multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury and charges for provisions for litigation, regulatory and similar matters which were recorded as other income. These negative effects were partly offset by gains on sales of real estate of CHF 112 million. Compared with the prior year, income related to other items decreased to negative CHF 175 million from positive CHF 8 million, mainly due to the abovementioned charges related to our multi-currency portfolio of unencumbered, high-quality, short-term assets and higher charges for provisions for litigation, regulatory and similar matters.

Operating expenses before service allocations

On a gross basis, before service allocations to the business divisions and Corporate Center – Non-core and Legacy Portfolio, total operating expenses increased by CHF 1,063 million to CHF 10,060 million in 2012. Adjusted for restructuring charges of CHF 37 million in 2012 and CHF 185 million in 2011, as well as the positive effect in 2012 of the changes to our Swiss pension plan and our retiree benefit plans in the US of CHF 276 million and CHF 16 million, respectively, operating expenses before allocations to the business divisions and Non-core and Legacy Portfolio were CHF

10,315 million compared with CHF 8,812 million in the prior year. This increase of CHF 1,503 million was mainly due to CHF 1,417 million higher charges for provisions for litigation, regulatory and similar matters, increased business demand for information technology infrastructure services as well as higher marketing costs. These increases were partly offset by reduced personnel expenses associated with our ongoing cost reduction programs.

Personnel expenses decreased by CHF 548 million to CHF 4,110 million. On an adjusted basis, excluding restructuring charges of CHF 24 million in 2012 and CHF 66 million in 2011, as well as the positive effect in 2012 of the changes to our Swiss pension plan and our retiree benefit plans in the US of CHF 276 million and CHF 16 million, respectively, personnel expenses were CHF 4,378 million in 2012 compared with CHF 4,592 million in the prior year. This decrease of CHF 214 million was mainly due to reduced personnel expenses associated with our ongoing cost reduction programs, a one-time net credit from changes to the rules for the Swiss long-service and sabbatical awards announced in the third quarter of 2012, as well as the effect related to the capitalization of internally generated software in 2012.

General and administrative expenses increased by CHF 1,694 million to CHF 5,302 million. Adjusted for net restructuring releases of CHF 1 million in 2012 and net restructuring charges of CHF 94 million in 2011, general and administrative expenses increased by CHF 1,789 million, mainly due to CHF 1,417 million higher charges for provisions for litigation, regulatory and similar matters largely arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. Further, 2012 included higher marketing costs and increased business demand for information technology infrastructure services, partly offset by the effect of the capitalization of internally generated software.

Depreciation and impairment of property and equipment decreased to CHF 647 million from CHF 731 million, mainly due to lower restructuring charges and amortization of software costs in 2011.

The business divisions and Non-core and Legacy Portfolio were charged CHF 8,052 million for shared services costs, a decrease of CHF 576 million, primarily reflecting the aforementioned decrease in personnel expenses.

Operating expenses after service allocations

Total operating expenses remaining after allocations to the business divisions and Non-core and Legacy Portfolio increased to CHF 2,008 million from CHF 369 million. This mainly reflects CHF 1,417 million higher charges for provisions for litigation, regulatory and similar matters as well as CHF 65 million higher marketing costs in relation to our 150th anniversary, including expenses related to the education initiative we launched to mark the occasion in 2012.

Personnel

As of 31 December 2012, Corporate Center – Core Functions employed 25,351 personnel, compared with 26,374 as of 31 December 2011. This decrease of 1,023 personnel was mainly related to our ongoing cost reduction programs. As of 31 December 2012, 24,863 personnel were allocated to the business divisions as well as Non-core and Legacy Portfolio, based on services consumed. The 488 personnel remaining in Corporate Center – Core Functions after allocations were related to Group governance functions and other corporate activities.

Corporate Center – Non-core and Legacy Portfolio

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 2,312 million in 2013 compared with a loss of CHF 3,764 million in the prior year. The 2013 loss was mainly due to total operating expenses of CHF 2,660 million which included charges of CHF 1,320 million for provisions for litigation, regulatory and similar matters. Operating income was CHF 347 million, mainly due to gains from the revaluation of our option to acquire the SNB StabFund's equity, prior to our exercise of the option. Fully applied risk-weighted assets (RWA) decreased by CHF 39 billion to CHF 64 billion.

Corporate Center reporting – Non-core and Legacy Portfolio[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.12
Non-core	**(50)**	1,135	928	
Legacy Portfolio	**394**	381	(642)	3
of which: SNB StabFund option	***412***	*539*	*(126)*	*(24)*
Income	**344**	1,516	286	(77)
Credit loss (expense) / recovery[2]	**3**	(78)	22	
Total operating income	**347**	1,439	309	(76)
Personnel expenses	**515**	628	706	(18)
General and administrative expenses	**2,022**	1,141	486	77
Services (to) / from other business divisions	**65**	335	503	(81)
Depreciation and impairment of property and equipment	**55**	41	43	34
Impairment of goodwill	**0**	3,030	0	(100)
Amortization and impairment of intangible assets	**3**	28	19	(89)
Total operating expenses[3]	**2,660**	5,202	1,756	(49)
Operating profit / (loss) before tax	**(2,312)**	(3,764)	(1,448)	(39)
Additional information				
Average attributed equity (CHF billion)[4]	**10.8**	16.5		(35)
Total assets (CHF billion)[5]	**210.5**	428.6	524.8	(51)
Risk-weighted assets (phase-in, CHF billion)[6]	**63.5**	102.5		(38)
Risk-weighted assets (fully applied, CHF billion)[6]	**63.5**	102.5		(38)
Swiss SRB leverage ratio denominator (phase-in, CHF billion)[7]	**160.0**			
Personnel after allocations (full-time equivalents)	**1,585**	2,304	2,440	(31)

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes and restatements due to retrospective adoption of new accounting standards. 2 Includes credit loss (expense) / recovery on reclassified and acquired securities. 3 Refer to "Note 32 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 Refer to the "Capital management" section of this report for more information on the equity attribution framework. 5 Based on third-party view, i.e., without intercompany balances. Refer to "Note 2 Segment reporting" in the "Financial information" section of this report for more information. 6 Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 7 The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Data as of 31 December 2012 are not available on a reporting segment level due to organizational changes. Refer to the "Capital management" section of this report for more information.

2013 compared with 2012

Operating income by business unit

Non-core

Total income was negative CHF 50 million in 2013, mainly due to a negative debit valuation adjustment of CHF 99 million, partly offset by slightly positive revenues in rates of CHF 17 million and credit of CHF 15 million. These modestly positive revenues demonstrate that significant reductions in RWA and balance sheet assets, as well as operational complexity, following the accelerated implementation of our strategy, were achieved at negligible cost.

In the prior year, Non-core revenues were positive CHF 1,135 million as, during 2012, the portfolios were actively traded and benefited from increased liquidity, with strong two-way client flow that resulted in higher revenues.

Legacy Portfolio

Total income was CHF 394 million in 2013. We exercised our option to acquire the SNB StabFund's equity and recorded total option revaluation gains of CHF 431 million prior to the exercise, partly offset by a reduction in trading revenues due to an interest charge of CHF 34 million relating to tax obligations of the SNB StabFund.

Legacy Portfolio income excluding the SNB StabFund option was negative CHF 18 million, mainly due to mark-to-market losses of CHF 122 million in the municipal portfolios, partly offset by gains of CHF 84 million from reference-linked note portfolios.

Compared with the prior year, income in the Legacy Portfolio increased to CHF 394 million from CHF 381 million, mainly as 2012 included losses on collateralized debt obligations (CDO) and related hedging swaps of CHF 171 million as we exited certain CDO positions to reduce RWA. In 2012, we recorded gains of CHF 526 million on the revaluation of our option to acquire the SNB StabFund's equity.

Credit loss expense / recovery

In 2013, we recorded credit loss recoveries of CHF 3 million, mainly in the Legacy Portfolio, due to sales and redemptions of student loan auction rate securities impaired in prior periods. Net credit loss expenses were CHF 78 million in 2012, which mainly reflected an impairment charge related to certain student loan auction rate securities, subsequently sold to reduce RWA.

Operating expenses

Total operating expenses decreased to CHF 2,660 million from CHF 5,202 million in the prior year.

Personnel expenses declined by CHF 113 million to CHF 515 million, mainly due to a decrease in front office personnel following the accelerated implementation of our strategy and headcount reductions related to our ongoing cost reduction programs, as well as restructuring charges of CHF 35 million in 2013 compared with CHF 58 million in the prior year.

General and administrative expenses increased by CHF 881 million to CHF 2,022 million, largely due to charges for provisions for litigation, regulatory and similar matters of CHF 1,320 million compared with CHF 634 million, restructuring charges of CHF 173 million compared with zero, as well as an impairment charge of CHF 87 million related to certain disputed receivables.

Charges for services from other business divisions decreased by CHF 270 million to CHF 65 million, mainly as a result of reduced consumption of shared services.

Depreciation and impairment of property and equipment increased to CHF 55 million from CHF 41 million, mainly due to restructuring charges of CHF 26 million compared with zero in the prior year.

An impairment of goodwill of CHF 3,030 million was recognized in 2012.

➔ Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information

Risk-weighted assets

Fully applied RWA for Corporate Center – Non-core and Legacy Portfolio decreased by CHF 39 billion to CHF 64 billion, significantly below our year-end 2013 target of CHF 85 billion.

Non-core RWA decreased by CHF 32 billion to CHF 33 billion as a result of continued activity targeted at reducing the number of outstanding over-the-counter derivative transactions by means of negotiated bilateral settlements with specific counterparties, third-party novations or trade compressions. These reductions were partly offset by the effect of the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

Legacy Portfolio RWA decreased by CHF 7 billion to CHF 31 billion, mainly due to sales and redemptions of student loan auction rate securities and sales of bonds within the reference-linked notes portfolios. These reductions were partly offset by the effect of the supplemental operational risk capital analysis referred to above.

➔ Refer to the "Risk management and control" and "Capital management" sections of this report for more information

Balance sheet assets

Balance sheet assets decreased 51% to CHF 211 billion as of 31 December 2013 from CHF 429 billion as of 31 December 2012. This decrease was mainly due to a CHF 170 billion reduction in positive replacement values, largely in Non-core, primarily as a result of significant ongoing unwind, novation and compression activity during 2013. Funded assets decreased by CHF 39 billion, mainly as a result of exiting government and other liquid bond positions along with the sale of distressed assets in Non-core, as well as sales and redemptions of student loan auction rate securities in the Legacy Portfolio.

➔ Refer to the "Balance sheet" section of this report for more information

➔ Refer to "Corporate Center – Non-core and Legacy Portfolio" in the "Risk management and control" section of this report for more information

Personnel

As of 31 December 2013, a total of 1,585 personnel were employed within Non-core and Legacy Portfolio compared with 2,304 as of 31 December 2012. Front office personnel decreased to 222 from 541 and personnel allocated from centralized shared services units decreased by 400 to 1,363.

2012 compared with 2011

We do not provide a full comparison of 2012 performance versus 2011 as the restated information for both years is not representative of the way the business was managed during those years and as such is an estimate of such periods' performance. Amounts were determined reflecting a number of assumptions and allocations in order to achieve comparability with how the business would be managed in the future.

Results

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 3,764 million in 2012 compared with CHF 1,448 million in 2011. The 2012 loss was mainly due to total operating expenses of CHF 5,202 million, mainly related to an impairment of goodwill and other non-financial assets of CHF 3,064 million as well as charges of CHF 634 million for provisions for litigation, regulatory and similar matters. Operating income was CHF 1,439 million, mainly due to revenues of CHF 1,135 million in Non-core and gains of CHF 526 million from the revaluation of our option to acquire the SNB StabFund's equity. Fully applied RWA were CHF 103 billion as of 31 December 2012 on a pro-forma basis.

Operating income by business unit

Non-core

Total income was CHF 1,135 million in 2012 as rates and credit portfolios, which were part of the Investment Bank prior to the accelerated implementation of our strategy, were actively traded and benefited from increased liquidity, with strong two-way client flow. Compared with 2011, income in Non-core increased to CHF 1,135 million from CHF 928 million as a result of improved performance in credit with revenues of CHF 671 million compared with CHF 308 million in the prior year.

Legacy Portfolio

Total income was CHF 381 million in 2012. The revaluation of our option to acquire the SNB StabFund's equity resulted in a gain of CHF 526 million.

Legacy Portfolio income excluding the SNB StabFund option was negative CHF 158 million. 2012 included losses of CHF 171 million on CDO and related hedging swaps which we exited in order to reduce RWA.

Compared with the prior year, income in the Legacy Portfolio increased to CHF 381 million from negative CHF 642 million, mainly due to gains of CHF 526 million from the revaluation of our option to acquire the SNB StabFund's equity in 2012 compared with losses of CHF 133 million in 2011. Additionally, 2011 included a loss of CHF 284 million related to credit valuation adjustments for monoline credit protection.

Credit loss expense / recovery

In 2012, we incurred credit loss expenses of CHF 78 million, mainly in the Legacy Portfolio, reflecting an impairment charge related to certain student loan auction rate securities, subsequently sold to reduce RWA.

Operating expenses

Total operating expenses increased to CHF 5,202 million from CHF 1,756 million in 2011.

Personnel expenses decreased by CHF 78 million to CHF 628 million, mainly due to a decrease in front office personnel following the accelerated implementation of our strategy and headcount reductions related to our cost reduction programs.

General and administrative expenses increased by CHF 655 million to CHF 1,141 million, largely due to CHF 607 million higher charges for provisions for litigation, regulatory and similar matters and increased professional fees.

Charges for services from other business divisions decreased by CHF 168 million to CHF 335 million, mainly as a result of reduced consumption of shared services.

An impairment of goodwill of CHF 3,030 million was recognized in 2012.

➔ Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information

Risk, treasury and capital management

Audited information according to IFRS 7 and IAS 1

Risk and capital disclosures provided in line with the requirements of International Financial Reporting Standard 7 (IFRS 7) *Financial Instruments: Disclosures,* and International Accounting Standard 1 (IAS 1) *Financial Statements: Presentation* form part of the financial statements audited by our independent registered public accounting firm, Ernst & Young Ltd, Basel. Information that has been subject to audit is indicated by a bar stating "audited" within this section of the report and is considered part of the audited financial statements included in the "Financial information" section of this report.

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Implementation of the recommendations of the Enhanced Disclosure Task Force (EDTF)

In light of the recommendations of the EDTF, we have made significant enhancements to disclosures in this report, including making structural changes to this section and introducing a large number of both new and improved disclosures. Consistent with Recommendation 1 of the EDTF, where appropriate, we now present together those related risk disclosures we consider to be most relevant to a particular component of our business, including integrating certain disclosures previously presented separately within our Pillar 3 disclosures or our consolidated financial statements.

Consistent with our financial reporting and disclosure principles, we regard the enhancement of disclosures as an ongoing commitment and we expect to make further refinements to our disclosures in 2014 and beyond.

The index on the following pages summarizes our implementation of the 32 recommendations of the EDTF, including reference to related disclosures that support the objectives of each of these recommendations.

➔ **Refer to the “Significant accounting and financial reporting changes” section of this report for more information on enhancing our disclosures**

➔ **Refer to “Information policy” in the “Corporate governance, responsibility and compensation” section of this report for more information on our financial disclosure principles**

General

1 Presentation of related risk information

Wherever possible, our risk information is disclosed primarily in the "Risk, treasury and capital management" section with related risk information presented together, as explained in the "Significant accounting and financial reporting changes" section. Information on the following pages summarizes where key disclosures relating to the recommendations of the EDTF can be found.

2 Risk terminology

Our "Risk categories" disclosure within the "Risk management and control" section presents our definitions for all risk types, including information on our management and measurement of these risks. In addition, we provide explanations for the key parameters used in our risk measurement models in our "Credit risk" and "Market risk" disclosure in the "Risk management and control" section, as well as assumptions underlying our stress testing scenarios in our "Risk measurement" disclosure within the same section.

3 Top and emerging risks

Our "Top and emerging risks" disclosure within the "Risk management and control" section summarizes those risks that we consider to be "top and emerging," as contemplated by EDTF recommendations, in relation to our current business activities. Further information on each of these risks in the relevant other sections is indicated by reference. Investors should consider carefully all information set out in our "Risk factors" disclosure within the "Operating environment and strategy" section. Information on future accounting changes is included in "Note 1 Summary of significant accounting policies" in the "Financial information" section.

4 Regulatory ratio developments

We have provided extensive information on the key proposed regulatory ratios, (the leverage ratio, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR)), all of which are still subject to further amendments by the Swiss authorities. These ratios are described briefly in the "Regulatory and legal developments" and "Risk factors" sections. Detailed information, including pro-forma disclosure based on current Swiss Financial Market Supervisory Authority (FINMA) guidance where appropriate, is included in our "Swiss SRB leverage ratio" disclosure within the "Capital management" section for the leverage ratio and in our "Liquidity regulatory requirements" disclosure within the "Treasury management" section for the LCR and NSFR. In addition, our leverage ratio denominator is disclosed by business division in our "Overview of risks arising from our business activities" disclosure within the "Risk management and control" section and in our "Swiss SRB leverage ratio" disclosure in the "Capital management section," the key components of our pro-forma LCR and NSFR are summarized in our "Strategy and objectives" disclosure within the "Treasury management" section and an analysis of the liquidity asset buffer that supports our pro-forma LCR is disclosed in our "Liquidity management, contingency funding and stress testing" disclosure within the same section.

Risk governance and risk management strategies / business model

5 Risk management organization

Our "Risk governance" disclosure within the "Risk management and control" section summarizes our risk management organization and provides information on the risk management responsibilities for key roles, including the relevant responsibilities of the business divisions and the functions providing independent oversight.

6 Risk culture

Our "Risk principles and risk culture" disclosure within the "Risk management and control" section summarizes the tools we use to ensure that our desired risk culture is embedded within the organization, including our performance measurement and compensation framework, and provides information on developments during the year. Further information, including a related illustration of the determination of individual performance awards, is included in the "Corporate responsibility" and "Compensation" sections.

7 Business model
Our "Overview of risks arising from our business activities" and subsequent disclosure in the "Risk management and control" section provides extensive information on the key risks arising from our business model, on our risk appetite framework and on our management of these risks. The "Key risks, risk measures and performance by business division and Corporate Center" disclosure in the same section provides a summary of the key risks for each business division and the Corporate Center and relates these business activities to key financial risk measures – risk-weighted assets (RWA), the leverage ratio denominator, risk-based capital, average tangible attributed equity, total assets and adjusted performance before tax. Following information on our risk governance, we disclose our five risk management and control principles and detailed information on our risk appetite objectives covering capital, solvency, earnings, leverage ratio and liquidity.

8 Stress testing
We consider the use of stress testing within an established risk governance framework to be a more relevant risk management tool within a bank than the use of standardized regulatory capital calculations. Our "Stress testing" disclosure within the "Risk management and control" section provides information on our use of stress testing within our risk governance and capital framework, including detailed information on scenarios used and agreed with the regulators and the linkage of stress testing results to our risk appetite objectives. In addition, information on our use of stress testing for credit risk, market risk and liquidity and funding risk is included within our disclosures for each of these risk categories.

Capital adequacy and risk-weighted assets

9 Minimum capital requirements
Our "Swiss SRB Basel III capital information" disclosure within the "Capital management" section includes information on our capital requirements, comparison with available capital and information on capital ratios, together with narrative explanation. We compare our capital requirements under the Swiss SRB rules with those under BIS rules in our disclosure "Differences between Swiss SRB and BIS Basel III capital" within the same section. Information on the capital surcharge for our Swiss residential mortgage business is included in our "Capital requirements" disclosure in the "Capital management" section. Separately, our "Operational risk" disclosure within the "Risk management and control" section includes information on the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

10 Components of capital
Our "Eligible capital" disclosure within the "Capital management" section includes information on our common equity tier 1, tier 1 and tier 2 capital, a reconciliation of our IFRS equity to our Swiss SRB Basel III capital showing regulatory adjustments and a summary listing of our eligible capital instruments. The "Supplemental disclosures required under Basel III Pillar 3 regulations" section includes a balance sheet reconciliation showing the scope of regulatory consolidation.

11 Flow statement of capital
Our "Eligible capital" disclosure within the "Capital management" section includes a tabular flow statement of our Swiss SRB Basel III capital movement.

12 Strategic and capital planning
The sections "Our strategy" and "Capital management" provide information on our capital planning in the context of our strategy, including our current and target capital ratios and our plans for capital returns.

13 Risk-weighted assets and related business activities
Our "Risk-weighted assets" disclosure within the "Capital management" section includes information on our RWA and related capital requirements for each risk type, presented by business division and Corporate Center. This same information is also presented together with related underlying gross and net exposures in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section. More detailed information on the related business activities for market risk is presented in the linked "Market risk exposures arising from our business activities" disclosure within the "Risk management and control" section. Reflecting our focus on RWA and balance sheet reduction in Non-core and Legacy Portfolio, more detailed information on these RWA and balance sheet changes is disclosed in "Corporate Center – Non-core and Legacy Portfolio" within the same section.

14 Capital requirements for each risk type

The "Supplemental disclosures required under Basel III Pillar 3 regulations" section includes information on our RWA and related capital requirements for each risk type, together with related underlying gross and net exposures. Similar information is also presented by business division and Corporate Center in our "Risk-weighted assets" disclosure within the "Capital management" section. Detailed information on significant risk models used is included in "Credit risk," "Market risk" and "Operational risk" within the "Risk management and control" section.

15 Credit risk analysis

The "Supplemental disclosures required under Basel III Pillar 3 regulations" section includes disclosure of our regulatory net credit exposure by BIS asset class (exposure segment), linking probability of default and loss given default to RWA, using internal ratings grades based on a 14 point internal scale mapped to external ratings in our "Credit risk models" disclosure.

16 Flow statement of risk-weighted assets

Our "Risk-weighted assets" disclosure within the "Capital management" section includes a flow statement presenting our movement in RWA by key driver. Reflecting our focus on RWA and balance sheet reduction in Non-core and Legacy Portfolio, more detailed information on these RWA and balance sheet changes is disclosed in "Corporate Center – Non-core and Legacy Portfolio" within the "Risk management and control" section.

17 Credit risk model performance

Our "Credit risk models" disclosure within the "Risk management and control" section includes extensive information on the composition of our credit risk models, including backtesting of probability of default, loss given default and credit conversion factors as well as expected loss analysis.

Liquidity

18 Liquidity needs and reserves

In our "Liquidity and funding management" disclosure within the "Treasury management" section, our liquidity strategy is described in "Strategy and objectives" and our liquidity management is described in "Liquidity management, contingency funding and stress testing." This section also includes disclosure of the composition of the liquidity asset buffer that forms the basis for our pro-forma LCR disclosed in "Liquidity regulatory requirements," as well as a summary of the key changes in this liquidity asset buffer, together with the monthly average amount for the year and information on our liquidity stress testing. Our internal funding model is described in "Internal funding and funds transfer pricing" in the same section and limitations on use of funding reserves from a Group perspective are incorporated within the narrative and quantitative "Asset encumbrance" disclosure.

Funding

19 Encumbered and unencumbered assets

Our "Asset encumbrance" disclosure within the "Treasury management" section differentiates our on- and off-balance sheet assets between those available and those encumbered or otherwise not available to meet future funding and collateral needs, including the proportion of available assets by type. Further information on our sources and uses of off-balance sheet collateral is included in "Note 25 Restricted and transferred assets" in the "Financial information" section. Our "Credit ratings" disclosure within the "Treasury management" section includes information on our potential additional contractual obligations following credit rating downgrades.

20 Contractual maturity analysis

Our "Maturity analysis of assets and liabilities" disclosure within the "Treasury management" section provides an analysis of total assets, liabilities and off-balance sheet commitments by remaining contractual maturity. For risk management purposes we consider behavioral characteristics to adjust contractual maturities. The assumptions used to support these adjustments are described in the context of our stress testing in our "Liquidity management, contingency funding and stress testing" disclosure within the "Treasury management" section.

21 Funding strategy

In our "Liquidity and funding management" disclosure within the "Treasury management" section, our funding strategy is described in "Strategy and objectives." Our "Funding" disclosure within the same section has extensive information on our funding sources, including product and currency mix, as well as changes in sources of funding during the year and our management thereof. Further information on our stress testing and contingent funding sources is included in our "Liquidity management, contingency funding and stress testing" disclosure within the "Treasury management" section.

Market risk

22 Market risk linkage to the balance sheet

Our "Market risk exposures arising from our business activities" disclosure within the "Risk management and control" section shows the extent to which business activities in each of our business divisions and Corporate Center contribute to market risk. This disclosure table distinguishes balance sheet line items between market risk in the banking book and market risk in the trading book and provides a link to market risk RWA and total asset amounts disclosed in our "Overview of risks arising from our business activities" within the "Risk management and control" section. There are also linkages from this disclosure table to our disclosure of RWA for each risk type in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section and to the related table by business division and Corporate Center in our "Risk-weighted assets" disclosure within the "Capital management" section. Further information on value-at-risk and related market risk measures, including the derivation of market risk RWA follows from the disclosure table "Market risk exposures arising from our business activities" within the "Risk management and control" section.

23 Market risk analysis

Our disclosure table "Market risk exposures arising from our business activities" within the "Risk management and control" section presents trading and non-trading market risk factors relevant to our business activities. The subsequent pages provide both quantitative and qualitative information on each of these risk factors, including the derivation of market risk RWA for each risk category, risk sensitivities for banking book exposures and "Other market risk exposures" disclosure for own credit, equity investments, debt investments, pension risk and own share exposure.

24 Market risk measurement model performance

Our "Market risk" disclosure within the "Risk management and control" section includes extensive qualitative and quantitative information on each of our market risk measurement models including information on methodology, key assumptions, model limitations and changes and backtesting.

25 Other market risk management techniques

Our "Market risk stress loss" disclosure within the "Risk management and control" section provides information on our primary measure of stress loss for market risk – our liquidity adjusted stress framework. Further information on our broader stress testing framework and how this is incorporated within our risk appetite framework is included in our "Risk measurement" disclosure within the same section. In addition, our disclosure on market risk measurement models provides both qualitative and quantitative information on stressed value-at-risk, the incremental risk charge and the comprehensive risk measure.

Credit risk

26 Analysis of credit risk exposures
Our "Credit risk profile of the Group – IFRS view" disclosure within the "Risk management and control" section provides a summary for on- and off-balance sheet maximum exposure to credit risk, as well as information on collateral, credit enhancements, ratings, impaired assets and allowances. More detailed disclosures on the composition of our loan and over-the-counter (OTC) derivative portfolios at a business division or Corporate Center level follow, including information on loan type, loan-to-value, net exposure at default and counterparty geographical region and industry sector. Further information on our largest loan portfolio, being our mortgage loan portfolio in Switzerland, is also included. Our "Credit risk models" disclosure within the "Risk management and control" section includes information on stress testing.

27 Policies for impaired and non-performing loans
Our disclosure "Policies for past due, non-performing and impaired claims" within the "Risk management and control" section provides a summary of our policies, with further detail included in "Note 1 Summary of significant accounting policies" in the "Financial information" section.

28 Analysis of impaired and non-performing loans
Our disclosure "Development of individually impaired loans" within the "Risk management and control" section presents a reconciliation of impaired loans during the year. Further information on impaired and non-performing loans, as well as credit allowances, is also included in our "Credit risk profile of the Group – IFRS view" disclosure within the same section.

29 Counterparty credit risk from derivative transactions
Our disclosure on derivatives exposures is primarily in "Note 14 Derivative instruments and hedge accounting" and "Note 26 Offsetting financial assets and financial liabilities" in the "Financial information" section, with additional information, including our use of central counterparties, in our "Credit risk mitigation" disclosure within the "Risk management and control" section. The majority of our counterparty risk from OTC derivatives arises in the Investment Bank and Corporate Center – Non-core and Legacy Portfolio, on which further information is included in our "Traded products" disclosure within the "Risk management and control" section.

30 Credit risk mitigation
Our "Credit risk mitigation" disclosure within the "Risk management and control" section provides information on our use of collateral and credit hedging, including loan-to-value and other credit risk mitigation information. We also discuss in this section our approach to monitoring collateral concentrations in our lending portfolios secured by securities collateral.

Other risks

31 Other risks
Our "Risk categories" disclosure within the "Risk management and control" section presents our definitions for risk types to which we are exposed. This disclosure also provides information on our management and measurement of these risks including which function provides independent oversight and whether the risk is specifically included in the risk appetite framework. Further information is included within the relevant sections.

32 Publicly known risk events
Our disclosure in "Note 22 Provisions and contingent liabilities" in the "Financial information" section provides extensive information on those matters management considers to be material or considers otherwise significant due to potential financial, reputational or other effects. Our "Operational risk" disclosure includes information on the remediation program following the Investment Bank's unauthorized trading incident and our "Risk principles and risk culture" disclosure summarizes the tools we use to ensure that our desired risk culture is embedded within the organization.

Risk, treasury and capital management key developments

In line with our strategy, we actively managed down risks within Non-core and Legacy Portfolio, maintained a low level of market risk within our Investment Bank and experienced moderate increases in lending within our wealth management businesses. As our balance sheet assets have reduced, we have generated capacity within our liquidity and funding positions, enabling us to execute tender offers to repurchase certain outstanding long-term debt in 2013, which lowers our interest expense and allows us to optimize our funding liability structure for the future. Our strong capital position provides us with a solid foundation for growing our business and enhancing our competitive positioning. At the end of 2013, our common equity tier 1 (CET1) capital ratio was 18.5% on a phase-in basis and 12.8% on a fully applied basis, a significant increase compared with year-end 2012 pro-forma ratios and the highest in our peer group. At the same time, strengthening our operational control framework remained a primary focus, with substantial progress made in remediating identified operational risk issues.

Key developments in 2013 included the following.

Non-core and Legacy Portfolio

During 2013, we actively managed down risks within Non-core and Legacy Portfolio, exceeding our year-end targets for balance sheet and risk-weighted assets (RWA) reductions. We disposed of our more liquid cash and loan positions and sold a significant portion of the distressed portfolio and student loan auction rate securities, alongside the steady run-off of the Non-core loan book. Exposures to over-the-counter derivative contracts were reduced through negotiated bilateral settlements, portfolio compressions and negotiated assignments and novations. In the fourth quarter, we exercised our option to acquire the equity of the SNB StabFund from the Swiss National Bank. The fair value of the option was previously deducted from our CET1 capital and its exercise resulted in a CET1 capital increase of CHF 2.1 billion compared with our CET1 capital as of 31 December 2012. The additions to our RWA as a result of the exercise were de minimis.

➔ **Refer to "Corporate Center – Non-core and Legacy Portfolio" in the "Risk management and control" section of this report for more information**

Market risks

In line with our strategy, we maintained a low level of market risk in our trading businesses, with the risk profile of the Investment Bank reducing and migrating towards less complex and more client-oriented businesses. Average exposure levels of our stress loss and statistical (value-at-risk) measures roughly halved over the course of the year.

➔ **Refer to "Market risk" in the "Risk management and control" section of this report for more information**

Credit risks

Credit risk continues to account for the vast majority of Basel III RWA although our net credit loss expenses remained low, totaling CHF 50 million for the year. Our impaired loan portfolio decreased by CHF 0.4 billion to CHF 1.2 billion.

Our lending exposure arises mainly from our Swiss domestic business, which offers corporate loans and mortgage loans secured against residential properties and income-producing real estate, and is therefore tied to the health of the Swiss economy. Although these domestic lending portfolios continued to perform well and net credit loss expenses remain low, we are closely monitoring macroeconomic developments in our home market. These include signs of a deceleration in the growth in Swiss real estate prices in some regions, a rising trend in the UBS Swiss Real Estate Bubble Index, the Swiss National Bank's increase of the countercyclical capital buffer from 1% to 2% effective 30 June 2014, along with implications of any return of crisis conditions within the eurozone on export markets, and the potential implications of the recent decision to reinstate immigration quotas for European Union / European Economic Area countries.

In our wealth management businesses outside Switzerland, we experienced moderate increases in credit exposures in line with our strategy to grow our lending businesses. Within the Investment Bank, our credit exposure is predominantly investment grade, but includes loan underwriting characterized by concentrated exposure to lower-rated credits, albeit of a temporary nature. Distribution of these loans through syndication and securitization continued to be sound.

➔ **Refer to "Credit risk" in the "Risk management and control" section of this report for more information**

Treasury risk control framework

Our treasury risk control framework has been further developed and extended, providing holistic risk control for all treasury activities and non-traded market risk portfolios across the Group. Key enhancements during the year were the introduction of a centralized balance sheet simulation tool and additional monitoring of the effect of rising rates scenarios on our treasury portfolios. Our exposure to fair value losses on our *Financial investments available-for-sale* (AFS) portfolios as interest rates rise is limited as the interest rate risk of our largest AFS portfolio, our global liquidity reserve, is substantially hedged.

➔ Refer to the "Risk management and control" section of this report for more information

Consequential risks

Operational risk is an inevitable consequence of being in business and managing it is a core element of our business activities, implemented through our operational risk framework and an effective front-to-back control environment.

The impact of operational risk remains at elevated levels, including that arising from pending or potential litigation and regulatory risks as discussed in "Top and emerging risks" in the "Risk management and control" section of this report. Accordingly, strengthening our operational risk control framework remained a primary focus during 2013, with substantial progress made in implementing a range of measures to enhance the Group's risk management and control processes and drive the right behaviors to protect our reputation while delivering on our strategic goals.

A program of independent management testing for key procedural controls commenced in 2013, focused on areas deemed to have the highest levels of inherent risk. Any material control deficiencies identified are recorded in a central inventory, and assigned senior management ownership, which is reflected in the respective employees' annual performance measurement and management objectives, to ensure effective and sustainable remediation.

Significant progress was made on the remediation programs for operational risk issues, resulting in the completion of many remediation activities. In particular, the Investment Bank's unauthorized trading incident remediation program has been completed and this has further enhanced the Group's ability to detect or prevent such incidents. Independent third-party reviews have been completed with no material issues identified.

➔ Refer to "Operational risk" in the "Risk management and control" section of this report for more information

Risk appetite framework

In 2013, we updated our risk appetite objectives to align with the Swiss systemically relevant banks (SRB) Basel III capital and liquidity requirements that came into force on 1 January 2013. In addition, we further cascaded the risk appetite objectives into the divisions by establishing stress-based risk appetite triggers at business division level. The trigger levels were set based on forecasted risk exposure levels as embedded in our strategic plan.

➔ Refer to the "Risk management and control" section of this report for more information

Sources of funding

During 2013, the composition of our funding sources moved towards less reliance on wholesale funding. The implementation of our strategy has driven a reduction in secured funding needs, as well as lower issuances of short-term and structured debt and the repurchase of unsecured debt. At the same time, our Retail & Corporate and wealth management businesses continued to attract new customer deposits.

➔ Refer to the "Treasury management" section of this report for more information

Liquidity management

We continued to maintain a sound liquidity position throughout the year. As of 31 December 2013, our liquidity asset buffer, that is derived from high-quality liquid assets (HQLA) and supports our estimated pro-forma regulatory LCR, was CHF 153 billion, with additional available funding of CHF 54 billion. In aggregate, these sources of available liquidity represented 28% of our funded balance sheet assets.

➔ Refer to the "Treasury management" section of this report for more information

Capital management

During 2013, we managed our capital according to our capital ratio targets, making progress towards meeting the Swiss SRB Basel III fully applied capital requirements and achieving a CET1 capital ratio of 18.5% on a phase-in basis and 12.8% on a fully applied basis. We have a strong track record of RWA reduction, surpassing our 2013 Basel III RWA targets well ahead of schedule and demonstrating progress towards achieving our RWA target of less than CHF 200 billion by 2017 on a fully applied basis, despite the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

➔ Refer to the "Capital management" section of this report for more information

Risk management and control

Overview of risks arising from our business activities

Our business is constrained by the capital we have available to cover risk-weighted assets (RWA) resulting from the risks in our business, by the size of our on- and off-balance sheet assets through their contribution to leverage ratio requirements and regulatory liquidity ratios, and by our risk appetite. Together, these constraints create a close link between our strategy, the risks that our businesses take and the balance sheet and capital resources that we have available to absorb those risks.

As described in "Equity attribution framework" in the "Capital management" section of this report, our equity attribution framework reflects our objectives of maintaining a strong capital base and guiding businesses towards activities that appropriately balance profit potential, risk, balance sheet and capital usage. The framework establishes this link through the inclusion of phase-in Basel III RWA, Swiss SRB leverage ratio denominator (LRD) and risk-based capital (RBC), an internal measure of risk similar to economic capital, as three key drivers for the allocation of tangible equity to our business divisions. In addition to tangible equity, we allocate equity to support goodwill and intangible assets as well as certain capital deduction items to arrive at equity attributed to the business divisions and Corporate Center.

The table on the next page presents the linkage for each of our business divisions and Corporate Center between their risk exposures, the constraints described above and their performance. In addition to the key risks arising in each business division and Corporate Center, it presents together the key drivers of tangible attributed equity, being RWA, LRD and RBC, as well as tangible attributed equity, total assets and adjusted operating profit before tax. We present tangible attributed equity because we consider it to be more closely correlated with the risk measures applied. This enables an understanding of how the activities in our business divisions and Corporate Center are reflected in our risk measures and the performance of the business divisions and Corporate Center in the context of these requirements.

➔ **Refer to the "Capital management" section of this report for more information on RWA, LRD and our equity attribution framework**

➔ **Refer to "Statistical measures" in this section for more information on RBC**

➔ **Refer to the table "Adjusted results" in the "Group performance" section of this report for more information**

Key risks, risk measures and performance by business division and Corporate Center

Business divisions and Corporate Center	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio
Key risks arising from business activities	**Credit risk** from lending against securities collateral and mortgages, and a small amount of derivatives trading activity. Minimal contribution to market risk	**Credit risk** from lending against securities collateral and mortgages **Market risk** from municipal securities and closed-end fund secondary trading	**Credit risk** from retail, mortgage, secured and unsecured corporate lending, and a small amount of derivatives trading activity	Small amounts of credit and market risk	**Credit risk** from lending, derivatives trading and securities financing **Market risk** from trading in equities, fixed income, foreign exchange (FX) and commodities	**Credit** and **market risks** from Group Treasury's balance sheet, capital, and profit and loss management responsibilities **Liquidity, funding** and **structural FX risk** are managed centrally within Group Treasury	**Credit risk** from remaining lending and derivatives exposures **Market risk** is mainly from Non-core exposures, is materially hedged and primarily relates to liquid market factors

Operational risk is an inevitable consequence of being in business, as losses can result from inadequate or failed internal processes, people and systems, or from external events. It can arise as a result of our past and current business activities across all business divisions and Corporate Center

CHF billion	As of or for the year ended 31.12.13						
	Wealth Management	**Wealth Management Americas**	**Retail & Corporate**	**Global Asset Management**	**Investment Bank**	**CC – Core Functions**	**CC – Non-core and Legacy Portfolio**
Phase-in Basel III RWA	21.4	24.5	31.4	3.8	62.6	21.3	63.5
of which: credit risk	*11.9*	*8.1*	*29.9*	*2.7*	*35.5*	*4.8*	*31.3*
of which: market risk	*0.0*	*1.6*	*0.0*	*0.0*	*7.6*	*(4.9)*[1]	*9.4*
of which: operational risk	*9.2*	*14.8*	*1.4*	*1.1*	*19.4*	*9.2*	*22.8*
Swiss SRB leverage ratio denominator[2]	122.1	57.2	164.7	14.0	275.3	234.5	160.0
Risk-based capital	1.7	1.2	3.7	0.6	6.5	13.6	4.6
Average tangible attributed equity	2.7	2.2	4.1	0.5	7.9	8.7	10.8
Total assets	109.8	45.5	141.4	14.2	241.1	247.4	210.5
Operating profit / (loss) before tax (adjusted)	2.4	0.9	1.5	0.6	2.5	(1.6)	(2.1)

1 Negative market risk numbers are due to the diversification effect allocated to CC – Core Functions. 2 Swiss SRB leverage ratio denominator is the average for the fourth quarter of 2013.

Risk categories

We categorize the risks faced by our business divisions and Corporate Center as outlined in the table below.

Risk definitions

Audited

	Risk managed by	Independent oversight by	Captured in our risk appetite framework
Primary risks: the risks that our businesses may take in pursuit of their business objectives			
Credit risk: the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. This includes settlement risk and loan underwriting risk: *Settlement risk:* the risk of loss resulting from transactions involving exchange of value where we must fulfill our obligation to deliver without first being able to determine with certainty that we will receive the counter value *Loan underwriting risk:* the risk of loss arising during the holding period of financing transactions which are intended for further distribution	Business management	Risk Control	●
Market risk: the risk of loss resulting from changes in general market risk factors (e.g., interest rates, equity index levels, exchange rates, commodity prices and general credit spreads) and changes in prices of debt and equity instruments which result from factors and events specific to individual companies or entities. Market risk includes issuer risk and investment risk: *Issuer risk:* the risk of loss from changes in fair value resulting from credit-related events affecting an issuer or group of related issuers, including sovereigns, to which we are exposed through tradable securities or derivatives referencing the issuer *Investment risk:* issuer risk associated with positions held as financial investments	Business management	Risk Control	●
Country risk: the risk of losses resulting from country-specific events. It includes transfer risk, whereby a country's authorities prevent or restrict the payment of an obligation, as well as systemic risk events arising from country-specific political or macroeconomic developments	Business management	Risk Control	●
Consequential risks: the risks to which our businesses are exposed as a consequence of being in business			
Liquidity risk: the risk of being unable to generate sufficient funds from assets to meet payment obligations when they fall due, including in times of stress	Group Treasury	Risk Control	●
Funding risk: the risk of higher than expected funding costs due to higher than expected UBS credit spreads when existing funding positions mature and need to be rolled over, or replaced by other more expensive funding sources. If a shortage of available funding sources is expected in a stress event, funding risk also covers potential additional losses from forced asset sales			
Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes legal risk and compliance risk: *Legal risk:* the risk of (i) financial loss resulting from the non-enforceability of a contract, or (ii) loss due to UBS being held responsible for a contractual or legal claim, debt or legal action based on the breach or default of a contract, commitment of a tort, violation of law, infringement of trademarks or antitrust action *Compliance risk:* the financial or reputational risk incurred by UBS by not adhering to the applicable laws, rules and regulations, local and international best practice (including ethical standards) and UBS's own internal standards	Business management	Risk Control Legal Risk Control	●
Structural foreign exchange risk: the risk of decreases in our capital, due to changes in foreign exchange rates with an adverse translation effect on capital held in currencies other than CHF	Group Treasury	Risk Control	●
Pension risk: the risk of a negative impact on other comprehensive income as a result of deteriorating funded status from decreases in the fair value of assets held in the defined benefit pension funds and / or changes in the value of defined benefit pension obligations, due to changes in actuarial assumptions (e.g., discount rate, life expectancy, rate of pension increase) and / or changes to plan designs	Human Resources	Risk Control and Finance	●
Environmental and social risk: the possibility of UBS suffering reputational or financial harm from transactions, products, services or activities that involve a party associated with environmentally or socially sensitive activities ➔ **Refer to the "Corporate responsibility" section of this report for more information**	Business management	Risk Control	
Reputational risk: the risk of a decline in the reputation of UBS from the point of view of its stakeholders – customers, shareholders, staff and general public	All functions	Control functions	
Business risks: the risks arising from the commercial, strategic and economic environment in which our businesses operate			
Business risks: the potential negative impact on earnings from lower than expected business volumes and / or margins, to the extent not offset by a decrease in expenses	Business management	Finance	●

Top and emerging risks

Our approach to identifying and monitoring top and emerging risks is an ongoing part of our risk management framework. The top and emerging risks disclosed below reflect those risks that we currently consider have the potential for high impact on the Group and which could materialize within one year. Investors should also carefully consider all information set out in the "Risk factors" section of this report, where we discuss the top and emerging risks in more detail and where we also discuss other risks we currently consider material, which we are presently aware of and which may impact our ability to execute our strategy and affect our business activities, financial condition, results of operations and prospects.

Regulatory and legislative changes: We continue to be exposed to a number of regulatory and legislative changes, some of which have already been adopted and implemented, but some of which are subject to legislative action or to further rulemaking by regulatory authorities before final implementation. This results in uncertainty as to whether and in which form these regulatory and legislative changes will be adopted, the timing and content of implementing regulations and interpretations and/or the dates of their effectiveness. In addition, both adopted and proposed changes differ significantly across the major jurisdictions, making it increasingly difficult to manage a global institution and potentially putting us at a disadvantage to those peers operating in jurisdictions considered to be less stringent.

We have programs in place to address the risks arising from regulatory and legislative changes, including ongoing monitoring of proposals, providing guidance and feedback to the relevant authorities and developing internal assessment and implementation plans. During 2013, our more active programs included those relating to resolution planning and resolvability, new and revised capital-, liquidity- and funding-related ratios and the Minder Initiative. We have made good progress across all of these programs in preparing for their implementation, including announcing our intention to establish a new banking subsidiary of UBS AG in Switzerland. Our phase-in leverage ratio and pro-forma LCR and NSFR as of 31 December 2013 were 4.65%, 110%, and 109%, respectively and, based on our current understanding of the potential requirements, we expect to be in full compliance with all of these requirements when they become effective.

In addition, following discussions with FINMA, UBS has mutually agreed to an incremental operational risk capital requirement which had an unexpected significant effect on our RWA in 2013 that amounted to CHF 22.5 billion as of 31 December 2013. We continue to work closely with FINMA and other regulators to mitigate the risk of further additional capital requirements, as well as working to reduce the level of incremental operational risk-related RWA.

➔ **Refer to "Regulatory and legislative changes may adversely affect our business and ability to execute our strategic plans" in the "Risk factors" section of this report for more information**

➔ **Refer to the "Treasury management" section of this report for more information on the LCR and the NSFR**

➔ **Refer to the "Capital management" section of this report for more information on the leverage ratio**

➔ **Refer to the "Regulatory and legal developments" section of this report for more information on the Minder Initiative**

➔ **Refer to "Operational risk" in this section for more information on the incremental operational risk capital requirement**

Legal and regulatory risks: We are subject to a large number of claims, disputes, legal proceedings and government investigations and we anticipate that our ongoing business activities will continue to give rise to such matters in the future. We continue to work on enhancing our operational risk framework and our relationships with regulatory authorities and on resolving open matters in a manner most beneficial to our stakeholders. Information on those litigation, regulatory and similar matters currently considered by management as significant is disclosed in Note 22 of the "Financial information" section of this report. The extent of our financial exposure to these and other matters could be material and could substantially exceed the level of provisions that we have established, which was CHF 1.6 billion as of 31 December 2013. Considering our overall exposures and the current regulatory and political climate affecting financial institutions, we expect charges associated with these matters to remain at elevated levels through 2014.

➔ **Refer to "Material legal and regulatory risks arise in the conduct of our business" in the "Risk factors" section of this report for more information**

Market conditions and the macroeconomic climate: We are exposed to a number of macroeconomic issues as well as general market conditions. These external pressures may have a significant adverse effect on our business activities and related financial results, primarily through reduced margins, asset impairments and other valuation adjustments. Developments in the eurozone are currently considered by management to be of the greatest significance to us, due to the lackluster economic outlook, potential implications of the slowing of reforms, uncertainty regarding the outcome of the European Central Bank's comprehensive assessment and the potential disruption, in the event that one or more countries exit the euro. Our current exposures to select eurozone countries are disclosed in "Country risk." In addition, as our strategic plans depend more heavily upon our ability to generate growth and revenue in emerging markets particularly in Asia,

management is monitoring developments in this geographic sector very closely. These macroeconomic factors are considered in our development of stress testing scenarios for our ongoing risk management activities.

➔ **Refer to "Performance in the financial services industry is affected by market conditions and the macroeconomic climate" in the "Risk factors" section of this report for more information**
➔ **Refer to "Risk measurement" in this section for more information on macroeconomic considerations, including stress testing**

Execution of our strategy: In October 2012, we announced a significant acceleration in the implementation of our strategy to focus our activities on a set of highly synergistic, less capital- and balance sheet-intensive businesses dedicated to serving clients and well-positioned to maximize value for shareholders. During 2013, we made significant progress in implementing that strategy and are ahead of the majority of our performance targets, including improving our leading fully applied Basel III common equity tier 1 (CET1) ratio 300 basis points in the year to 12.8% and surpassing our fully applied RWA reduction target for the year. There continues to be a risk that we will not be successful in completing the execution of our plans, or that our plans may be delayed or that the effects of our plans may differ from those intended. This could lead to a reduction in the confidence of our stakeholders and challenges in meeting regulatory requirements in the future.

➔ **Refer to "We may not be successful in completing our announced strategic plans or in implementing changes in our businesses to meet changing market, regulatory and other conditions" in the "Risk factors" section of this report for more information**
➔ **Refer to "Regulatory and legislative changes may adversely affect our business and ability to execute our strategic plans" in the "Risk factors" section of this report for more information**
➔ **Refer to "We hold legacy and other risk positions that may be adversely affected by conditions in the financial markets; legacy risk positions may be difficult to liquidate" in the "Risk factors" section of this report for more information**
➔ **Refer to "We might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees" in the "Risk factors" section of this report for more information**
➔ **Refer to the "Our strategy" section of this report for more information on our strategy**

Reputational risk: Our reputation is critical to achieving our strategic goals and financial targets and damage to our reputation can have fundamental negative effects on our business and prospects. This has been emphasized for us in recent years following events such as the LIBOR matter and the unauthorized trading incident and has triggered an enhanced focus on sustaining a strong risk culture across the Group.

➔ **Refer to "Our reputation is critical to the success of our business" in the "Risk factors" section of this report for more information**
➔ **Refer to "Risk culture" in this section for more information**

Other operational risks: Due to the operational complexity of all our businesses, we are continually exposed to operational risks such as process error, failed execution and fraud. We believe we have a strong operational risk management framework in place to help ensure that these risks are appropriately controlled, which has been significantly enhanced following the unauthorized trading incident in 2011. In view of the changing nature of operational risks and the environment within which we operate, we continuously review our associated control frameworks to allow us to make enhancements where necessary. In this regard, key compliance risk focus areas for 2014 will include conduct risk and other areas where we see evolving inherent risk considerations or regulatory landscape, such as suitability, conflicts of interest, anti-money laundering and corruption. Additionally, the increasingly complex threat of cyber-attacks and cyber-criminal activity facing the financial services industry is evolving and we have initiated multiple security programs to address this threat.

➔ **Refer to "Operational risks may affect our business" in the "Risk factors" section of this report for more information**
➔ **Refer to "Operational risk" in this section for more information on our management of operational risk**

Risk governance

Our risk governance framework operates along three lines of defense: business management, who own their risk exposures, control functions, which provide independent oversight of risks, and Group Internal Audit, which evaluates the overall effectiveness of the control environment.

These key roles and responsibilities for risk management and control are illustrated in the following chart and described below.

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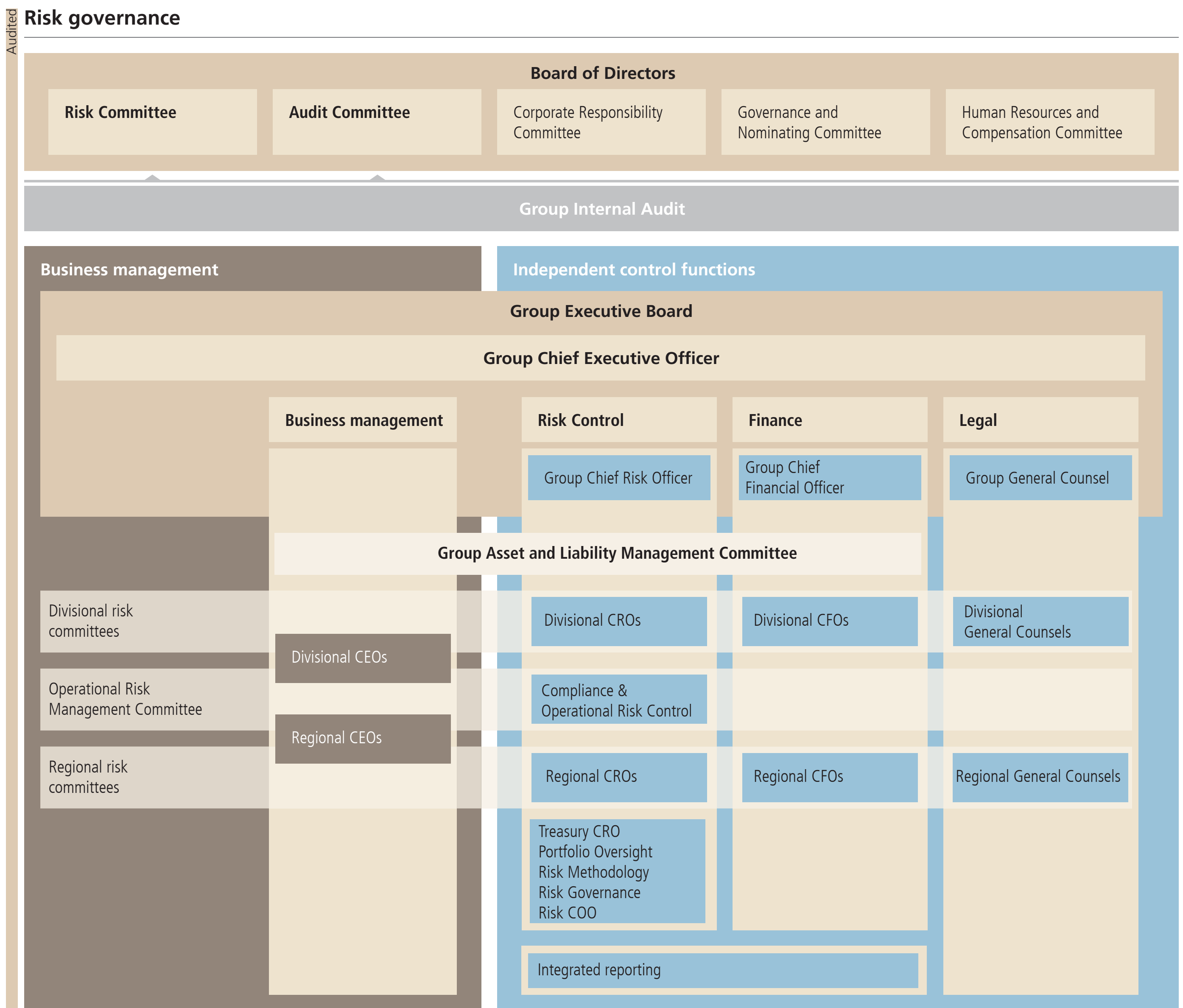
Risk governance



Audited

The *Board of Directors* (BoD) is responsible for determining the Group's risk principles, risk appetite and major portfolio limits, including their allocation to the business divisions and Corporate Center. The risk assessment and management oversight performed by the BoD considers evolving best practices and is intended to conform to statutory requirements. The BoD has a Risk Committee, which monitors and oversees the Group's risk profile and the implementation of the risk framework as approved by the BoD, as well as assessing and approving the Group's key risk measurement methodologies. The Risk Committee, in conjunction with the Chairman of the BoD and the Audit Committee, oversees the performance of Group Internal Audit.

The *Group Chief Executive Officer* (Group CEO) is responsible for the results of the Group, has risk authority over transactions, positions and exposures, and also allocates portfolio limits approved by the BoD within the business divisions and Corporate Center.

The *Group Executive Board* (GEB) implements the risk framework, controls the Group's risk profile and approves key risk policies.

Business management comprises divisional and regional Chief Executive Officers. The *divisional Chief Executive Officers* are accountable for the results of their business divisions. This includes actively managing their risk exposures and ensuring profit potential, risk, balance sheet and capital usage are balanced. The *regional Chief Executive Officers* coordinate and implement UBS's strategy in their region, jointly with the divisional CEOs and heads of the control and support functions. They have a veto power over decisions in respect to all business activities that may have a negative regulatory or reputational impact in their respective regions.

The *Group Chief Risk Officer* (Group CRO) reports directly to the Group CEO and has functional and management authority over Risk Control (including compliance) throughout the Group. Risk Control provides independent oversight of all primary and certain consequential risks as outlined in "Risk categories." This includes establishing methodologies to measure and assess risk, setting risk limits, and developing and operating an appropriate risk control infrastructure. The risk control process is supported by a framework of policies and approval authorities. *Divisional and regional Chief Risk Officers* have delegated authority for their respective divisions and regions. Further, authorities are delegated to risk officers according to their expertise, experience and responsibilities.

Audited

The *Group Chief Financial Officer* (Group CFO) is responsible for ensuring that disclosure of our financial performance meets regulatory requirements and corporate governance standards as well as being leading practice in clarity and transparency. The Group CFO is also responsible for the management of UBS's tax affairs, treasury and capital, including management of funding and liquidity risk and UBS's regulatory capital ratios. Responsibility for implementation of the control framework for tax and funding risks resides with the Group CFO whereas responsibility for implementation of the control framework for treasury activities is with Risk Control.

The *Group General Counsel* (Group GC) is responsible for implementing the Group's risk management and control principles for legal matters, and for managing the legal function for the UBS Group. The Group GC is responsible for reporting legal risks and material litigation, and for managing legal, internal, special and regulatory investigations.

Group Internal Audit (GIA) independently, objectively and systematically assesses the adherence to our strategy, the effectiveness of governance, risk management and control processes at Group, divisional and regional levels, including compliance with legal, regulatory and statutory requirements, as well as with internal policies and contracts. GIA has a functional reporting line to the Risk Committee and the Audit Committee.

Risk appetite framework

Our risk appetite framework contains both qualitative and quantitative risk appetite statements. The qualitative risk appetite statements comprise the risk management and control principles and various policies and initiatives that ensure we maintain the desired risk culture. The quantitative statements aim to ensure the Group's resilience against the impact of potential severe adverse economic or geopolitical events, by setting objectives for the level of capital, earnings and liquidity that we seek to maintain even after experiencing severe losses over a defined time horizon. The framework is comprehensive in aggregating all material risks across the Group. The combination of the qualitative and quantitative risk appetite statements aims to protect our businesses and reputation in both normal and stressed environments.

Audited

Risk management and control principles

Protection of financial strength	Protection of reputation	Business management accountability	Independent controls	Risk disclosure
Protecting the financial strength of UBS by controlling our risk exposures and avoiding potential risk concentrations at individual exposure levels, at specific portfolio levels and at an aggregate firm-wide level across all risk types	Protecting our reputation through a sound risk culture characterized by a holistic and integrated view of risk, performance and reward, and through full compliance with our standards and principles, particularly our Code of Business Conduct and Ethics	Ensuring management accountability, whereby business management, as opposed to Risk Control, owns all risks assumed throughout the firm and is responsible for the continuous and active management of all risk exposures to ensure that risk and return are balanced	Independent control functions which monitor the effectiveness of the business's risk management and oversee risk-taking activities	Disclosure of risks to senior management, the Board of Directors, shareholders, regulators, rating agencies and other stakeholders with an appropriate level of comprehensiveness and transparency

Risk principles and risk culture

A strong and dynamic culture is a prerequisite for success in today's highly complex operating environment. We are focused on fostering and further developing our cultural strength and ensuring it is a competitive advantage both from a risk and a performance point of view. Our efforts are underpinned by our shared belief that how we deliver results is as important as the results themselves.

In 2013, the Group Executive Board (GEB) led a global initiative to foster the strong aspects of the Group's culture and evolve them further, building on our strategic pillars – capital strength, efficiency and effectiveness, and risk management – and our principles: excellence, client focus and sustainable performance. We began a program to raise awareness and further embed the standards of behavior we ask of our employees at every level of the Group. Each employee is accountable for ensuring these behaviors are integrated into every aspect of their daily work. To reflect the importance we attach to this, we incorporated assessment of adherence to these standards in our performance measurement and compensation framework for 2013.

Our performance measurement and management process requires that all employees have risk objectives aligned to their roles and responsibilities. Our employees know that rigorous risk management plays an essential role in our efforts to deliver the best possible client experience and achieve our business objectives. In short, everyone at UBS is responsible for anticipating, addressing and managing risks. We encourage our employees to provide candid, constructive and actionable feedback. To that end, in 2013, we enhanced our process by making such feedback anonymous. The performance measurement and management process links into the Group's compensation framework.

Our compensation philosophy is to provide our employees with compensation that recognizes their individual contributions and clearly links their pay to performance – not simply the delivery of business targets, but also how those results were achieved. As explained in more detail in the "Compensation" section of this report, the performance of GEB members includes both quantitative and qualitative factors, with the latter contributing 35% to their overall compensation decision. Qualitative factors include reinforcing a culture of accountability and responsibility, demonstrating commitment to being a responsible corporate citizen and acting with integrity in all interactions with our stakeholders.

The "Compensation" section of this report explains how the compensation of each employee is based on the individual's contribution (absolute and relative) and shows how the individual's contribution to promoting our principles and standards of behaviors is factored into the compensation process. The process includes an examination of the individual's efforts to actively manage risk, striking an appropriate balance between risk and reward, and to what extent the individual exhibited professional and ethical behavior. Forfeiture provisions enable the firm to forfeit some, or all, of any unvested deferred portion of compensation if an employee commits certain harmful acts.

In addition, we have a range of policies and initiatives in place to embed the desired risk culture within the Group, covering employees at all levels. These policies and initiatives include the following.

Code of Business Conduct and Ethics

This Code enshrines the principles and practices that all of our employees and Board members are required to follow unreservedly, both in letter and in spirit, supported by an annual adherence certification process. Included in the Code are requirements covering laws, rules and regulations, ethical and responsible behavior, information management, the work environment, social responsibility and disciplinary measures.

Whistleblowing

Our Whistleblowing policy provides a formal framework and independent channel for employees to raise concerns about suspected breaches of the Group's laws, regulations, policies, procedures or other matters including those covered by our Code of Business Conduct and Ethics. In recognition of the importance for a strong and successful business of enabling employees to speak up and constructively challenge others, in 2013 our Chairman and Group CEO promoted an awareness campaign of our Whistleblowing policy.

Compliance and risk training

We have a mandatory training program for all employees covering a range of compliance and risk-related topics including anti-money laundering and operational risk. In addition, more specialized training is provided for employees according to their roles and responsibilities, such as training on credit risk and market risk for those working in trading areas. During 2013, employees were required to complete over 500,000 mandatory training sessions in aggregate, an increase of approximately one-third from 2012. The training sessions need to be completed, usually together with an assessment, within a specified period of time. Since mid-2012, failure to satisfactorily complete the mandatory training sessions within 30 days of the deadline results in disciplinary action, usually in the form of a written warning, with employees still required to complete the training. In 2013, 12 employees received such a warning and ultimately our completion rate for these mandatory training sessions was 100%. If an employee fails to complete two or more training sessions within 10 days of the deadline, this is factored into the performance measurement and management process and the related promotion and compensation processes.

Principles of good supervision

The Group has developed principles of good supervision, which are applicable to every region and business division of UBS. These principles establish clear expectations of managers and employees with respect to supervisory responsibilities, specifically: to take responsibility, to organize their business, to know their employees and what they do, to know their business, to create a good compliance culture and to respond to and resolve issues. Supervisors are expected to understand and set a good example of professional behavior and to act as role models, to be open about issues, to be attentive to unusual behavior and to act on any red flags,

ensuring that issues are resolved. To ensure adherence, frameworks have been established which are subject to periodic review and assessment.

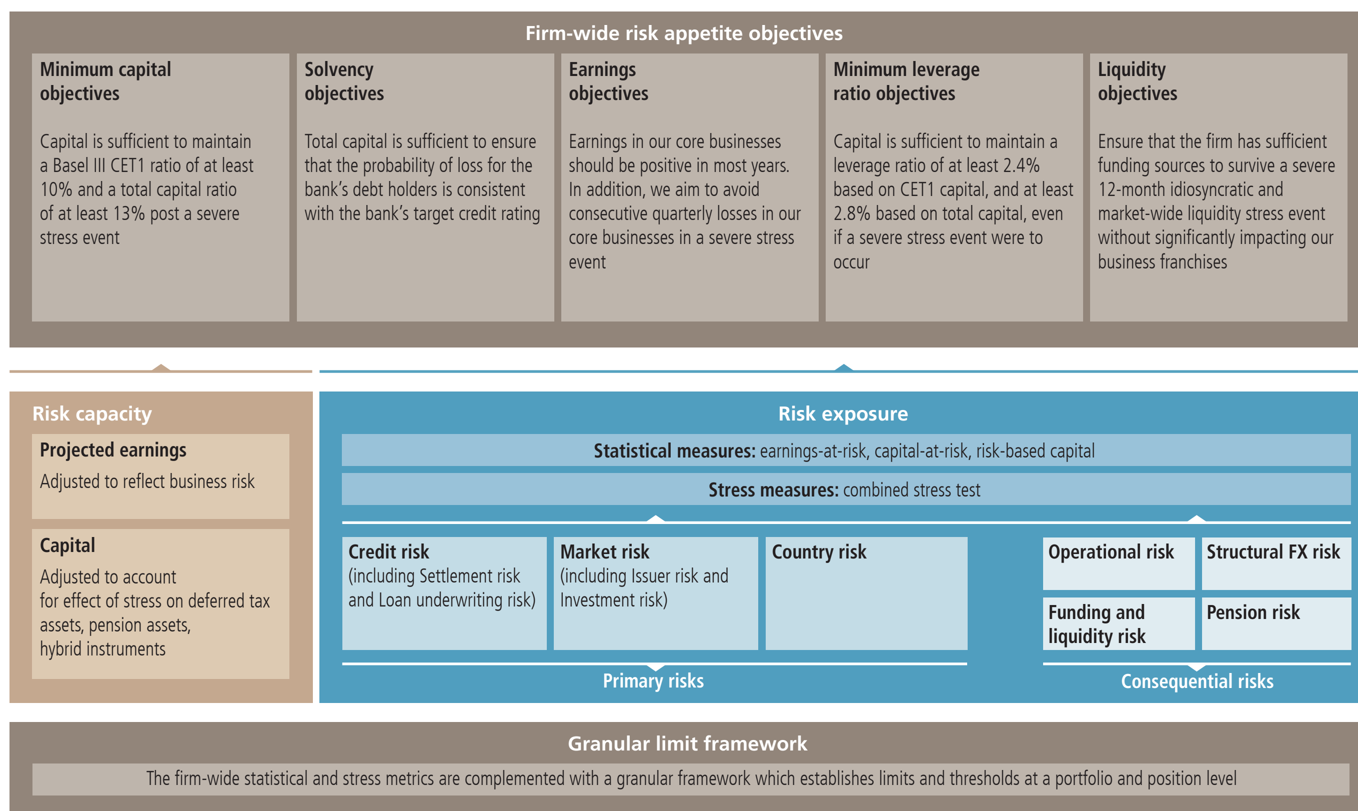
Maintaining a strong culture complements our goal of being a responsible corporate citizen. As a truly global firm with a diverse workforce, we have a deep understanding and appreciation of the communities in which we operate. Our longstanding and active community affairs programs are focused on promoting education and entrepreneurship supported by the volunteering efforts of our employees across the globe. These programs continued to thrive in 2013. For instance, we launched new initiatives in the Americas and received various awards for our work in the UK. In the second quarter, the UBS Optimus Foundation announced a new and major global initiative to put nutrition at the center of the global development agenda and, later in the year, the Foundation was involved in fundraising for Typhoon Haiyan relief efforts in the Philippines. The Group matched client and employee donations on a 1:1 basis. In the third quarter, UBS was named in the Dow Jones Sustainability Indices which track the leading sustainability-driven companies worldwide. Additionally, we co-launched the Thun Group of Banks' discussion paper on banking and human rights. In the fourth quarter, our Global Philanthropy Forum looked at how we can work with clients to help improve women's rights and opportunities around the world. During 2013, we also continued our support for the arts through culturally enriching programs for our clients, employees and the public, including the launch of a multi-year agreement with Art Basel and support for exhibitions in the Americas and in Switzerland.

➔ **Refer to the "Our employees" and "Compensation" sections of this report for more information**

Quantitative risk appetite objectives

Through a set of quantitative risk appetite objectives, we aim to ensure that our aggregate risk exposure is within our desired risk capacity, based on our capital and business plans. The specific definition of risk capacity for each objective seeks to ensure that we have sufficient capital, earnings and funding liquidity to protect our business franchises and exceed minimum regulatory requirements under a severe stress event. The risk appetite objectives are evaluated as part of the annual business planning

Risk appetite framework



process, and approved by the BoD. The comparison of risk exposure with risk capacity is a key consideration in management decisions on potential adjustments to the business strategy and the risk profile of the Group.

We make use of both scenario-based stress tests and statistical risk measurement techniques to assess the impact of a severe stress event at a Group-wide level. These complementary frameworks capture exposures to all material primary and consequential risks across all of our business divisions and the Corporate Center.

➔ **Refer to "Risk measurement" in this section for more information on our stress test and statistical frameworks**

In determining our risk capacity, we adjust projected earnings from the strategic plan for business risk to reflect lower expected earnings in a severe stress event, and include the impact on deferred tax assets, pension assets and hybrid capital instruments through adjustments to our capital.

The chart on the previous page provides an overview of our quantitative risk appetite objectives. Our strategic plan approved by the BoD is consistent with these objectives.

Risk measurement

Audited

A variety of methodologies and measurements are applied to quantify the risks of our portfolios and potential risk concentrations. Risks that are not fully reflected within standard measures are subject to additional controls, which may include pre-approval of specific transactions and the application of specific restrictions. Models to quantify risk are generally developed by dedicated units within control functions, are independently verified and subjected to periodic confirmation and control by the Group CRO and the Group CFO organizations.

Stress testing

We perform stress testing to quantify the loss that could result from extreme yet plausible macroeconomic and geopolitical stress events. This enables us to identify, better understand and manage our potential vulnerabilities and risk concentrations. Stress testing plays a key role in establishing limits at Group-wide, divisional and portfolio levels. Stress test results are regularly reported to the BoD, the Risk Committee and GEB. We also provide detailed stress loss analyses to the Swiss Financial Market Supervisory Au-

thority (FINMA) in accordance with its requirements. As described in the "Risk appetite" section above, stress testing, along with statistical loss measures, plays a central role in risk appetite and business planning processes.

Our stress testing framework incorporates three pillars: (i) combined stress tests, (ii) a comprehensive range of portfolio- and risk-type-specific stress tests and (iii) reverse stress testing.

Our *combined stress test (CST)* framework is scenario-based and aims to quantify overall Group-wide losses which could result from a number of potential global systemic events. The framework captures all primary and consequential risks, as well as business risks, as shown in the "Risk categories" section above. Scenarios are forward-looking and encompass macroeconomic and geopolitical stress events calibrated to different levels of potential severity. Each scenario is implemented through the expected evolution of market indicators and economic variables under that scenario. The resulting effect on our primary, consequential and business risks is then assessed to estimate the overall loss and capital implications were the scenario to occur. At least once a year, the Risk Committee approves the most relevant scenario, known as the binding scenario, to be used as the main scenario for regular CST reporting and for monitoring risk exposure against our minimum capital and earnings objectives in our risk appetite framework. Results are reported to, and discussed with, the Risk Committee and the GEB on a monthly basis and reported to the BoD and FINMA monthly. The results of other CST scenarios are monitored and reported quarterly to the BoD, the Risk Committee, the GEB and FINMA.

Within the overall model governance framework overseen by the Group CRO and Group CFO, the Risk Aggregation and Stress Committee (RASC) is responsible for ensuring the consistency and adequacy of methodologies and scenarios used for our Group-wide stress measures and risk aggregation. As part of these responsibilities, the RASC is charged with ensuring that the suite of stress scenarios adequately reflects current and potential developments in the macroeconomic and geopolitical environment, our current and planned business activities, and actual or potential risk concentrations and vulnerabilities in our portfolios. The RASC meets at least quarterly and is comprised of Group and divisional representatives of Risk Control and the Group Treasurer. In executing its responsibilities, the RASC considers input from the Risk "Think Tank," a panel of senior representatives from the business divisions, Risk Control and economic research, which meets quarterly to review the current and possible future market environment, with the aim of identifying potential stress scenarios which could materially impact the Group's profitability. This results in a range of internal stress scenarios that are developed and evolve over time, separate from the scenarios mandated by FINMA.

Each scenario captures a wide range of macroeconomic variables that are considered relevant to assessing the impact of the stress scenario on our portfolios. These include gross domestic product (GDP), equity indices, interest rates, foreign exchange rates, unemployment and property prices. Assumed changes in these macroeconomic variables in each scenario are used to stress the key risk drivers of our portfolios. For example, lower GDP growth and rising interest rates may reduce the profitability of clients to whom we have lent money, leading to changes in the credit risk parameters for probability of default, loss given default and exposure at default, and resulting in higher predicted credit losses in the stress scenario. We also capture the business risk resulting from lower fee income, interest income and trading income. These effects are measured across all material risk types and all businesses to calculate the aggregate estimated effect of the scenario on profit and loss, other comprehensive income, RWA, Swiss SRB leverage ratio denominator (LRD) and, ultimately, our capital and leverage ratios.

For 2013, the binding scenario for CST was the internal *Euro Crisis scenario.* This scenario assumes a worsening economic environment in the eurozone with defaults of certain countries in the form of debt restructurings, coupled with a disorderly exit from the eurozone by one country. This triggers sell-offs in financial markets, increased market volatility and severe pressure on the euro. The European economy falls into recession and sovereign exposures on banks' balance sheets trigger a banking crisis in Europe. The Swiss export and tourism industries are assumed to be severely affected.

As part of the CST framework, five additional stress scenarios are routinely monitored.

– *Recession scenario* represents renewed financial market turmoil due to the failure of a major global financial institution, leading to prolonged financial deleveraging and dramatically plunging activity around the globe.
– *US Crisis scenario* represents a loss of confidence in the US, leading to international portfolio repositioning out of US dollar-denominated assets, sparking an abrupt and substantial US dollar sell-off. The US is pushed back into recession, other industrialized countries replicate this pattern and inflationary concerns lead to an overall higher interest rate level.
– *China Hard Landing scenario* represents an economic correction in China with resulting impact on the global economy, particularly emerging markets.
– *Middle East / North Africa scenario* represents a spill-over of political upheaval leading to a spike in oil prices and a recession in developed countries.
– *Depression scenario* represents a more pronounced and prolonged version of the Euro Crisis scenario. Additional peripheral countries default and exit the eurozone, and advanced economies are pulled into a prolonged period of economic stagnation.

CST results over the year indicate a reduction in risk levels, as expected, in line with the execution of our strategy to operate a more client-focused and less capital-intensive Investment Bank.

Portfolio-specific stress tests are measures that are tailored to the risks of specific portfolios. Our portfolio stress loss measures are informed by past events but also include forward-looking elements. For example, the stress scenarios for trading risks capture the liquidity characteristics of different markets and positions. Results of portfolio-specific stress tests may be subject to limits to explicitly control risk-taking, or may be monitored without limits to identify vulnerabilities.

Reverse stress testing starts from a defined stress outcome (for example, a specified loss amount, reputational damage, a liquidity shortfall, or a breach of regulatory capital ratios) and works backwards to identify the economic or financial scenarios that could result in such an outcome. As such, reverse stress testing is intended to complement forward stress tests by assuming "what if" outcomes that could extend beyond the range normally considered, and thereby potentially challenge assumptions regarding severity and plausibility. The results of reverse stress testing are reported to relevant governance bodies according to the materiality and scope of the exercise.

Additionally, the impact of increasing interest rates, and changes in the structure of yield curves, is routinely analyzed.

Most major financial firms employ stress tests, but their approaches vary significantly, having been tailored to their individual business models and portfolios. Moreover, there is a lack of industry standards defining stress scenarios or the way they should be applied to a firm's risk exposures. Consequently, comparisons of stress test results between firms can be misleading and, therefore, like many of our peers, we do not publish quantitative stress test results of our internal stress tests.

➔ Refer to "Credit risk" and "Market risk" in this section for more information on stress loss measures

Statistical measures

In addition to our scenario-based CST measure, we employ a statistical stress framework that allows us to calculate and aggregate risks using statistical techniques, enabling us to derive stress events at chosen confidence levels.

This framework is used to derive a distribution of potential earnings based on historically observed market changes, the level of risk exposures, and business plan forecasts, considering effects on both income and expenses. From this we determine earnings-at-risk (EaR), which measures the potential shortfall in earnings (the deviation from forecasted earnings) at a 95% confidence level and which we evaluate over both three-month and one-year horizons. EaR is used for the assessment of the earnings objectives in our risk appetite framework.

We extend the EaR measure by incorporating the effects of gains and losses recognized through other comprehensive income, to derive a distribution of potential effects on capital. From this distribution, we establish capital-at-risk (CaR) measures based on confidence levels from 95% to 99.9%. These measures consider the impact on Basel III common equity tier 1 (CET1) capital of stress events at the respective confidence levels and are used for the assessment of our capital, solvency and leverage ratio objectives.

We also derive risk-based capital (RBC) from this distribution, taken at a 99.97% confidence level, to provide an estimate of the potential capital impairment in such an extreme stress event. As discussed above, RBC is a core component of our equity attribution framework.

➔ Refer to "Credit risk," "Market risk" and "Operational risk" in this section for more information on our portfolio-level statistical loss measures

Portfolio and position limits

The Group-wide stress and statistical metrics are complemented by lower-level portfolio and position limits. The combination of these measures provides for a comprehensive, granular limit framework which is applied to our business divisions and Corporate Center as relevant to the key risks arising from their business models.

We apply limits to a variety of exposures at portfolio level, using statistical- and stress-based measures, such as value-at-risk, liquidity adjusted stress, notional loan underwriting limits, economic value sensitivity and portfolio default simulations for our loan books. These are complemented with a set of thresholds for net interest income sensitivity, mark-to-market losses on available-for-sale portfolios, and the impact of foreign exchange movements on capital and capital ratios.

Portfolio measures are supplemented with position-level limits. Risk measures for position limits are based on market risk sensitivities and counterparty-level credit risk exposures. Market risk sensitivities include sensitivities to changes in general market risk factors such as equity indices, foreign exchange rates and interest rates, and sensitivities to issuer-specific factors such as changes in an issuer's credit spread or default risk. We monitor a significant number of market risk limits for the Investment Bank and Corporate Center – Non-core and Legacy Portfolio on a daily basis. Counterparty measures capture the current and potential future exposure to an individual counterparty taking into account collateral and legally enforceable netting agreements.

Risk concentrations

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A risk concentration exists where (i) a position is affected by changes in a group of correlated factors, or a group of positions are affected by changes in the same risk factor or a group of correlated factors, and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses. The categories in which risk concentrations may occur include counterparties, industries, legal entities, countries, products and businesses.

The identification of risk concentrations requires judgment, as potential future developments cannot be accurately predicted and may vary from period to period. In determining whether we have a risk concentration, we consider a number of elements, both individually and collectively. These elements include the

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shared characteristics of the positions and our counterparties, the size of the position or group of positions, the sensitivity of the position or group of positions to changes in risk factors and the volatility and correlations of those factors. Also important in our assessment is the liquidity of the markets where the positions are traded, and the availability and effectiveness of hedges or other potential risk-mitigating factors. The value of a hedge instrument may not always move in line with the position being hedged, and this mismatch is referred to as basis risk.

Risk concentrations are subject to increased monitoring by Risk Control and are assessed to determine whether they should be reduced or mitigated depending on the available means to do so. It is possible that material losses could occur on asset classes, positions and hedges, particularly if the correlations that emerge in a stressed environment differ markedly from those envisaged by our risk models.

➔ **Refer to "Credit risk" and "Market risk" in this section for more information on the compositions of our portfolios**

Credit risk

Key developments during the period

During 2013, we actively managed down risks within Non-core and Legacy Portfolio, disposing of our more liquid loan positions alongside the steady run-off of the Non-core loan book. Exposures to over-the-counter derivative contracts were reduced through negotiated bilateral settlements, portfolio compressions, negotiated assignments and novations, and commutations of monoline insurance. We experienced moderate increases in credit exposures in line with our strategy to grow our wealth management lending businesses. The delinquency ratio of our Swiss residential mortgage loans and our Swiss corporate loans remained at low levels. Loan underwriting activity within the Investment Bank remained steady, with distribution of loans through syndication and securitization continuing to be sound. Net credit loss expenses totaled CHF 50 million, taking into account releases of collective loan loss allowances of CHF 93 million. The amount of impaired loans decreased by CHF 0.4 billion to CHF 1.2 billion, mainly as a result of repayments.

Main sources of credit risk

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- Our lending exposure arises mainly from our Swiss domestic business, which offers corporate loans and mortgage loans secured against residential properties and income-producing real estate, and is therefore tied to the health of the Swiss economy.
- Within the Investment Bank, our credit exposure is predominantly investment grade, but includes loan underwriting characterized by concentrated exposure to lower-rated credits, albeit of a temporary nature.
- Our wealth management businesses conduct securities-based lending and mortgage lending.
- Credit risk within the Legacy Portfolio has been significantly reduced and the balance largely relates to securitized positions.
- Derivatives activities, a significant portion of which has been determined to be non-core and will therefore be run down, are predominantly transacted on a cash collateralized basis.

Overview of measurement, monitoring and management techniques

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- Credit risk arising from transactions with individual counterparties is measured according to our estimates of probability of default, exposure at default and loss given default. Limits are established for individual counterparties and groups of counterparties covering banking and traded products as well as settlement amounts. Risk control authorities are approved by the Board of Directors and are delegated to the Group CEO, Group CRO and divisional Chief Risk Officers based on risk exposure amounts and internal credit rating.
- Limits apply not only to the current outstanding amount, but also to contingent commitments and the potential future exposure of traded products.
- For the Investment Bank, our monitoring, measurement and limit framework distinguishes between exposures intended to be held to maturity (take-and-hold exposures) and those which are intended to be held for a short term, pending distribution or risk transfer (temporary exposures).
- We also use models to derive portfolio credit risk measures of expected loss, statistical loss and stress loss at the Group-wide and business division levels and establish portfolio level limits at these levels.
- Credit risk concentrations can arise if clients are engaged in similar activities, are located in the same geographical region or have comparable economic characteristics, for example if their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. To avoid credit risk concentrations, we establish limits and/or operational controls that constrain risk concentrations at portfolio and sub-portfolio levels with regard to sector exposure, country risk and specific product exposures.

Credit risk profile of the Group – IFRS view

Maximum exposure to credit risk

The table below represents the IFRS view of the Group's maximum exposure to credit risk by class of financial instrument and the respective collateral and other credit enhancements mitigating credit risk for these classes of financial instruments. The maximum exposure to credit risk includes the carrying amounts of financial instruments recognized on the balance sheet subject to credit risk and the notional amounts for off-balance sheet arrangements.

Where information is available, collateral is presented at fair value. For other collateral such as real estate, a reasonable alternative value is used. Credit enhancements, such as credit derivative contracts and guarantees, are included at their notional amounts. Both are capped at the maximum exposure to credit risk for which they serve as security.

Further on in this section, we provide complementary views of credit risk based on our internal management view, which can differ in certain respects from the requirements of IFRS.

➔ **Refer to the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report for more information on the credit exposures used in the determination of our required regulatory capital and additional information on credit derivatives**

Maximum exposure to credit risk

	31.12.13							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Secured by real estate	Other collateral[1]	Netting	Credit derivative contracts	Guarantees
Financial assets measured at amortized cost on the balance sheet								
Balances with central banks	78.9							
Due from banks[2]	17.2		0.5					0.3
Loans[3]	287.0	13.3	73.7	161.5	18.3		0.1	2.7
Cash collateral on securities borrowed	27.5		27.3					
Reverse repurchase agreements	91.6		88.4		2.6			
Cash collateral receivables on derivative instruments[4]	28.0					14.2		
Other assets	17.6		11.2					
Total financial assets measured at amortized cost	**547.7**	**13.3**	**201.1**	**161.5**	**20.8**	**14.2**	**0.1**	**3.0**
Financial assets measured at fair value on the balance sheet								
Positive replacement values[5]	245.8					212.9		
Trading portfolio assets – debt instruments[6, 7]	35.4							
Financial assets designated at fair value – debt instruments[8]	6.8		5.4		0.2		0.8	
Financial investments available-for-sale – debt instruments[8]	58.6							
Total financial assets measured at fair value	**346.6**	**0.0**	**5.4**	**0.0**	**0.2**	**212.9**	**0.8**	**0.0**
Total maximum exposure to credit risk reflected on the balance sheet	**894.3**	**13.3**	**206.5**	**161.5**	**21.0**	**227.1**	**1.0**	**3.0**
Guarantees	18.7	1.4	1.7	0.3	1.9		1.1	3.3
Loan commitments	54.9	0.2	1.6	1.3	8.5		11.0	1.9
Forward starting transactions, reverse repurchase and securities borrowing agreements	9.4		9.3					
Total maximum exposure to credit risk not reflected on the balance sheet	**83.1**	**1.6**	**12.6**	**1.6**	**10.4**	**0.0**	**12.2**	**5.2**
Total at the year-end	**977.4**	**14.9**	**219.1**	**163.1**	**31.4**	**227.1**	**13.1**	**8.2**

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 Due from banks includes amounts held with third-party banks on behalf of clients. The credit risk associated to these balances may be borne by those clients. 3 Loans include a balance outstanding of USD 2.7 billion to the BlackRock fund. This loan is collateralized by a portfolio of US residential mortgage-backed securities included within "Other collateral." 4 Included within cash collateral receivables on derivative instruments are margin balances due from exchanges or clearing houses. The amount shown in the netting column represents the netting with related negative replacement values in accordance with Swiss federal banking Law. 5 The amount shown in the netting column represents the netting with related negative replacement values and cash collateral payables in accordance with Swiss federal banking Law. For the purpose of this disclosure, securities collateral was not considered. 6 These positions are generally managed under the market risk framework and are included in VaR. For the purpose of this disclosure, collateral and credit enhancements were not considered. 7 Does not include debt instruments held for unit-linked investment contracts and investment fund units. 8 Does not include investment fund units.

Maximum exposure to credit risk (continued)

	31.12.12							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collater-alized by securities	Secured by real estate	Other collateral[1]	Netting	Credit derivative contracts	Guaran-tees
Financial assets measured at amortized cost on the balance sheet								
Balances with central banks	64.1							
Due from banks[2]	21.2		2.7		0.4			0.4
Loans[3]	279.9	13.1	65.9	155.8	18.3		0.9	2.5
Cash collateral on securities borrowed	37.4		37.2					
Reverse repurchase agreements	130.9		130.9					
Cash collateral receivables on derivative instruments[4]	30.4					17.4		
Other assets	12.3		7.9					
Total financial assets measured at amortized cost	576.3	13.2	244.6	155.8	18.7	17.4	0.9	2.9
Financial assets measured at fair value on the balance sheet								
Positive replacement values[5]	419.0					376.7		
Trading portfolio assets – debt instruments[6, 7]	67.3							
Financial assets designated at fair value – debt instruments[8]	8.5		6.5		0.2		1.0	
Financial investments available-for-sale – debt instruments[8]	65.3							
Total financial assets measured at fair value	560.0	0.0	6.5	0.0	0.2	376.7	1.0	0.0
Total maximum exposure to credit risk reflected on the balance sheet	1,136.3	13.2	251.1	155.8	18.9	394.1	1.9	2.9
Guarantees	20.0	1.5	2.0	0.3	2.0		1.4	2.5
Loan commitments	59.8	0.2	2.1	1.7	9.2		16.9	1.5
Forward starting transactions, reverse repurchase and securities borrowing agreements	18.8		18.8					
Total maximum exposure to credit risk not reflected on the balance sheet	98.6	1.7	22.9	1.9	11.2		18.3	4.0
Total at the year-end	1,235.0	14.8	274.0	157.7	30.1	394.1	20.2	6.9

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 Due from banks includes amounts held with third-party banks on behalf of clients. The credit risk associated to these balances may be borne by those clients. 3 Loans include a balance outstanding of USD 3.6 billion to the BlackRock fund. This loan is collateralized by a portfolio of US residential mortgage-backed securities included within "Other collateral." 4 Included within cash collateral receivables on derivative instruments are margin balances due from exchanges or clearing houses. The amount shown in the netting column represents the netting with related negative replacement values in accordance with Swiss federal banking Law. 5 The amount shown in the netting column represents the netting with related negative replacement values and cash collateral payables in accordance with Swiss federal banking Law. For the purpose of this disclosure, securities collateral was not considered. 6 These positions are generally managed under the market risk framework and are included in VaR. For the purpose of this disclosure, collateral and credit enhancements were not considered. 7 Does not include debt instruments held for unit-linked investment contracts and investment fund units. 8 Does not include investment fund units.

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Financial assets subject to credit risk by rating category

CHF billion	31.12.13						
Rating category[1]	0–1	2–3	4–5	6–8	9–13	defaulted	Total
Balances with central banks	41.9	37.0	0.0				78.9
Due from banks	3.1	11.4	1.4	1.1	0.2		17.2
Loans[2]	25.3	112.6	57.1	72.4	18.5	1.1	287.0
Cash collateral on securities borrowed and reverse repurchase agreements	1.8	86.8	19.6	10.3	0.5		119.1
Positive replacement values	12.4	199.6	25.7	6.9	0.9	0.2	245.8
Cash collateral receivables on derivative instruments	4.1	19.0	3.4	1.5	0.1		28.0
Trading portfolio assets – debt instruments[3]	11.0	11.8	7.0	3.3	2.2	0.1	35.4
Financial investments available-for-sale – debt instruments[4]	43.9	14.6	0.1				58.6
Other financial instruments[5]	0.1	3.0	6.5	14.4	0.1	0.2	24.4
Financial instruments not recognized on the balance sheet							
Guarantees	2.5	8.5	3.7	3.2	0.9	0.0	18.7
Loan commitments	0.8	30.2	9.4	8.5	5.9	0.1	54.9
Forward starting reverse repurchase agreements		8.7	0.6	0.1			9.4
Forward starting securities borrowing agreements		0.0					0.0
Total	**146.9**	**543.4**	**134.5**	**121.6**	**29.2**	**1.7**	**977.4**

CHF billion	31.12.12						
Rating category[1]	0–1	2–3	4–5	6–8	9–13	defaulted	Total
Balances with central banks	46.2	17.9	0.0				64.1
Due from banks	0.9	14.0	4.5	1.6	0.1	0.0	21.2
Loans[2]	4.6	84.2	121.3	57.2	11.5	1.1	279.9
Cash collateral on securities borrowed and reverse repurchase agreements	2.3	123.3	25.8	14.9	2.0	0.0	168.3
Positive replacement values	13.4	348.9	44.4	9.9	2.3	0.2	419.0
Cash collateral receivables on derivative instruments	6.3	17.1	4.0	2.9	0.1	0.0	30.4
Trading portfolio assets – debt instruments[3]	34.2	17.2	7.8	3.4	4.7	0.2	67.3
Financial investments available-for-sale – debt instruments[4]	57.7	7.6	0.0	0.0	0.0		65.3
Other financial instruments[5]	0.3	3.2	7.9	8.8	0.4	0.2	20.8
Financial instruments not recognized on the balance sheet							
Guarantees	2.3	9.7	3.7	3.3	0.9	0.0	20.0
Loan commitments	0.2	34.6	11.6	6.7	6.7	0.1	59.8
Forward starting reverse repurchase agreements	0.0	17.4	0.6	0.5			18.6
Forward starting securities borrowing agreements		0.2					0.2
Total	**168.2**	**695.4**	**231.5**	**109.2**	**28.8**	**1.8**	**1,235.0**

1 Refer to the "Internal UBS rating scale and mapping of external ratings" table for more information on rating categories. 2 In 2013, following model recalibrations, the rating distribution of Retail & Corporate loans was amended prospectively. 3 Does not include debt instruments held for unit-linked investment contracts and investment fund units. 4 Does not include investment fund units. 5 Comprised of financial assets designated at fair value – debt instruments (excluding investment fund units) and other assets.

➔ **Refer to "Retail & Corporate" in "Credit risk profile of the Group – Internal risk view" and to "Changes to models and model parameters during the period" in "Credit risk models" in this section for more information on model recalibration driven changes in the rating distribution of the credit portfolio**

Impaired assets

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The following tables show impaired assets, comprising loans, guarantees, loan commitments, defaulted derivatives contracts and securities financing transactions. Gross impaired assets decreased by CHF 0.6 billion to CHF 1.9 billion as of 31 December 2013, mainly due to resolution through repayment, sale or upgrade. After deducting the estimated liquidation proceeds of collateral and specific allowances, provisions and credit valuation adjustments (CVA), net impaired assets amounted to CHF 0.6 billion as of 31 December 2013 compared with CHF 0.8 billion at the end of the prior year.

Impaired assets by type of financial instrument

CHF million	Impaired assets		Allowances, provisions and CVA adjustments[1, 2]		Estimated liquidation proceeds of collateral		Net impaired exposure	
	31.12.13	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Impaired loans (including due from banks)	**1,199**	1,606	**(686)**	(728)	**(276)**	(437)	**237**	441
Impaired guarantees and loan commitments	**101**	144	**(61)**	(64)	**(2)**	(6)	**38**	73
Defaulted derivatives contracts	**582**	716	**(283)**	(439)			**298**	276
Defaulted securities financing transactions	**2**	2	**(2)**	(2)				
Total	**1,884**	2,467	**(1,033)[3]**	(1,233)	**(279)**	(443)	**573**	791

1 Includes CHF 20 million collective loan loss allowances (31 December 2012: CHF 114 million). 2 Does not include collective credit valuation adjustments of CHF 433 million (31 December 2012: CHF 736 million). They are partially reflected in the tier 1 capital calculation. 3 Does not include an allowance of CHF 83 million related to certain disputed receivables.

Impaired assets by region

CHF million	Impaired assets[1]	Specific allowances, provisions and credit valuation adjustments	Impaired assets net of specific allowances, provisions and credit valuation adjustments	Collective allowances and provisions[2]	**Total allowances, provisions and specific credit valuation adjustments 31.12.13[2]**	Total allowances, provisions and specific credit valuation adjustments 31.12.12[2]
Asia Pacific	47	(46)	1		**(46)**	(58)
Latin America	63	(58)	4		**(58)**	(43)
Middle East and Africa	64	(24)	40		**(24)**	(35)
North America	526	(175)	351	(2)	**(176)**	(348)
Switzerland	842	(470)	373	(18)	**(488)**	(539)
Rest of Europe	341	(239)	102		**(239)**	(209)
Total 31.12.13	**1,884**	**(1,013)**	**872**	**(20)**	**(1,033)[3]**	
Total 31.12.12	2,467	(1,119)	1,349	(114)		(1,233)

1 Values of defaulted derivative contracts (CHF 582 million, 31 December 2012: CHF 716 million) are based on replacement values and do not include "add-ons" used in the calculation of regulatory capital. 2 Does not include collective credit valuation adjustments of CHF 433 million (31 December 2012: CHF 736 million). They are partially reflected in the tier 1 capital calculation. 3 Does not include an allowance of CHF 83 million related to certain disputed receivables.

Impaired assets by exposure segment

CHF million	Impaired assets[1]	Specific allowances, provisions and credit valuation adjustments	Collective allowances and provisions[2]	**Total allowances, provisions and specific credit valuation adjustments 31.12.13**[2]	Write-offs for the year ended 31.12.13	Total allowances, provisions and specific credit valuation adjustments 31.12.12[2]
Corporates	1,525	(829)		**(829)**	(64)	(937)
Sovereigns	14	(10)		**(10)**	(1)	(10)
Banks	67	(19)		**(19)**		(26)
Retail						
Residential mortgages	*145*	*(46)*		***(46)***		*(51)*
Lombard lending	*66*	*(67)*	*(2)*	***(68)***		*(49)*
Other retail	*67*	*(42)*		***(42)***	*(28)*	*(45)*
Not allocated segment[3]			(18)	**(18)**		(113)
Total 31.12.13	**1,884**	**(1,013)**	**(20)**	**(1,033)**[4]	**(93)**[5]	
Total 31.12.12	2,467	(1,119)	(114)		(162)[5]	(1,233)

1 Values of defaulted derivative contracts (CHF 582 million, 31 December 2012: CHF 716 million) are based on replacement values and do not include "add-ons" used in the calculation of regulatory capital. 2 Does not include collective credit valuation adjustments of CHF 433 million (31 December 2012: CHF 736 million). They are partially reflected in the tier 1 capital calculation. 3 With the exception of WMA lombard lending, collective loan loss allowances are not allocated to individual counterparties. 4 Does not include an allowance of CHF 83 million related to certain disputed receivables. 5 Does not include CHF 35 million securitization-related write-offs (31 December 2012: CHF 152 million).

The following table provides a breakdown of movements in the specific and collective allowances and provisions for impaired assets.

Changes in allowances, provisions and specific credit valuation adjustments

CHF million	Specific allowances and provisions for banking products and securities financing	Specific credit valuation adjustments for derivatives	Total specific allowances, provisions and credit valuation adjustments	Collective loan loss allowances for credit losses[1]	**For the year ended 31.12.13**	For the year ended 31.12.12
Balance at the beginning of the year	680[3]	439	1,119	114	**1,233**	2,395
Write-offs / usage of provisions	(127)	0	(127)	(1)	**(128)**	(313)
Recoveries (on written-off positions)	45		45		**45**	63
Increase / (decrease) in allowances, provisions and specific credit valuation adjustments[2]	144	(138)	6	(93)	**(88)**	(899)
Foreign currency translations and other adjustments	(12)	(15)	(27)	0	**(27)**	(12)
Transfers	0	(4)	(4)		**(4)**	
Balance at the end of the year	**730**[3]	**283**	**1,013**	**20**	**1,033**[4]	1,233

1 This table does not include collective credit valuation adjustments of CHF 433 million (31 December 2012: CHF 736 million). They are partially included in the tier 1 capital capital calculation. 2 Total actual credit loss (credit loss expense and changes in specific credit valuation adjustments recognized in net trading income). 3 Includes CHF 2 million allowances for securities financing (31 December 2012: CHF 2 million). 4 Does not include an allowance of CHF 83 million related to certain disputed receivables.

Impaired loans

The majority of our gross impaired exposure relates to loans, primarily in our Swiss domestic business. Gross impaired loans (including due from banks) decreased to CHF 1,199 million as of 31 December 2013 from CHF 1,606 million at the end of the prior year, as new impairments and increases were offset by repayments, sales and upgrades, mainly related to the run-down of the Legacy Portfolio. This decrease in impaired loan exposure, combined with the increase in gross exposure, led to a reduction in the ratio of impaired loans to total loans to 0.4% from 0.6%.

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Collateral held against our impaired loan exposure mainly consisted of real estate and securities as of 31 December 2013. It is our policy to dispose of foreclosed real estate as soon as practicable. The carrying amount of foreclosed property recorded in our balance sheet under *Other assets* at the end of 2013 and 2012 amounted to CHF 40 million and CHF 47 million, respectively. We seek to liquidate collateral held in the form of financial assets expeditiously and at prices considered fair. This may require us to purchase assets for our own account, where permitted by law, pending orderly liquidation.

Specific and collective allowances and provisions for credit losses decreased by CHF 44 million to CHF 750 million as of 31 December 2013. This includes collective loan loss allowances of CHF 20 million, a reduction of CHF 94 million compared with CHF 114 million at the end of the prior year.

The table "Loss history statistics" on page 172 provides a five-year history of our credit loss experience for loans (including due from banks) relative to our impaired and non-performing loans.

➔ Refer to "Policies for past due, non-performing and impaired claims" in this section and "Note 10 Due from banks and loans (held at amortized cost)" and "Note 12 Allowances and provisions for credit losses" in the "Financial information" section of this report for more information

Allowances and provisions for credit losses[1]

CHF million, except where indicated	IFRS exposure, gross		Impaired exposure		Estimated liquidation proceeds of collateral		Allowances and provisions for credit losses[2]		Impairment ratio (%)	
	31.12.13	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Group										
Balances with central banks	**78,912**	64,119								
Due from banks	**17,232**	21,242	**49**	56			**15**	22	**0.3**	0.3
Loans	**287,665**	280,606	**1,150**	1,550	**276**	437	**671**	706	**0.4**	0.6
Guarantees	**18,798**	20,058	**77**	76	**2**	6	**61**	64	**0.4**	0.4
Loan commitments	**54,913**	59,818	**24**	68					**0.0**	0.1
Total	**457,520**	445,843	**1,300**	1,749	**279**	443	**747**	792	**0.3**	0.4
Wealth Management										
Balances with central banks	**356**	413								
Due from banks	**1,243**	1,039								
Loans	**96,813**	86,581	**76**	55	**5**	20	**71**	41	**0.1**	0.1
Guarantees	**2,277**	2,326								
Loan commitments	**1,646**	1,574								
Total	**102,335**	91,932	**76**	55	**5**	20	**71**	41	**0.1**	0.1
Wealth Management Americas										
Balances with central banks	**0**	0								
Due from banks	**1,706**	2,195								
Loans	**34,846**	31,250	**40**	15			**41**	17	**0.1**	0.0
Guarantees	**416**	406								
Loan commitments	**601**	1,214								
Total	**37,569**	35,065	**40**	15	**0**	0	**41**	17	**0.1**	0.0
Retail & Corporate										
Balances with central banks	**0**	2,173								
Due from banks	**2,756**	2,713	**41**	45			**14**	20	**1.5**	1.6
Loans	**136,499**	137,344	**932**	955	**227**	244	**528**	574	**0.7**	0.7
Guarantees	**9,741**	10,042	**31**	27	**2**	6	**16**	16	**0.3**	0.3
Loan commitments	**7,045**	6,787	**18**	7	**0**				**0.3**	0.1
Total	**156,042**	159,059	**1,022**	1,033	**230**	251	**558**	610	**0.7**	0.6
Global Asset Management										
Balances with central banks	**0**	0								
Due from banks	**586**	337								
Loans	**152**	91								
Guarantees	**1**	0								
Loan commitments	**49**	0								
Total	**787**	428	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Investment Bank										
Balances with central banks	**145**	381								
Due from banks	**7,550**	12,967								
Loans	**10,589**	10,752	**19**	28			**11**	15	**0.2**	0.3
Guarantees	**5,884**	2,978	**45**	47			**45**	48	**0.8**	1.6
Loan commitments	**35,353**	48,447	**4**	22						
Total	**59,521**	75,526	**69**	97	**0**	0	**56**	63	**0.1**	0.1

1 Excludes CHF 2 million allowances for securities financing (31 December 2012: CHF 2 million). 2 Includes CHF 20 million (31 December 2012: CHF 114 million) in collective loan loss allowances for credit losses.

Allowances and provisions for credit losses[1] (continued)

CHF million, except where indicated	IFRS exposure, gross 31.12.13	IFRS exposure, gross 31.12.12	Impaired exposure 31.12.13	Impaired exposure 31.12.12	Estimated liquidation proceeds of collateral 31.12.13	Estimated liquidation proceeds of collateral 31.12.12	Allowances and provisions for credit losses[2] 31.12.13	Allowances and provisions for credit losses[2] 31.12.12	Impairment ratio (%) 31.12.13	Impairment ratio (%) 31.12.12
Corporate Center – Core Functions										
Balances with central banks	78,403	61,029								
Due from banks	2,912	1,111								
Loans	394	1,246					0	0		
Guarantees	12	12								
Loan commitments	22	10								
Total	81,743	63,409	0	0	0	0	0	0	0.0	0.0
CC – Non-core										
Balances with central banks	7	122								
Due from banks	116	682	8	11			1	2	7.3	1.6
Loans	1,001	1,625	23	384	0	99	9	21	2.3	23.6
Guarantees	468	4,293	2	2					0.3	0.0
Loan commitments	10,143	1,759	1	39					0.0	2.2
Total	11,735	8,480	35	437	0	99	10	22	0.3	5.2
CC – Legacy Portfolio										
Balances with central banks	0	0								
Due from banks	362	198								
Loans	7,372	11,718	60	113	44	74	11	38	0.8	1.0
Guarantees	0	0								
Loan commitments	54	27								
Total	7,788	11,943	60	113	44	74	11	38	0.8	0.9

1 Excludes CHF 2 million allowances for securities financing (31 December 2012: CHF 2 million). 2 Includes CHF 20 million (31 December 2012: CHF 114 million) in collective loan loss allowances for credit losses.

Development of individually impaired loans (including due from banks)

CHF million	For the year ended 31.12.13	For the year ended 31.12.12
Balance at the beginning of the year	1,606	2,155
New impaired loans	544	1,259
Increase in existing impaired loans	50	50
Repayments / sales / upgrades	(910)	(1,688)
Write-offs	(93)	(162)
Foreign currency translations and other adjustments	2	(9)
Balance at the end of the year	1,199	1,606

Loss history statistics

CHF million, except where indicated	31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
Due from banks and loans (gross)	**304,897**	301,849	290,664	281,121	285,960
Impaired loans (including due from banks)	**1,199**	1,606	2,155	4,193	6,865
Non-performing loans (including due from banks)	**1,582**	1,516	1,529	1,727	5,402
Allowances and provisions for credit losses[1, 2]	**750**	794	938	1,287	2,820
of which: allowances for due from banks and loans[1]	***686***	*728*	*842*	*1,111*	*2,680*
Net write-offs[3]	**83**	250	450	1,427	1,994
of which: net write-offs for due from banks and loans	***83***	*250*	*413*	*1,428*	*1,882*
Credit loss (expense) / recovery[4]	**(50)**	(118)	(84)	(66)	(1,832)
of which: credit loss (expense) / recovery for due from banks and loans	***(50)***	*(134)*	*(126)*	*(24)*	*(1,776)*
Ratios					
Impaired loans as a percentage of due from banks and loans (gross)	**0.4**	0.5	0.7	1.5	2.4
Non-performing loans as a percentage of due from banks and loans (gross)	**0.5**	0.5	0.5	0.6	1.9
Allowances as a percentage of due from banks and loans (gross)	**0.2**	0.2	0.3	0.4	0.9
Net write-offs as a percentage of average due from banks and loans (gross) outstanding during the period	**0.0**	0.1	0.1	0.5	0.6

1 Includes collective loan loss allowances. 2 Includes provisions for loan commitments and allowances for securities borrowing transactions. 3 Includes net write-offs for loan commitments and securities borrowing transactions. 4 Includes credit loss (expense) / recovery for loan commitments and securities borrowing transactions.

Past due but not impaired loans

The table below shows a breakdown of total loan balances where payments have been missed, but which we do not consider impaired because we expect to collect all amounts due under the contractual terms of the loans or the equivalent value from liquidation of collateral. The loan balances in the table arise entirely within our Wealth Management and Retail & Corporate divisions, where delayed payments are routinely observed. We currently have no past due but not impaired loans in Wealth Management Americas, the Investment Bank and Corporate Center – Non-core and Legacy Portfolio.

The increase in our past due but not impaired loan exposure resulted from a few individual corporate loans, notably a single client within the 11–30 days category. The amount of past due but not impaired mortgage loans was not significant compared with the overall size of the mortgage portfolio.

➔ Refer to "Policies for past due, non-performing and impaired claims" in this section and "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report for more information on our impairment policies

Audited

Past due but not impaired loans

CHF million	31.12.13	31.12.12
1–10 days	**119**	104
11–30 days	**146**	30
31–60 days	**28**	44
61–90 days	**8**	14
> 90 days	**712**	793
of which: mortgage loans	***617***	*639*
Total	**1,013**	986

Past due but not impaired mortgage loans

CHF million	31.12.13		31.12.12	
	Total mortgage loans	***of which: past due > 90 days but not impaired***	Total mortgage loans	*of which: past due > 90 days but not impaired*
Total	**149,661**	***617***	144,667	*639*

Credit risk profile of the Group – Internal risk view

The exposures detailed in this section are based on our internal management view of credit risk which differs in certain respects from the measurement requirements of IFRS.

Internally, we categorize credit risk exposures into two broad categories: banking products and traded products. Banking products comprise drawn loans, undrawn guarantees and loan commitments, due from banks and balances with central banks. Traded products comprise over-the-counter (OTC) derivatives, exchange-traded derivatives (ETD) and securities financing transactions (SFT), comprised of securities lending and reverse repurchase agreements.

Banking products

The breakdowns of our banking product exposures are shown before and after allowances and provisions for credit losses and related single-name credit hedges. The effect of portfolio hedges, such as index CDS, is not reflected. Guarantees and loan commitments are shown on a notional basis, without applying credit conversion factors.

Total gross banking products exposure increased to CHF 453 billion as of 31 December 2013 compared with CHF 441 billion at the end of 2012, mainly due to increases in balances with central banks and in the loan books of Wealth Management and Wealth Management Americas, which were only partly offset by reductions in Retail & Corporate and the Legacy Portfolio.

Wealth Management

Gross banking products exposure within Wealth Management increased to CHF 102 billion as of 31 December 2013 compared with CHF 92 billion as of 31 December 2012, in line with our strategy to grow this business.

Our Wealth Management loan portfolio is mainly secured by securities, residential property and cash as outlined in the table "Wealth Management: composition of loan portfolio, gross." The majority of loans secured by securities were of high quality, with 95% as of 31 December 2013 (91% as of 31 December 2012) rated investment grade, based on our internal ratings.

The portfolio of mortgage loans secured by properties outside Switzerland continued to grow to CHF 4.5 billion as of 31 December 2013 from CHF 3.4 billion at the end of the prior year. The overall quality of this portfolio remains high, with an average loan-to-value (LTV) ratio of 57% in Europe and 42% in Asia Pacific. There were no credit losses within the portfolio in 2013.

Wealth Management Americas

Gross banking products exposure within Wealth Management Americas increased to CHF 38 billion as of 31 December 2013 from CHF 35 billion as of 31 December 2012. This exposure largely relates to loans secured by securities and residential mortgage loans.

The majority of loans secured by marketable securities were of high quality, with 81% as of 31 December 2013 (87% as of 31 December 2012) rated investment grade, based on our internal ratings.

The mortgage loan portfolio consists primarily of residential mortgages offered in all US states. Exposure continued to grow to CHF 5.6 billion as of 31 December 2013 from CHF 3.5 billion at the end of the prior year. The overall quality of this portfolio remains high with an average LTV of 58%, and we have experienced no credit losses since the inception of the mortgage program. The five largest geographic concentrations in the portfolio are in California (32%), New York (16%), Florida (8%), Connecticut (4%) and New Jersey (4%).

The credit risk exposure arising from the credit card business was CHF 161 million as of 31 December 2013 compared with CHF 152 million at the end of the prior year.

Banking products exposure as of 31 December 2012 was restated to reflect the transfer of cash balances from Wealth Management Americas to Group Treasury during the third quarter of 2013.

There was an increase in the amount of impaired loans, to CHF 40 million as of 31 December 2013 from CHF 15 million at the end of the prior year, as a result of impairments of securities-backed loan facilities collateralized by Puerto Rico municipal securities and related funds. Securities-backed lending facilities provided by Wealth Management Americas to its customers and repurchase agreements with institutional clients are, in part, collateralized by Puerto Rico municipal securities and closed-end funds primarily invested in Puerto Rico municipal securities. This collateral is subject to lending value haircuts and daily margining. Our total lending exposure against Puerto Rico municipal securities and closed-end fund collateral as of 31 December 2013 was approximately USD 1.0 billion. This collateral had a market value of approximately USD 2.2 billion as of 31 December 2013. For a significant number of these loans, UBS has recourse to the borrower. UBS also has direct exposure to Puerto Rico municipal securities and related funds arising from its secondary market activities, which was less than USD 50 million at 31 December 2013. UBS acts as investment manager for, and is the primary liquidity provider in the market for shares of, a number of affiliated closed-end funds invested in Puerto Rico municipal securities. These funds use leverage, which is currently provided primarily through repurchase agreements between the funds and third-party institutions, through short-term secured debt obligations, and by UBS through the aforementioned repurchase agreements.

Banking products exposure by business division

	Wealth Management		Wealth Management Americas		Retail & Corporate	
CHF million	**31.12.13**	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Balances with central banks	**356**	413			**0**	2,173
Due from banks	**1,243**	1,039	**1,706**	2,195	**2,756**	2,713
Loans[1]	**96,813**	86,581	**34,846**	31,250	**136,499**	137,344
Guarantees	**2,277**	2,326	**416**	406	**9,741**	10,042
Loan commitments	**1,646**	1,574	**601**	1,214	**7,045**	6,787
Banking products[2]	**102,335**	91,932	**37,569**	35,065	**156,042**	159,059
Banking products, net[3]	**102,264**	91,891	**37,528**	35,048	**155,484**	158,359

1 Does not include reclassified securities and similar acquired securities in our Legacy Portfolio. 2 Excludes loans designated at fair value. 3 Net of allowances, provisions and hedges.

Wealth Management: composition of loan portfolio, gross

	31.12.13		31.12.12	
	CHF million	**%**	CHF million	%
Secured by residential property	**33,425**	**34.5**	30,829	35.6
Secured by commercial / industrial property	**2,204**	**2.3**	1,972	2.3
Secured by cash	**12,139**	**12.5**	12,235	14.1
Secured by securities	**40,054**	**41.4**	34,973	40.4
Secured by guarantees and other collateral	**8,519**	**8.8**	6,265	7.2
Unsecured loans	**472**	**0.5**	307	0.4
Total loans, gross	**96,813**	**100.0**	86,581	100.0
Total loans, net of allowances and credit hedges	**96,741**		86,540	

Wealth Management Americas: composition of loan portfolio, gross

	31.12.13		31.12.12	
	CHF million	**%**	CHF million	%
Secured by residential property	**5,635**	**16.2**	3,461	11.1
Secured by commercial / industrial property				
Secured by cash	**820**	**2.4**	698	2.2
Secured by securities	**26,740**	**76.7**	25,543	81.7
Secured by guarantees and other collateral	**1,410**	**4.0**	1,319	4.2
Unsecured loans[1]	**241**	**0.7**	228	0.7
Total loans, gross	**34,846**	**100.0**	31,250	100.0
Total loans, net of allowances and credit hedges	**34,805**		31,233	

1 Includes credit cards exposures.

Global Asset Management		Investment Bank		Corporate Center – Core Functions		CC – Non-core		CC – Legacy Portfolio	
31.12.13	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12
		145	381	**78,403**	61,029	**7**	122		
586	337	**9,518**	15,485	**2,912**	1,111	**91**	36	**140**	
152	91	**13,290**	14,994	**394**	1,246	**548**	1,294	**2,562**	3,443
1		**5,757**	2,743	**12**	12	**459**	3,331		
49		**32,211**	45,178	**22**	10	**9,569**	3,577	**74**	29
787	428	**60,921**	78,780	**81,743**	63,409	**10,674**	8,360	**2,776**	3,472
787	428	**51,022**	59,177	**81,743**	63,409	**6,998**	7,259	**2,765**	3,433

Retail & Corporate

Gross banking products exposure within Retail & Corporate was CHF 156 billion as of 31 December 2013 compared with CHF 159 billion as of 31 December 2012.

Retail & Corporate's gross loan portfolio decreased to CHF 136 billion from CHF 137 billion at the end of the prior year. The composition of the Retail & Corporate loan portfolio was largely unchanged over the year. At year-end 2013, 93% of this portfolio was secured by collateral, mainly residential and commercial property. Based on our internal ratings, 54% of the unsecured loan portfolio was rated investment grade. Of the total unsecured amount, 60% related to cash flow-based lending to corporate counterparties and approximately a quarter related to lending to public authorities. At the end of the year, and based on our internal ratings, approximately 64% of Retail & Corporate's net banking products exposure was classified as investment grade compared with 69% in the prior year, with over 80% of this portion categorized in the lowest loss given default (LGD) bucket of 0% to 25%. Our Swiss mortgage portfolio, which is managed together with Swiss mortgage loans originated through our Wealth Management business, is discussed further below. Rating tools and LGD for real estate exposures were recalibrated during the year to take the Swiss real estate crisis of the 1990s into account. As a result, the overall profile of exposures shifted towards sub-investment grade and higher LGD.

Our Swiss corporate lending portfolio consists of loans to multinational counterparties and corporates. Although this portfolio is well-diversified across industries, these Swiss counterparties are, in general, highly reliant on the domestic economy and the economies to which they export. The EUR/CHF exchange rate, for which the Swiss National Bank has maintained a target minimum rate of CHF 1.20 since September 2011, is an important risk factor for Swiss corporates engaged in exports, predominantly to the European Union (EU). We are also closely monitoring the implications of any return of crisis conditions within the eurozone on export markets, and the potential implications of the recent decision to reinstate immigration quotas for EU/EEA countries.

The delinquency ratio, being the ratio of past due but not impaired loans to total loans, was 0.9% for the corporate loan portfolio as of 31 December 2013 compared with 0.7% as of 31 December 2012.

➔ **Refer to "Credit risk models" in this section for more information on LGD, rating grades and rating agency mappings**

➔ **Refer to "Changes to models and model parameters during the period" in this section for more information on the recalibration of the rating tools and LGD for real estate exposures**

Retail & Corporate: composition of loan portfolio, gross

	31.12.13		31.12.12	
	CHF million	**%**	CHF million	%
Secured by residential property	**99,155**	**72.6**	98,681	71.8
Secured by commercial / industrial property	**20,377**	**14.9**	19,861	14.5
Secured by cash	**247**	**0.2**	173	0.1
Secured by securities	**1,219**	**0.9**	1,414	1.0
Secured by guarantees and other collateral	**6,029**	**4.4**	5,875	4.3
Unsecured loans	**9,471**	**6.9**	11,340	8.3
Total loans, gross	**136,499**	**100.0**	137,344	100.0
Total loans, net of allowances and credit hedges	**135,971**		136,770	

Retail & Corporate: distribution of net banking products exposure across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			31.12.13						31.12.12	
				LGD bucket						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	Exposure	0–25%	26–50%	51–75%	76–100%	Weighted average LGD (%)	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB–	98,752	82,204	14,432	2,104	12	14	109,447	10
Sub-investment grade			57,290	46,825	7,718	1,633	1,114	17	49,522	16
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	*51,556*	*42,887*	*6,129*	*1,426*	*1,113*	17	*45,861*	*16*
of which: 10–12	*B2 to Caa*	*B to CCC*	*4,235*	*3,749*	*467*	*18*	*2*	*12*	*1,921*	*14*
of which: 13 and defaulted	*Ca and lower*	*CC and lower*	*1,499*	*188*	*1,122*	*189*	*0*	*37*	*1,741*	*24*
Total exposure after application of credit hedges, before deduction of allowances, provisions			156,042	129,029	22,150	3,737	1,127	15	158,969	12
Less: allowances, provisions			*558*						*610*	
Net banking products exposure after application of credit hedges			155,484						158,359	

Retail & Corporate: unsecured loans by industry sector

	31.12.13		31.12.12	
	CHF million	%	CHF million	%
Construction	101	1.1	108	1.0
Financial institutions	696	7.3	1,106	9.8
Hotels and restaurants	69	0.7	51	0.5
Manufacturing	1,563	16.5	1,921	16.9
Private households	1,358	14.3	1,578	13.9
Public authorities	2,286	24.1	2,562	22.6
Real estate and rentals	531	5.6	430	3.8
Retail and wholesale	1,519	16.0	1,818	16.0
Services	1,213	12.8	1,289	11.4
Other	135	1.4	478	4.2
Total	9,471	100.0	11,340	100.0

Swiss mortgages: distribution of net exposure at default (EAD) across exposure segments and loan-to-value (LTV) buckets

CHF billion, except where indicated		31.12.13								31.12.12
		LTV bucket								
Exposure segment		≤30%	31–50%	51–60%	61–70%	71–80%	81–100%	>100%	Total	Total
Residential mortgages	Net EAD	68.4	31.5	8.7	4.2	1.3	0.2	0.0	114.4	114.7
	as a % of row total	60	28	8	4	1	0	0	100	
Income-producing real estate (IPRE)	Net EAD	11.0	5.0	1.5	0.8	0.3	0.1	0.0	18.6	17.1
	as a % of row total	59	27	8	4	1	0	0	100	
Corporates	Net EAD	5.2	2.3	0.6	0.3	0.1	0.1	0.1	8.8	9.3
	as a % of row total	59	26	7	4	2	1	1	100	
Other segments	Net EAD	0.7	0.3	0.1	0.0	0.0	0.0	0.0	1.1	1.2
	as a % of row total	66	23	5	3	2	0	0	100	
Mortgage-covered exposure	Net EAD	85.4	39.0	10.9	5.3	1.7	0.4	0.1	142.9	142.3
	as a % of total	60	27	8	4	1	0	0	100	
Mortgage-covered exposure 31.12.12	Net EAD	82.3	39.7	11.5	5.9	2.1	0.5	0.3	142.3	
	as a % of total	58	28	8	4	1	0	0	100	

Our largest loan portfolio continues to be our mortgage loan portfolio secured by residential and commercial real estate in Switzerland. These mortgage loans mainly originate from Retail & Corporate but also include mortgage loans originating from Wealth Management. The majority of these mortgage loans, CHF 124 billion, relate to residential properties that the borrower either occupies or rents out and are full recourse to the borrower. Approximately 70% of the Swiss residential mortgage loan portfolio relates to properties occupied by the borrower. The average loan-to-value (LTV) ratio of this portfolio was 53% as of 31 December 2013 compared with 55% as of 31 December 2012. The average LTV for newly originated loans in 2013 was 62% compared with 63% in 2012. The remaining 30% of the Swiss residential mortgage loan portfolio relates to properties rented out by the borrower. The average LTV of this portfolio was 57% as of 31 December 2013 compared with 58% as of 31 December 2012. The average LTV for newly originated loans in 2013 was 59% compared with 56% in 2012.

As illustrated by the table "Swiss mortgages: distribution of net exposure at default (EAD) across exposure segments and loan-to-value (LTV) buckets," over 99% of the aggregate amount of Swiss residential mortgage loans would continue to be covered by the real estate collateral even if the value assigned to that collateral were to decrease by 20%. In this table, the amount of each mortgage loan is allocated across the LTV buckets to indicate the portion at risk at the various value levels shown. For example, a loan of 75 with an LTV ratio of 75% (collateral value of 100) would result in allocations of 30 in the less than 30% bucket, 20 in the 31–50% bucket, 10 in the 51–60% bucket, 10 in the 61–70% bucket and five in the 71–80% bucket.

The delinquency ratio for the Swiss mortgages portfolio was approximately 0.5% as of 31 December 2013, unchanged from the end of the prior year.

Global Asset Management

Gross banking products exposure within Global Asset Management was less than CHF 1 billion as of 31 December 2013.

Investment Bank

The Investment Bank's lending activities are largely associated with corporates and non-bank financial institutions, which is broadly diversified across industry sectors, but concentrated in North America.

The gross banking products exposure of the Investment Bank decreased to CHF 61 billion as of 31 December 2013 compared with CHF 79 billion as of 31 December 2012.

The Investment Bank actively manages the credit risk of this portfolio and, as of 31 December 2013, held CHF 9.8 billion of single-name CDS hedges against its exposures to corporates and other non-banks, a decrease compared with CHF 19.5 billion at the end of 2012. In addition, the Investment Bank held CHF 396 million of loss protection from the subordinated tranches of structured credit protection which is not reflected in the table.

Net banking products exposure, excluding balances with central banks and the vast majority of due from banks and after allowances, provisions and hedges, reduced to CHF 42.3 billion as of 31 December 2013 from CHF 48.9 billion at the end of 2012. At the end of the year and based on our internal ratings, 57% of the Investment Bank's net banking products exposure was classified as investment

Investment Bank: banking products[1]

CHF million	31.12.13	31.12.12
Total exposure, before deduction of allowances, provisions and hedges[2]	52,186	68,434
Less: allowances, provisions	(36)	(42)
Less: credit protection bought (credit default swaps, notional)[3]	(9,843)	(19,540)
Net exposure after allowances, provisions and hedges	**42,308**	**48,851**

1 Risk view, excludes balances with central banks, internal risk adjustments and the vast majority of due from banks exposures. 2 Banking products including money market and nostro accounts amount to CHF 60,921 million (31 December 2012: CHF 78,780 million). 3 The effect of portfolio hedges, such as index credit default swaps (CDS), and of loss protection from the subordinated tranches of structured credit protection have not been reflected in this table.

Investment Bank: distribution of net banking products exposure, across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			31.12.13						31.12.12	
				LGD bucket						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	Exposure	0–25%	26–50%	51–75%	76–100%	Weighted average LGD (%)	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB–	24,017	5,547	12,285	1,830	4,356	47	28,873	36
Sub-investment grade			18,290	10,385	5,451	1,760	694	26	19,978	25
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	*10,541*	*6,492*	*2,192*	*1,622*	*236*	*25*	*13,410*	*21*
of which: 10–12	*B2 to Caa*	*B to CCC*	*7,625*	*3,792*	*3,247*	*138*	*448*	*29*	*6,397*	*32*
of which: 13 and defaulted	*Ca and lower*	*CC and lower*	*124*	*102*	*11*	*0*	*11*	*17*	*171*	*17*
Net banking products exposure, after application of credit hedges			**42,308**	**15,932**	**17,735**	**3,590**	**5,051**	**38**	**48,851**	**32**

Investment Bank: net banking products exposure by geographical region

	31.12.13		31.12.12	
	CHF million	%	CHF million	%
Asia Pacific	2,808	6.6	4,084	8.4
Latin America	277	0.7	205	0.4
Middle East and Africa	80	0.2	238	0.5
North America	31,069	73.4	34,723	71.1
Switzerland	852	2.0	244	0.5
Rest of Europe	7,222	17.1	9,357	19.2
Net exposure	42,308	100.0	48,851	100.0

Investment Bank: net banking products exposure by industry sector

	31.12.13		31.12.12	
	CHF million	%	CHF million	%
Banks	3,133	7.4	5,524	11.3
Chemicals	1,532	3.6	1,304	2.7
Electricity, gas, water supply	2,142	5.1	3,630	7.4
Financial institutions, excluding banks	12,303	29.1	11,477	23.5
Manufacturing	5,080	12.0	7,521	15.4
Mining	6,158	14.6	5,488	11.2
Public authorities	3,122	7.4	2,702	5.5
Retail and wholesale	1,534	3.6	1,795	3.7
Transport, storage and communication	3,149	7.4	3,389	6.9
Other	4,154	9.8	6,021	12.3
Net exposure	42,308	100.0	48,851	100.0

grade compared with 59% at the end of the prior year. The majority of the Investment Bank's net banking products exposure had estimated LGD of between 0% and 50%.

➔ **Refer to "Credit risk models" in this section for more information on LGD, rating grades and rating agency mappings**

Corporate Center – Core Functions

Gross banking products exposure within Corporate Center – Core Functions increased by CHF 18 billion to CHF 82 billion. This exposure arises in connection with treasury activities and primarily consists of balances with central banks.

Corporate Center – Non-core and Legacy Portfolio

➔ **Refer to "Corporate Center – Non-core and Legacy Portfolio" in this section for more information**

Traded products

Exposures to OTC derivatives are generally measured as net positive replacement values after the application of legally enforceable netting agreements and the deduction of cash collateral. Exchange-traded derivatives (ETD) exposures take into account initial and daily variation margins. Securities financing exposures are reported taking into account collateral received.

The majority of the credit risk arising from traded products relates to OTC derivatives, primarily within Corporate Center – Non-core and Legacy Portfolio and the Investment Bank. As counterparty risk for traded products exposure is managed at a counterparty level, no split between exposures in the Investment Bank and those in Non-core and Legacy Portfolio is provided. The tables below provide information on our OTC derivative exposures across the Investment Bank and Corporate Center – Non-core and Legacy Portfolio.

Credit risk arising from traded products, after the effects of master netting agreements but excluding credit valuation adjustments and hedges, decreased by CHF 6 billion to CHF 50 billion. This decrease reflected continued progress in managing down credit risks within Corporate Center – Non-core and Legacy Portfolio.

Investment Bank and CC – Non-core and Legacy Portfolio: OTC derivatives exposure[1]

CHF million	**31.12.13**	31.12.12
Total exposure, before deduction of allowances, provisions and hedges	**23,466**	28,154
Less: allowances, provisions	***(687)***	*(1,083)*
Less: credit protection bought (credit default swaps, notional)	***(965)***	*(2,559)*
Net exposure after allowances, provisions and hedges	**21,814**	24,511

1 Net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

Investment Bank and CC – Non-core and Legacy Portfolio: distribution of net OTC derivatives exposure, across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			**31.12.13**						31.12.12	
				LGD bucket						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	**Exposure**	**0–25%**	**26–50%**	**51–75%**	**76–100%**	**Weighted average LGD (%)**	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB–	**20,319**	**4,372**	**13,881**	**819**	**1,247**	**36**	22,938	34
Sub-investment grade			**1,494**	**482**	**533**	**264**	**215**	**44**	1,573	35
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***950***	***401***	***252***	***93***	***204***	***42***	*1,270*	*36*
of which: 10–12	*B2 to Caa*	*B to CCC*	***263***	***73***	***181***	***2***	***8***	***32***	*47*	*43*
of which: 13 and defaulted	*Ca and lower*	*CC and lower*	***281***	***9***	***100***	***169***	***3***	***61***	*257*	*30*
Net OTC derivatives exposure, after application of credit hedges			**21,814**	**4,855**	**14,414**	**1,082**	**1,462**	**37**	24,511	34

Investment Bank and CC – Non-core and Legacy Portfolio: net OTC derivatives exposure by geographical region

	31.12.13		31.12.12	
	CHF million	**%**	CHF million	%
Asia Pacific	**4,023**	**18.4**	3,499	14.3
Latin America	**126**	**0.6**	219	0.9
Middle East and Africa	**112**	**0.5**	755	3.1
North America	**7,350**	**33.7**	9,600	39.2
Switzerland	**1,004**	**4.6**	864	3.5
Rest of Europe	**9,198**	**42.2**	9,575	39.1
Net exposure	**21,814**	**100.0**	24,511	100.0

Investment Bank and CC – Non-core and Legacy Portfolio: net OTC derivatives exposure by industry sector[1]

	31.12.13		31.12.12	
	CHF million	**%**	CHF million	%
Banks	**7,351**	**33.7**	7,947	32.4
Chemicals	**98**	**0.4**	224	0.9
Electricity, gas, water supply	**239**	**1.1**	463	1.9
Financial institutions, excluding banks	**9,511**	**43.6**	8,968	36.6
Manufacturing	**371**	**1.7**	331	1.4
Mining	**125**	**0.6**	114	0.5
Public authorities	**3,155**	**14.5**	5,075	20.7
Retail and wholesale	**130**	**0.6**	54	0.2
Transport, storage and communication	**463**	**2.1**	601	2.5
Other	**372**	**1.7**	736	3.0
Net exposure	**21,814**	**100.0**	24,511	100.0

Credit risk mitigation

Audited We actively manage the credit risk in our portfolios by taking collateral against exposures and by utilizing credit hedging.

Lending secured by real estate

Audited We use a scoring model as part of a standardized front-to-back process to support credit decisions for the origination or modification of Swiss mortgage loans. The two key factors within this model are an affordability calculation relative to gross income and the loan-to-value (LTV) ratio. The calculation of affordability takes into account interest payments, minimum amortization requirements, potential property maintenance costs and, in the case of properties expected to be rented out, the level of rental income. Interest payments are estimated using a predefined framework, which takes into account the potential for significant increases in interest rates during the lifetime of the loan.

For properties occupied by the borrower, the maximum LTV allowed within the standard approval process is 80%. This is reduced to 60% in the case of vacation properties and luxury real estate. For properties rented out by the borrower, the maximum LTV allowed within the standard approval process ranges from 60% to 80%, depending on the type of property, the age of the property and the amount of any renovation work required.

Audited The value assigned by UBS to each property is based on the lowest value determined based on internally calculated valuations, the purchase price and, in some cases, an additional external valuation. We use two separate models provided by a market-leading external vendor to derive property valuations for owner-occupied residential properties (ORP) and income-producing real estate. For ORP, we estimate the current value of properties by using a regression model (hedonic model) to compare detailed characteristics for each property against a database of property transactions. In addition to the model-derived values, valuations for ORP are updated annually throughout the lifetime of the loan by using region-specific real estate price indices. The price indices are sourced from an external vendor and are subject to internal validation and benchmarking against two other external vendors. On an annual basis, we use these valuations to compute indexed LTV for all ORP and consider these together with other risk measures (e.g., rating migration and behavioral information) to identify higher-risk loans, which are then reviewed manually by client advisors and credit officers and actions are taken where considered necessary.

For income-producing real estate, a capitalization model is used to determine the property valuation by discounting estimated sustainable future income using a capitalization rate based on various attributes. These attributes consider regional as well as specific property characteristics such as market and location data (e.g., vacancy rates), benchmarks (e.g., for running costs) and certain other standardized input parameters (e.g., property condition). Rental income from properties is reviewed, at a minimum, once every three years but indications of significant changes in the amount of rental income or the level of vacancy rate can trigger an interim reappraisal.

To take market developments into account for these models, the external vendor regularly updates the parameters and/or refines the architecture for each model. Model changes and parameter updates are subject to the same validation procedures as for our internally developed models.

Audited We similarly apply underwriting guidelines for our Wealth Management Americas mortgage loan portfolio to ensure affordability of the loans and sufficiency of collateral. These include the following: maximum loan amounts, maturities and LTV limits by type of property, debt-to-income limits, required reserves as a percentage of proposed loan amounts and appropriate credit score guidelines. The maximum LTV allowed within the standard approval process ranges from 45% to 80% depending on property type and overall loan size.

➔ **Refer to "Retail & Corporate" in "Credit risk profile of the Group – Internal risk view" in this section for more information on LTV in our Swiss mortgage portfolio**

➔ **Refer to "Wealth Management Americas" in "Credit risk profile of the Group – Internal risk view" in this section for more information on LTV in our Wealth Management Americas mortgage portfolio**

Exposures secured by other forms of collateral

Audited Lombard loans and other lending such as securities financing transactions are secured against the pledge of eligible marketable securities, guarantees and other forms of collateral. Eligible financial securities primarily include transferable securities (such as bonds and equities), which are liquid and actively traded, and other transferable securities such as approved structured products for which regular prices are available and for which the issuer of the security provides a market.

We apply discounts (haircuts) to reflect the collateral's risk and to derive the "lending value." Haircuts for eligible marketable securities are calculated to cover the possible change in the market value over a given close-out period and confidence level. For less liquid instruments such as structured products and certain bonds, and for products with long redemption periods, the close-out period might be much longer than that for highly liquid instruments, resulting in a higher haircut. For cash, life insurance policies and guarantees/letters of credit, haircuts are determined on a product-/client-specific basis. Where such products are held with a third party, a further haircut is applied to cover any related operational risks and the potential cost of closing out such collateral.

Audited We also consider concentration risks across collateral pledged. A concentration of collateral in single securities, issuers or issuer groups, industry sectors, countries, regions or currencies may result in higher risk and reduced liquidity. In such cases, transactions are subject to a higher level of credit approval and the lending value of the collateral, margin call and close-out levels are adjusted accordingly.

Exposures and collateral values are monitored on a daily basis to ensure that the credit exposure continues to be covered by sufficient collateral. A shortfall occurs when the lending value drops

below the exposure. If a shortfall exceeds a defined trigger level, a margin call is initiated, requiring the client to provide additional collateral, reduce the exposure or take other action to bring exposure in line with the lending value of the collateral. If the shortfall widens, or is not corrected within the required period, a close-out is initiated, through which collateral is liquidated, open derivative positions are closed and guarantees or letters of credit are called.

We also conduct stress testing of collateralized exposures to simulate market events which increase the risk of collateral shortfalls and unsecured exposures by significantly reducing the value of the collateral, increasing the exposure of traded products, or both. The results are monitored against thresholds at a portfolio level and, in some cases, at an individual client level.

➔ Refer to "Stress loss" in "Credit risk models" in this section for more information on our stress testing

Audited

Our OTC derivatives trading is conducted through central counterparties (CCP) where practicable. Where CCP are not used, we have clearly defined processes for entering into netting and collateral arrangements, including the requirement to have a legal opinion on the enforceability of contracts in relevant jurisdictions in the case of insolvency. Trading is generally conducted under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of all transactions in the event of default. For certain major market participant counterparties, we may in addition use two-way collateral agreements under which either party can be required to provide collateral in the form of cash or marketable securities, typically limited to well-rated government debt, when the exposure exceeds specified levels.

➔ Refer to "Note 14 Derivative instruments and hedge accounting" in the "Financial information" section of this report for more information on our OTC derivatives settled through CCP

➔ Refer to "Note 26 Offsetting financial assets and financial liabilities" in the "Financial information" section of this report for more information on the effect of netting and collateral arrangements on our derivative exposures

Credit hedging

Audited

We utilize single-name credit default swaps CDS, credit index CDS, bespoke protection, and other instruments to actively manage credit risk in the Investment Bank and Corporate Center – Non-core and Legacy Portfolio. This is aimed at reducing concentrations of risk from specific counterparties, sectors or portfolios.

We maintain high standards for taking credit hedges into account for credit risk mitigation purposes. For example, when monitoring exposures against limits, we do not usually recognize credit risk mitigants such as proxy hedges (credit protection on a correlated but different name) or credit index CDS. Buying credit protection also creates credit exposure against the protection provider. We monitor our exposures to credit protection providers and the effectiveness of credit hedges as part of our overall credit exposures to the relevant counterparties. In addition, we identify and monitor positions where we believe there is significant exposure and correlation between the counterparty and the hedge provider (so-called wrong-way risk). Our policy is to discourage such activity, and in any event or as market correlations may change, not to recognize hedge benefits subject to wrong-way risk within counterparty limits and credit exposure-related capital calculations.

➔ Refer to "Note 14 Derivative instruments and hedge accounting" in the "Financial information" section of this report for more information

Mitigation of settlement risk

To mitigate settlement risk, we reduce our actual settlement volumes through the use of multilateral and bilateral agreements with counterparties, including payment netting.

Our most significant source of settlement risk is foreign exchange transactions. We are a member of Continuous Linked Settlement, a foreign exchange clearing house which allows transactions to be settled on a delivery-versus-payment basis, thereby significantly reducing foreign exchange-related settlement risk relative to the volume of business. The mitigation of settlement risk through Continuous Linked Settlement membership and other means does not eliminate our credit risk in foreign exchange transactions (resulting from changes in exchange rates prior to settlement), which is managed as part of our overall credit risk management of OTC derivatives.

Credit risk models

Audited

We have developed tools and models in order to estimate future credit losses that may be implicit in our current portfolio.

Exposures to individual counterparties are measured based on three generally accepted parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). For a given credit facility, the product of these three parameters results in the 12 months' expected loss. These parameters are the basis for the majority of our internal measures of credit risk, and are key inputs for the regulatory capital calculation under the advanced internal ratings-based approach of the Basel III framework governing international convergence of capital. We also use models to derive the portfolio credit risk measures of expected loss, statistical loss and stress loss.

The table on the next page summarizes the key features of the models that we use to derive PD, LGD and EAD for our main portfolios and is followed by more detailed explanations of these parameters.

➔ Refer to the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report for more information on the regulatory capital calculation under the advanced internal ratings-based approach

Probability of default

The PD is an estimate of the likelihood of a counterparty defaulting on its contractual obligations over the next 12 months. PD

Risk, treasury and capital management

ratings are used for credit risk measurement and as an important input for determining credit risk approval authorities.

PD is assessed using rating tools tailored to the various categories of counterparties. Statistically developed score cards, based on key attributes of the obligor and any associated collateral, are used to determine PD for many of our corporate clients and for loans secured by real estate. Where available, market data may also be used to derive the PD for large corporate counterparties. For Lombard loans, Merton-type model simulations taking into account potential changes in the value of securities collateral are used in our rating approach. These categories are also calibrated to our internal credit rating scale (masterscale), which is designed to ensure a consistent assessment of default probabilities across counterparties. Our masterscale expresses one-year default probabilities that we determine through our various rating tools by means of distinct classes, whereby each class incorporates a range of default probabilities. Counterparties migrate between rating classes as our assessment of their PD changes.

The ratings of the major credit rating agencies, and their mapping to our internal rating masterscale and internal PD bands, are shown in the table "Internal UBS rating scale and mapping of external ratings" below. The mapping is based on the long-term average of one-year default rates available from the rating agencies. For each external rating category, the average default rate is

Key features of our main credit risk models

	Portfolio in scope	Model approach	Main drivers	Number of years loss data
Probability of default	Swiss owner-occupied mortgages	Score card	Behavioral data, affordability relative to income, property type, loan-to-value	19
	Income Producing Real Estate mortgages	Transaction rating	Loan-to-value, debt-service-coverage	19
	Lombard lending	Merton type	Loan-to-value, portfolio volatility	5–10
	Retail & Corporate – Corporates	Score card	Financial data including balance sheet ratios and profit and loss, and qualitative risk factors	15
	Investment Bank – Banks	Score card	Financial data including balance sheet ratios and profit and loss	5–10
	Investment Bank – Corporates	Score card / market data	Financial data including balance sheet ratios and profit and loss, and market data	5–10
Loss given default	Swiss owner-occupied mortgages	Actuarial model	Historical observed loss rates, loan-to-value, property type	19
	Income Producing Real Estate mortgages	Actuarial model	Historical observed loss rates	19
	Lombard lending	Actuarial model	Portfolio volatility, portfolio illiquidity	5–10
	Investment Bank – all counterparties	Actuarial model	Counterparty and facility specific, including industry segment, collateral, seniority, legal environment and bankruptcy procedures	5–10
Exposure at default	Banking products	Statistical model	Exposure type (committed credit lines, revocable credit lines, contingent products)	> 10
	Traded products	Statistical model	Product specific market drivers, e.g., interest rates	> 10

Audited

Internal UBS rating scale and mapping of external ratings

Internal UBS rating	1-year PD range in %	Description	Moody's Investors Service mapping	Standard & Poor's mapping	Fitch mapping
0 and 1	0.00–0.02	Investment grade	Aaa	AAA	AAA
2	0.02–0.05		Aa1 to Aa3	AA+ to AA–	AA+ to AA–
3	0.05–0.12		A1 to A3	A+ to A–	A+ to A–
4	0.12–0.25		Baa1 to Baa2	BBB+ to BBB	BBB+ to BBB
5	0.25–0.50		Baa3	BBB–	BBB–
6	0.50–0.80	Sub-investment grade	Ba1	BB+	BB+
7	0.80–1.30		Ba2	BB	BB
8	1.30–2.10		Ba3	BB–	BB–
9	2.10–3.50		B1	B+	B+
10	3.50–6.00		B2	B	B
11	6.00–10.00		B3	B–	B–
12	10.00–17.00		Caa	CCC	CCC
13	>17		Ca to C	CC to C	CC to C
Counterparty is in default (CDF)	Default	Defaulted		D	D

compared with our internal PD bands to derive a mapping to our internal rating scale. Our internal rating of a counterparty may, therefore, diverge from one or more of the correlated external ratings shown in the table. Observed defaults by rating agencies may vary through economic cycles, and we do not necessarily expect the actual number of defaults in our equivalent rating band to equal the rating agencies' average in any given period. We periodically assess the long-term average default rates of credit rating agencies' grades, and we adjust their mapping to our masterscale as necessary to reflect any material changes.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. LGD estimates include loss of principal, interest and other amounts (such as workout costs, including the cost of carrying an impaired position during the workout process) less recovered amounts. We determine LGD based on the likely recovery rate of claims against defaulted counterparties, which depends on the type of counterparty and any credit mitigation by way of collateral or guarantees. Our estimates are supported by our internal loss data and external information where available. Where we hold collateral, such as marketable securities or a mortgage on a property, loan-to-value ratios are a key parameter in determining LGD.

Exposure at default

Exposure at default (EAD) represents the amount we expect to be owed by a counterparty at the time of a possible default. We derive EAD from our current exposure to the counterparty and the possible future development of that exposure.

The EAD of a loan is the drawn or face value of the loan. For loan commitments and guarantees, the EAD includes the amount drawn as well as potential future amounts that may be drawn, which are estimated based on historical observations.

For traded products, we derive the EAD by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques. We assess the net amount that may be owed to us or that we may owe to others, taking into account the impact of market moves over the potential time it would take to close out our positions. For exchange-traded derivatives, our calculation of EAD takes into account initial and daily variation margins. When measuring individual counterparty exposure against credit limits, we consider the maximum likely exposure measured to a high level of confidence. However, when aggregating exposures to different counterparties for portfolio risk measurement purposes, we use the expected exposure to each counterparty at a given time period (usually one year) generated by the same model.

We assess our exposures where there is a material correlation between the factors driving the credit quality of the counterparty and those driving the potential future value of our traded product exposure (wrong-way risk), and we have established specific controls to mitigate these risks.

Expected loss

Credit losses are an inherent cost of doing business, but the occurrence and amount of credit losses can be erratic. In order to quantify future credit losses that may be implicit in our current portfolio, we use the concept of expected loss.

Expected loss is a statistical measure used to estimate the average annual costs we expect to experience from positions that become impaired. The expected loss for a given credit facility is a function of the three components described above: PD, EAD and LGD. We aggregate the expected loss for individual counterparties to derive our expected portfolio credit losses.

Expected loss is the basis for quantifying credit risk in all our portfolios. It is also the starting point for the measurement of our portfolio statistical loss and stress loss.

We use a statistical modeling approach to estimate the loss profile of each of our credit portfolios over a one-year period to a specified level of confidence. The mean value of this loss distribution is the expected loss. The loss estimates deviate from the mean value due to statistical uncertainty on the defaulting counterparties and to systematic default relationships among counterparties within and between segments. The statistical measure is sensitive to concentration risks on individual counterparties and groups of counterparties. The outcome provides an indication of the level of risk in our portfolio and the way it may develop over time.

Stress loss

We complement our statistical modeling approach with scenario-based stress loss measures. Stress tests are run on a regular basis to monitor the potential impact of extreme but nevertheless plausible events on our portfolios, under which key credit risk parameters are assumed to deteriorate substantially. Where we consider it appropriate, we apply limits on this basis.

Stress scenarios and methodologies are tailored to the nature of the portfolios, ranging from regionally focused to global systemic events, and varying in time horizon. For example, for our loan underwriting portfolio, we apply a global market event under which, simultaneously, the market for loan syndication freezes, market conditions significantly worsen, and credit quality deteriorates. Similarly, for Lombard lending, we apply a range of scenarios representing instantaneous market shocks to all collateral positions, taking into consideration their liquidity and potential concentrations. The portfolio-specific stress test for our mortgage lending in Switzerland reflects a multi-year event and the overarching stress test for global wholesale and counterparty credit risk to corporates uses a one-year global stress event and takes into account exposure concentrations to single counterparties.

➔ **Refer to "Stress testing" in this section for more information on our stress testing framework**

Credit risk model validation

Applied models and methodologies must be approved and regularly reviewed in accordance with regulatory requirements as well

as internal policies to ensure that models perform as expected, produce results consistent with real events and values, and reflect best-in-practice approaches as well as recent academic developments. Accordingly, we assess whether the model is performing satisfactorily, additional analysis is required, or recalibration or redevelopment need to be performed. Results and conclusions are presented to the relevant governance body and, as required, to regulators.

The ongoing process of assessing model quality and performance in the production environment comprises two components: model verification, being the initial and regular assessment of the model's conceptual soundness, performed by the internal Independent Verification Unit (IVU), and model confirmation, representing the regular process of checking the accuracy and appropriateness of the model output and its application, carried out by the model developers and reviewed by the IVU.

Our approach to model confirmation involves both quantitative methods, including monitoring compositional changes in the portfolios and the results of backtesting, and qualitative assessments, including feedback from users on the model output as a practical indicator of the performance and reliability of the model.

Material changes in a portfolio composition may invalidate the conceptual soundness of the model. We therefore perform regular analysis of the evolution of portfolios to identify such changes in the structure and credit quality of portfolios. This includes analysis of changes in key attributes, changes in portfolio concentration measures, as well as changes in RWA.

Backtesting

We monitor the performance of our models by backtesting and benchmarking them, whereby model outcomes are compared with actual results, based on our internal experience as well as externally observed results. We take a portfolio (or sub-portfolio or rating bucket) approach to determine whether behavior observed is in line with that predicted by our models.

For PD, we use statistical modeling to derive a distribution of expected number of defaults. The observed number of defaults is then compared with this distribution, allowing us to derive a sta-

Credit models backtesting by regulatory exposure segment

	Length of time series used for the calibration (in years)	Actual rates in %			Estimated average rates at the start of the period in %
		Average of last 5 years[1]	Min. of last 5 years[2]	Max. of last 5 years[2]	
PD					
Corporates[3]	> 10	0.19	0.07	0.46	0.38
Sovereigns	> 10	0.00	0.00	0.00	0.34
Banks	> 10	0.18	0.05	0.45	0.55
Retail					
Residential mortgages	> 15	0.16	0.13	0.22	0.19
Lombard lending	> 10	0.02	0.00	0.06	0.20
Other retail	> 10	0.36	0.24	0.47	1.05
LGD					
Corporates	> 10	21.39	8.45	24.97	19.64
Sovereigns	> 10				40.43
Banks	> 10	30.40	18.80	35.67	37.73
Retail					
Residential mortgages	> 10	2.14	0.00	3.52	6.12
Lombard lending[4]	> 10	42.64	40.42	40.42	20.00
Other retail	> 10	23.43	6.65	31.62	47.64
CCF					
Corporates	> 10	15.77	9.75	30.65	38.65

1 Average of all observations over the last five years. 2 Minimum / maximum annual average of observations in any single year from the last five years. Yearly averages are only calculated where five or more observations occurred during that year. 3 Reported averages are low due to the impact of managed funds, which have relatively low default rates. 4 For Lombard lending, the minimum and maximum annual observations for LGD relate to 2009, being the only year in which five or more defaults were observed. Due to the low number of defaults over this period, the observed averages are not meaningful comparators to the equivalent estimated average, which is calibrated using a larger data set spanning a longer historical period.

tistical level of confidence in the model accuracy. In addition, we derive a lower and upper bound for the average default rate. If the portfolio average PD lies outside the derived interval, the rating tool is, as a general rule, recalibrated.

We apply a similar approach to assess the predictive power of our simulations of potential future exposures for traded products such as OTC derivatives.

For LGD, we compute the difference between observed and estimated LGD for defaulted counterparties with the expectation that, for each specific LGD model, the distribution of those differences is symmetric around zero with a small dispersion. Models are recalibrated where these differences are outside expectations.

Credit conversion factors (CCF), used for the calculation of EAD for undrawn facilities with corporate counterparties, are dependent on several contractual dimensions of the credit facility. Similar to our approach for PD, we compare the predicted amount drawn with observed historical utilization of such facilities for defaulted counterparties. If any statistically significant deviation is observed, the relevant CCF are redefined.

The table on the previous page compares the current model calibration for PD, LGD and CCF with historical observed values over the last five years.

Changes to models and model parameters during the period

As part of our continuous efforts to enhance models to reflect market developments and new available data, certain models have been modified in the course of 2013. The rating and LGD models for residential mortgages have been enhanced to increase the extent to which they take into account the availability of clients' behavioral data. A new model has been implemented for rating large multinationals, taking into account extended market information, research and analysis to assess the creditworthiness of the counterparty. To meet Basel III requirements, developments have been made in the context of the derivatives future exposure calculations, with new models for the calculation of the future close-out risk and CVA. Where required, changes to models and model parameters are approved by FINMA prior to implementation.

Comparison of actual versus expected loss

In addition to the above comparison of estimated with observed parameter values, the table below provides a breakdown over the last five years of the one-year expected loss estimate on our credit portfolios (covering banking and traded products) and the actual IFRS credit loss amount (including CVA on derivatives) charged against our income statement, according to BIS-defined exposure segments of the advanced internal ratings-based approach.

Although such a comparison may provide some insight, comparison between expected and actual losses has certain limitations and the two measures may not be directly comparable. For example, our estimates of expected loss are calibrated on a "through-the-cycle" basis, taking into account observed losses over a prolonged historical period. In contrast, the actual loss figures presented are a "point-in-time" view of our credit loss expenses, equal to the amount charged to the income statement in a specific financial year. Furthermore, the estimated expected loss at the start of the period assumes that the portfolio will be unchanged throughout the coming year. In reality, the portfolio composition changes on an ongoing basis, affecting the actual loss experience.

Total expected loss and actual credit loss

	Expected loss	**Actual loss**	Expected loss	Actual loss	Expected loss	Actual loss	Expected loss	Actual loss	Expected loss	Actual loss
CHF million	31.12.12	**For the year ended 31.12.13**	31.12.11	For the year ended 31.12.12	31.12.10	For the year ended 31.12.11	31.12.09	For the year ended 31.12.10	31.12.08	For the year ended 31.12.09
Corporates[1]	(199)	**31**	(322)	884	(336)	(321)	(359)	1,577	(610)	(1,093)
Sovereigns	(4)	**0**	(19)	0	(27)		(8)		(13)	1
Banks	(36)	**3**	(35)	(1)	(40)	(1)	(37)	26	(57)	(22)
Retail										
Residential mortgages	*(96)*	***(2)***	*(59)*	*15*	*(62)*	*3*	*(84)*	*1*	*(87)*	*(1)*
Lombard lending	*(32)*	***(36)***	*(24)*	*(12)*	*(30)*	*12*	*(19)*	*5*	*(34)*	*52*
Other retail	*(18)*	***(8)***	*(5)*	*(11)*		*(5)*	*(5)*	*(2)*	*(11)*	*(30)*
Not allocated segment[2]		**99**		24		(75)		7		(17)
Total	(386)	**88**	(463)	899	(494)	(387)	(512)	1,615	(812)	(1,110)

1 Includes actual credit recovery in Corporate Center – Non-core and Legacy Portfolio, which amounted to CHF 3 million (31 December 2012: CHF 78 million net loss). 2 Includes changes in collective loan loss allowances and provisions.

Policies for past due, non-performing and impaired claims

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The diagram below illustrates how we categorize banking products and securities financing transactions as performing, non-performing or impaired. For products accounted for on a fair value basis, such as OTC derivatives, credit deterioration is recognized through a CVA, and these products are therefore not subject to the below impairment framework.

We consider a claim to be past due when a contractual payment has not been received by its contractual due date. This includes account overdrafts where the credit limit is exceeded. Past due claims are not considered impaired where we expect to collect all amounts due under the contractual terms of the claims.

A past due claim is considered non-performing when the payment of interest, principal or fees is overdue by more than 90 days. Claims are also classified as non-performing when insolvency proceedings/enforced liquidation have commenced or obligations have been restructured on preferential terms, such as preferential interest rates, extension of maturity or subordination. Non-performing claims are rated as being in counterparty default on our internal rating scale.

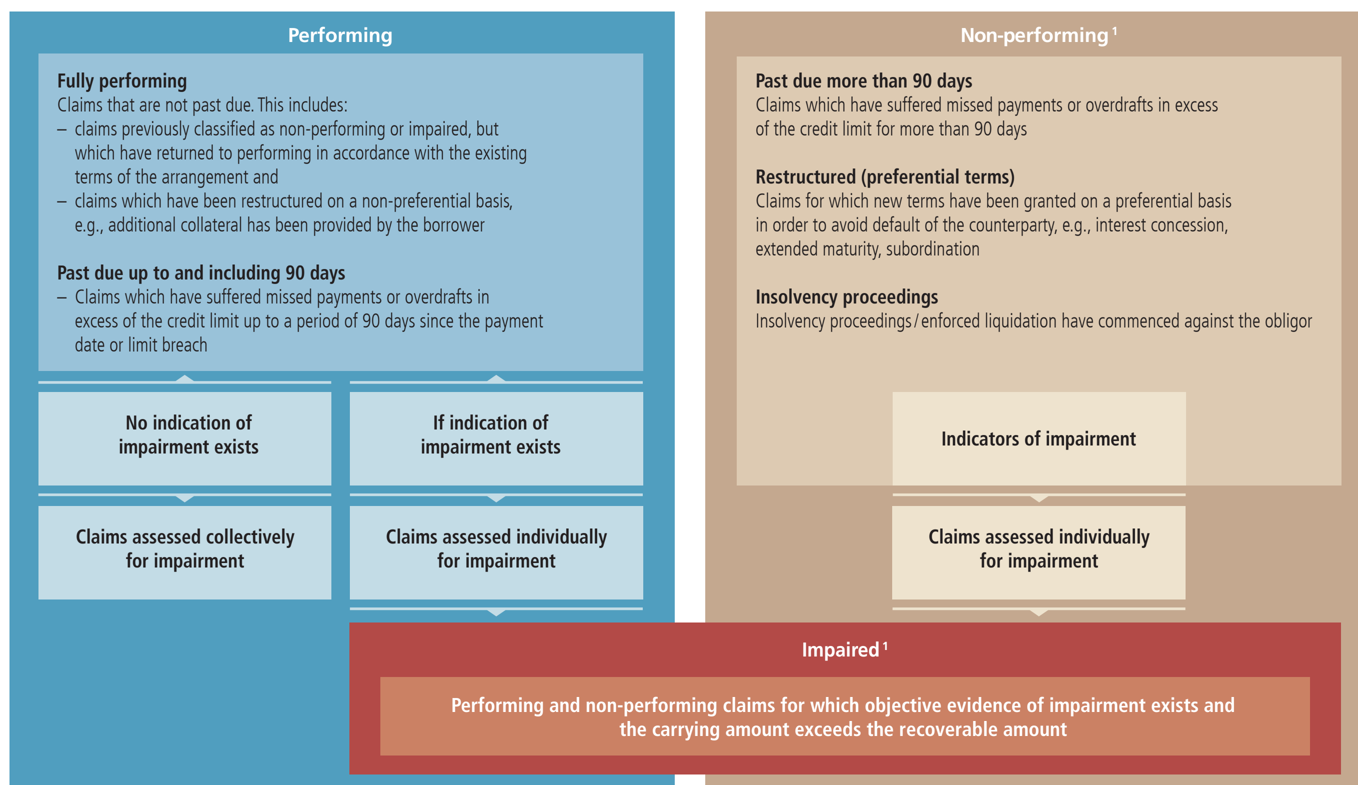
Individual claims are classified as impaired if, following an individual impairment assessment, their carrying amount exceeds the recoverable amount, where the recoverable amount is defined as the present value of the expected cash flows relating to the exposures. Accordingly, both performing and non-performing loans may be classified as impaired.

Restructured claims

Due to low volumes of distressed claims, we do not operate a general policy for restructuring claims in order to avoid default of the counterparty. Where restructuring does take place, we assess each case individually. Typical features of terms and conditions granted through restructuring to avoid default may include the provision of special interest rates, postponement of interest or principal payments, modification of the schedule of repayments or amendment of loan maturity.

If a loan is restructured with preferential conditions (i.e., new terms and conditions are agreed which do not meet the normal current market criteria for the quality of the obligor and the type of loan), the claim is still classified as non-performing and is rated as being in counterparty default. It will remain so until the loan is

Exposure categorization



1 Claims rated as in default. All such claims are excluded from collective impairment assessment.

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collected, written off or non-preferential conditions are granted that supersede the preferential conditions, and will be assessed for impairment on an individual basis.

If a loan is restructured with non-preferential conditions (e.g., additional collateral is provided by the client, or new terms and conditions meet the normal market criteria for the quality of the obligor and the type of loan), the loan is classified as performing, but assessed for impairment on an individual basis. Management regularly reviews all loans to ensure that all criteria according to the loan agreement continue to be met and that future payments are likely to occur.

Individual and collective impairment assessments

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Claims are assessed individually for impairment where there are indicators that an impairment may exist. Otherwise claims are included in a collective impairment assessment.

Individual impairment

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Non-performing status is considered an indicator that a loan may be impaired and therefore all non-performing claims are assessed individually for impairment. However, an impairment analysis would be carried out irrespective of non-performing status if other objective evidence indicates that a loan may be impaired. Any event that impacts current and future cash flows may be an indication of impairment and trigger an assessment by the risk officer. Such events may be (i) significant collateral shortfalls due to a fall in lending values (securities and real estate), (ii) increase in loan or derivative exposures, (iii) significant financial difficulties of a client and (iv) high probability of bankruptcy, debt moratorium or financial reorganization of the client.

Individual claims are assessed for impairment based on the borrower's character, overall financial condition, resources and payment record, the prospects for support from any financially responsible guarantors, and where applicable, the realizable value of any collateral. The recoverable amount is determined from all relevant cash flows and, where this is lower than the carrying amount of the claim, the claim is considered impaired. We consider a reclassified security an impaired loan if the carrying value at the balance sheet date is, on a cumulative basis, 5% or more below the carrying value at the reclassification date adjusted for redemptions.

We have established processes to ensure that the carrying values of impaired claims are determined in compliance with IFRS requirements. Our credit controls applied to valuation and workout are the same for both amortized cost and fair-valued credit products. Our workout strategy and estimation of recoverable amounts are independently approved in accordance with our credit authorities.

Collective impairment

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We assess our portfolios of claims carried at amortized cost with similar credit risk characteristics for collective impairment in order to consider if these portfolios contain impaired claims that cannot yet be individually identified. To cover the time lag between the occurrence of an impairment event and its identification based on the policies above, we establish collective loan loss allowances based on the estimated loss for the portfolio over the average period between trigger events and the identification of any individual impairment. These portfolios are not considered impaired loans in the tables shown in the composition of credit risk for business divisions above.

Additionally, for all of our portfolios we assess whether there have been any developments which might result in event-driven impairments that are not immediately observable. These events could be stress situations, such as a natural disaster or a country crisis, or they could result from significant changes in the legal or regulatory environment. To determine whether a collective impairment exists, we regularly use a set of global economic drivers to assess the most vulnerable countries and review the impact of any potential impairment event.

Recognition of impairment

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The recognition of impairment in our financial statements depends on the accounting treatment of the claim. For claims carried at amortized cost, impairment is recognized through the creation of an allowance, or in the case of off-balance sheet items such as guarantees and loan commitments through a provision, both charged to the income statement as a credit loss expense. For derivatives, which are carried at fair value, a deterioration of the credit quality is recognized through a CVA charged to the income statement through the *Net trading income* line.

➔ Refer to "Note 1 Significant accounting policies" and "Note 24a Valuation principles" in the "Financial information" section of this report for more information on allowances and provisions for credit losses and credit valuation adjustments

Market risk

Key developments during the period

We maintained a low level of market risk in our trading businesses, with the risk profile of the Investment Bank reducing and moving towards less complex and more client-oriented businesses. Average exposure levels of our stress loss and statistical (value-at-risk) measures roughly halved over the course of the year.

Main sources of market risk

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- Market risks arise from both our trading and non-trading business activities.
- Trading market risks arise mainly in connection with securities and derivatives trading for market-making and client facilitation purposes within our Investment Bank, and from remaining positions within Non-core and Legacy Portfolio.
- Trading market risk also arises from our municipal securities trading business within Wealth Management Americas.
- Non-trading market risk arises predominantly in the form of interest rate and foreign exchange risks in connection with our retail banking and lending in our wealth management businesses, our retail and corporate banking businesses in Switzerland and the Investment Bank's lending business, in addition to treasury activities.
- Group Treasury assumes market risks in the process of managing interest rate and structural foreign exchange risks and the funding and liquidity profile of the Group.
- Equity and debt investments can also give rise to market risks, as can some aspects of our employee benefits such as defined benefit pension schemes.

Overview of measurement, monitoring and management techniques

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- Market risk limits are set for the Group, the business divisions and Corporate Center and at granular levels within the various business lines, reflecting the nature and magnitude of the market risks.
- Our primary portfolio measures of market risk are liquidity adjusted stress (LAS) loss and value-at-risk (VaR). Both are common to all our business divisions and subject to limits that are approved by the Board of Directors (BoD).
- These measures are complemented by concentration and granular limits for general and specific market risk factors. Our trading businesses are subject to multiple market risk limits. These limits take into account the extent of market liquidity and volatility, available operational capacity, valuation uncertainty, and, for our single-name exposures, the credit quality of issuers.
- Issuer risk is controlled by limits applied at business division level based on jump-to-zero measures, which estimate our maximum default exposure (the loss in the case of a default event assuming zero recovery).
- Non-trading foreign exchange risks are managed under market risk limits, with the exception of Group Treasury's management of consolidated capital activity discussed in the "Treasury management" section of this report. All foreign exchange risks are included in our Group-wide statistical and stress testing metrics which flow into our risk appetite framework.
- Our Treasury Risk Control function applies a holistic risk framework which sets the appetite for treasury-related risk-taking activities across the Group. A key element of the framework is

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an overarching economic value sensitivity limit, set by the BoD. This limit is linked to the level of Basel III common equity tier 1 (CET1) capital and takes into account risks arising from interest rates, foreign exchange and credit spreads. In addition, the sensitivity of net interest income to changes in interest rates is monitored against targets set by the Group Chief Executive Officer in order to analyze the outlook and volatility of net interest income based on market expected interest rates. Limits are also set by the BoD to balance the impact of foreign exchange movements on our CET1 capital and CET1 ratio. Non-trading interest rate and foreign exchange risks are included in our Group-wide statistical and stress testing metrics which flow into our risk appetite framework. Further information on interest rate risk in the banking book can be found below, and details on Group Treasury's management of foreign exchange risks can be found in the "Treasury management" section of this report.

– Equity and debt investments are subject to a range of risk controls including pre-approval of new investments by business management and Risk Control and regular monitoring and reporting. They are also included in our Group-wide statistical and stress testing metrics which flow into our risk appetite framework.

➔ **Refer to the "Capital management" section of this report for more information on the sensitivity of our CET1 capital and CET1 ratio to currency movements**

Market risk exposures arising from our business activities

The table on the next page highlights the most significant sources of our trading market risk exposures and the interest rate risk on our banking book exposures, categorized according to the business activities that primarily generate the risks and the classification of positions on the balance sheet. In practice, and particularly for positions classified in the banking book, we take account of natural risk offsets that occur between balance sheet line items, for example loans and deposits, and manage the residual exposures. The table does not show the foreign exchange risks arising from Group Treasury's management of consolidated capital activity discussed in the "Treasury management" section of this report. Also shown in the table is the specific capital treatment for positions classified within the regulatory trading book. The amount of capital required to underpin market risk in the regulatory trading book is calculated using a variety of methods approved by FINMA. The components of market risk RWA are value-at-risk (VaR), stressed VaR, an add-on for risks which are potentially not fully modeled in VaR, the incremental risk charge, the comprehensive risk charge for the correlation portfolio and the securitization framework for securitization positions in the trading book. Further information on each of these components follows the table.

Market risk exposures arising from our business activities

CHF billion

Business activity	Balance sheet line item	Trading book / Banking book	Market risk type: Equities	Interest rates	Credit spreads	Foreign exchange	Commodities	Trading book market risk RWA category: Regulatory VaR	Stressed VaR	Risks-not-in-VaR	Incremental Risk Charge	Comprehensive Risk Measure	Trading book securitization	Total market risk RWA
Wealth Management[1]								0.0	0.0					**0.0**
Wealth Management Americas								0.4	0.9	0.0	0.3			**1.6**
Client deposits	Due to customers	Banking book		○										
Securities backed lending and mortgages	Loans	Banking book		○										
Municipal securities and closed-end funds trading	Trading portfolio assets and liabilities	Trading book[2]		○	○			○	○		○			
Retail & Corporate[1]								0.0	0.0					**0.0**
Global Asset Management								0.0	0.0					**0.0**
Investment Bank								1.6	2.5	1.2	2.1	0.0	0.1	**7.6**
Investor Client Services														
Fixed income, equities, foreign exchange and precious metals, securities and derivatives	Trading portfolio assets and liabilities and positive and negative replacement values	Trading book	●	●	●	○	○	●	●	●	●			
Structured notes	Financial liabilities designated at fair value	Trading book	○	○	○	○		○	○	○				
Corporate Client Solutions														
Originate to distribute loans and CMBS origination[3]	Trading portfolio assets	Trading book		○	●								○	
Take and hold loans	Loans	Banking book		○										
Loans, structured loans, reverse repurchase agreements and securities borrowing	Financial assets designated at fair value	Banking book		○										
Corporate Center – Core Functions[1, 4]								(1.4)	(2.3)	0.1	(1.4)			**(4.9)**
Centralized liquidity and funding	Debt issued and due to banks	Banking book		●										
	Repurchase and reverse repurchase agreements	Trading book		○				○	○					
	Balances with central banks and Due from banks	Banking book		○										
Global and local liquidity reserves	Financial investments available-for-sale	Banking book		●										
	Trading portfolio assets	Trading book		○	○			○	○		●			
Mortgage and other loans	Loans	Banking book		●										
Client deposits	Due to customers	Banking book		●										
Hedging instruments and other derivatives	Positive and negative replacement values	Banking book		●										
Corporate Center – Non-core and Legacy Portfolio								1.1	1.5	0.6	0.3	4.2	1.7	**9.4**
Assets and derivatives considered to be non-core and which we will continue to wind down	Trading portfolio assets and liabilities and positive and negative replacement values	Trading book	○	●	●	○		○	●	○	○	●	●	
Counterparty CVA management[5]	Positive and negative replacement values	Trading book		○	●	○								
Reclassified held for trading assets, and corporate and asset based lending	Loans	Banking book		○										
Structured notes	Financial liabilities designated at fair value	Trading book	○	○	○			○	○	○	○			

● Key contributor ○ Less significant contributor

1 Interest rate risk from Wealth Management and Retail & Corporate loans and deposits is transferred to Group Treasury and reported under Corporate Center – Core Functions in this analysis. 2 Although risk is controlled under the market risk framework, Puerto Rico closed-end fund positions are treated as banking book for capital underpinning purposes due to market illiquidity. 3 Credit spread risk arising from loan underwriting is captured through, and reported as part of, credit risk RWA. 4 Negative market risk RWA are due to diversification effects allocated to Corporate Center – Core Functions. 5 Counterparty credit risk in the valuation of OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments is captured through credit valuation adjustment RWA calculated under the advanced IRB or standardized approach and reported as part of credit risk RWA.

Market risk stress loss

We measure and manage our market risks primarily through a comprehensive framework of non-statistical measures and related limits. This includes an extensive series of stress tests and scenario analyses that undergo continuous evaluation to ensure that, if an extreme but nevertheless plausible event were to occur, the resulting losses would not exceed our risk appetite.

Liquidity adjusted stress (LAS)

Our primary measure of stress loss for Group-wide market risk is liquidity adjusted stress (LAS). The LAS framework is designed to capture the economic losses that could arise under specified stress scenarios. This is in part achieved by replacing the standard one-day and 10-day holding period assumptions used for management and regulatory VaR with liquidity adjusted holding periods, as explained below. Shocks are then applied to positions based on the expected market movements over the liquidity adjusted holding periods resulting from the specified scenario.

The holding periods used in LAS are calibrated to reflect the amount of time it would take to flatten the risk of positions in each major risk factor in a stressed environment, assuming maximum utilization of the relevant position limits. Holding periods are also subject to minimum periods, regardless of observed liquidity levels, reflecting the fact that identification of, and reaction to, a crisis may not always be immediate.

The expected market movements are derived using a combination of historical market behavior, based on an analysis of historical events, and forward-looking analysis including consideration of defined scenarios that have not occurred historically.

LAS-based limits are applied at a number of levels: Group-wide, business divisions and Corporate Center, business areas and sub-portfolios. In addition, LAS forms the core market risk component of our combined stress test framework and is therefore integral to our overall risk appetite framework.

➔ **Refer to "Risk appetite" in this section for more information on our risk appetite framework**

➔ **Refer to "Stress testing" in this section for more information on our stress testing framework**

Value-at-risk

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Method applied	Historical simulation
Data set	Five years
Holding period	10 days for regulatory VaR, 1 day for internal limits
Confidence level	99% for regulatory VaR, 95% for internal limits – both based on expected tail loss
Population	Regulatory trading book for regulatory VaR, a broader population for internal limits

VaR definition

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Value-at-risk (VaR) is a statistical measure of market risk, representing the market risk losses that could potentially be realized over a set time horizon (holding period) at an established level of confidence. The measure assumes no change in the Group's trading positions over the set time horizon.

We calculate VaR on a daily basis, based on the application of historical changes in market risk factors directly to our current positions – a method known as historical simulation. We use a single VaR model for both determining market risk regulatory capital requirements and internal management purposes, although we consider different confidence levels and time horizons. The regulatory measure of market risk used to underpin the market risk capital requirement under Basel III requires a measure equivalent to a 99% confidence level using a 10-day holding period. For internal management purposes, risk limits are established and exposures are measured using VaR at the 95% confidence level with a one-day holding period, more closely aligned to the way we consider the risks associated with our trading activities.

The population of the portfolio within regulatory and management VaR is slightly different. The population within regulatory VaR meets minimum regulatory requirements for inclusion in regulatory VaR. Management VaR includes a broader population of positions. For example, the credit spread risks from the securitization portfolio are treated instead under the securitization approach for regulatory purposes.

VaR limitations

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Actual realized market risk losses may differ from those implied by our VaR for a variety of reasons.

- The VaR measure is calibrated to a specified level of confidence and may not indicate potential losses beyond this confidence level.
- The 10-day time horizon used in the regulatory VaR measure, or one-day in the case of VaR used for internal management purposes, may not fully capture the market risk of positions that cannot be closed out or hedged within the specified period.
- In certain cases, VaR calculations approximate the impact of changes in risk factors on the values of positions and portfolios. This may happen because the number of risk factors included in the VaR model is necessarily limited. For example, yield curve risk factors do not exist for all future dates.
- The effect of extreme market movements is subject to estimation errors, which may result from non-linear risk sensitivities, as well as the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations.
- The use of a five-year window means that sudden increases in market volatility will tend not to increase VaR as quickly as the use of shorter historical observation periods, but the increase will impact our VaR for a longer period of time. Similarly, following a period of increased volatility, as markets stabilize, VaR predictions will remain more conservative for a period of time influenced by the length of the historical observation period.

We recognize that no single measure may encompass the entirety of risks associated with a position or portfolio. Consequently, we employ a suite of various metrics with both overlapping and complementary characteristics in order to create a holistic framework which ensures material completeness of risk identification and measurement. As a statistical aggregate risk measure, VaR supplements our comprehensive stress testing framework.

Furthermore, we have an established framework to identify and quantify potential risks that are not fully captured by our VaR model. This framework is explained further on.

VaR model developments in 2013

We made no significant changes to the VaR model during 2013. During the year, we improved the VaR model by integrating selected risk-not-in-VaR items into the VaR model. The impact of incorporating these items into VaR was negligible.

Regulatory VaR for the period

The tables on the next page show minimum, maximum, average and period-end regulatory VaR by business division and Corporate Center and general market risk factor type. The decrease in the Group's regulatory VaR to CHF 38 million from CHF 63 million is primarily a result of risk reductions.

Regulatory value-at-risk (10-day, 99% confidence, 5 years of historical data) by business division and Corporate Center and general market risk factor type[1]

	For the year ended 31.12.13								
CHF million					Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
	Min.				21	22	46	3	6
		Max.			78	71	131	110	38
			Average		33	35	88	35	15
				31.12.13	27	31	62	10	11
Total regulatory VaR, Group	**37**	**99**	**54**	**38**	*Average (per business division and risk type)*				
Wealth Management	0	1	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	9	18	13	10	*0*	*7*	*20*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	1	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	32	117	52	35	*31*	*37*	*80*	*28*	*15*
Corporate Center – Core Functions	8	33	17	20	*0*	*12*	*9*	*10*	*0*
Diversification effect[2, 3]			(30)	(31)	*(1)*	*(20)*	*(12)*	*(10)*	*(0)*
Group, excluding CC – Non-core and Legacy Portfolio	**32**	**114**	**52**	**35**	*31*	*36*	*97*	*28*	*15*
CC – Non-core and Legacy Portfolio	**8**	**80**	**41**	**42**	*11*	*19*	*48*	*20*	*1*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a minimum and maximum portfolio diversification effect.

	For the year ended 31.12.12								
CHF million					Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
	Min.				24	40	99	21	6
		Max.			713	162	296	149	75
			Average		52	79	186	51	17
				31.12.12	27	40	104	38	21
Total regulatory VaR, Group	**56**	**776**	**133**	**63**	*Average (per business division and risk type)*				
Wealth Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	14	25	18	17	*1*	*9*	*26*	*0*	*0*
Retail & Corporate	0	1	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	1	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank[4]	58	769	131	61	*52*	*87*	*147*	*55*	*17*
Corporate Center – Core Functions[4]	8	55	15	18	*0*	*8*	*8*	*11*	*0*
Diversification effect[2, 3]			(31)	(30)	*(1)*	*(20)*	*(16)*	*(12)*	*(0)*
Group, excluding CC – Legacy Portfolio	**60**	**703**	**134**	**66**	*52*	*84*	*165*	*54*	*17*
Legacy Portfolio[4]	**24**	**109**	**37**	**47**	*0*	*10*	*50*	*7*	*0*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a minimum and maximum portfolio diversification effect. 4 Numbers have not been restated to take into account the transfer of non-core positions from the Investment Bank to the Corporate Center.

Management VaR for the period

The table below shows minimum, maximum, average and period-end management VaR by business division and Corporate Center and general market risk factor type.

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Management value-at-risk (1-day, 95% confidence, 5 years of historical data) by business division and Corporate Center and general market risk factor type[1]

CHF million	Min.	Max.	Average	31.12.13	Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
				For the year ended 31.12.13					
Min.					6	7	10	2	1
Max.					18	16	31	9	5
Average					9	10	18	5	2
31.12.13					7	8	10	3	2
Total management VaR, Group	**10**	**33**	**16**	**11**	*Average (per business division and risk type)*				
Wealth Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	1	2	1	2	*0*	*2*	*3*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank	7	28	13	10	*8*	*9*	*11*	*4*	*2*
Corporate Center – Core Functions	3	11	5	4	*0*	*4*	*1*	*1*	*0*
Diversification effect[2, 3]			(5)	(5)	*(0)*	*(5)*	*(2)*	*(1)*	*(0)*
Group, excluding CC – Non-core and Legacy Portfolio	**8**	**33**	**13**	**10**	*8*	*10*	*13*	*4*	*2*
CC – Non-core and Legacy Portfolio	**6**	**14**	**11**	**11**	*4*	*5*	*10*	*2*	*0*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a minimum and maximum portfolio diversification effect.

CHF million	Min.	Max.	Average	31.12.12	Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
				For the year ended 31.12.12					
Min.					7	11	23	3	1
Max.					160	33	42	13	7
Average					12	19	31	6	3
31.12.12					8	12	26	5	3
Total management VaR, Group	**18**	**167**	**33**	**18**	*Average (per business division and risk type)*				
Wealth Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	1	2	2	2	*0*	*2*	*4*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Investment Bank[4]	15	164	30	15	*12*	*19*	*25*	*5*	*3*
Corporate Center – Core Functions[4]	3	12	6	5	*0*	*5*	*1*	*2*	*0*
Diversification effect[2, 3]			(7)	(6)	*(0)*	*(7)*	*(3)*	*(2)*	*(0)*
Group, excluding CC – Legacy Portfolio	**16**	**155**	**31**	**16**	*12*	*19*	*27*	*5*	*3*
Legacy Portfolio[4]	**7**	**16**	**9**	**10**	*0*	*3*	*10*	*2*	*0*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a minimum and maximum portfolio diversification effect. 4 Numbers have not been restated to take into account the transfer of non-core positions from the Investment Bank to the Corporate Center.

Derivation of regulatory VaR-based RWA

Regulatory VaR is used to derive the regulatory VaR component of the market risk Basel III RWA, shown in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report. This calculation takes the maximum of the period-end regulatory VaR and the average regulatory VaR for the 60 trading days immediately preceding the period end multiplied by a scaling factor set by FINMA, currently three. This is then multiplied by a factor of 12.5 to determine the RWA. This calculation is set out in the table below.

Backtesting of VaR

For backtesting purposes, we compute backtesting VaR using a 99% confidence level and one-day holding period for the population included within regulatory VaR. The backtesting process compares backtesting VaR calculated on positions at the close of each business day with the revenues generated by those positions on the following business day. Backtesting revenues exclude non-trading revenues, such as fees and commissions and revenues from intraday trading, to ensure a like-for-like comparison. A backtesting exception occurs when backtesting revenues are negative and the absolute value of those revenues is greater than the previous day's backtesting VaR.

Statistically, given the confidence level of 99%, two to three backtesting exceptions per year can be expected. More exceptions than this could indicate that the VaR model is not performing appropriately, as could too few exceptions over a prolonged period of time. However, as noted in the VaR limitations above, a sudden increase or decrease in market volatility relative to the five-year window could lead to a higher or lower number of exceptions respectively. Accordingly, Group-level backtesting exceptions are investigated, as are exceptional positive backtesting revenues, with results being reported to senior business management, the Group Chief Risk Officer and the divisional Chief Risk Officers. Backtesting exceptions are also reported to internal and external auditors and to the relevant regulators. We did not have any Group backtesting exceptions in 2013.

The chart "Development of backtesting revenues against backtesting VaR" on the next page shows the 12-month development of backtest VaR against backtesting revenues of the Group for 2013. The chart shows both the negative and positive tails of the backtest VaR distribution at 99% confidence intervals representing, respectively, the losses and gains that could potentially be realized over a one-day period at that level of confidence.

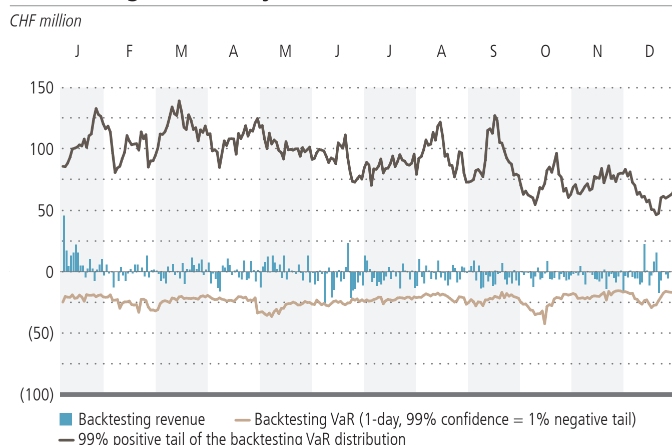
The asymmetry between the negative and positive tails is due to the significant long gamma risk profile that has historically been run in the Investment Bank. This long gamma position profits from increases in volatility which therefore benefits the positive tail of the VaR simulated profit and loss distribution. This asymmetry declined towards the end of the year as the long gamma profile reduced.

The histogram "Investment Bank and Corporate Center – Non-core and Legacy Portfolio daily revenue distribution" shows the daily revenue distribution for the Investment Bank and Corporate Center – Non-core and Legacy Portfolio for 2013. This includes, in addition to backtesting revenues, revenues such as commissions and fees, revenues for intraday trading and own credit.

Calculation of regulatory VaR-based RWA as of 31 December 2013

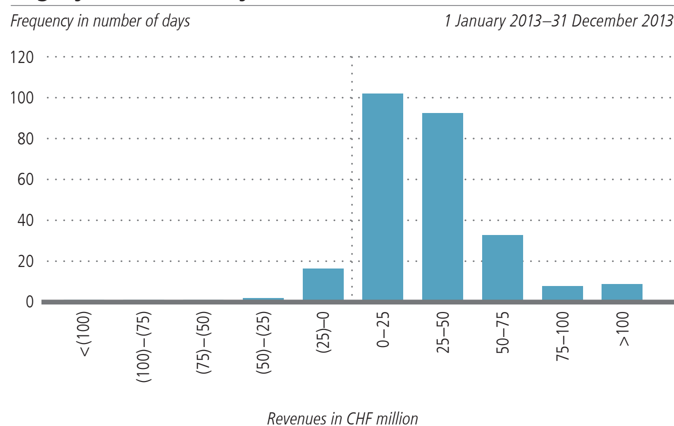
CHF million	Period end regulatory VaR (A)	60-day average regulatory VaR (B)	Scaling factor (C)	**Max (A, B x C) (D)**	Multiplier (E)	**Basel III RWA (D x E)**
	38	47	3	**140**	12.5	**1,746**

Development of backtesting revenues[1] against backtesting VaR[2] (1-day, 99% confidence)



1 Excludes non-trading revenues, such as commissions and fees, and revenues from intraday trading.
2 Based on Basel III regulatory VaR, excluding CVA positions and their eligible hedges which are subject to the new standalone CVA charge.

Investment Bank and Corporate Center – Non-core and Legacy Portfolio daily revenue distribution[1]



1 In addition to backtesting revenues, includes revenues such as commissions and fees, revenues for intraday trading, and own credit.

Group: regulatory value-at-risk (1-day, 99% confidence, 5 years of historical data)

	For the year ended 31.12.13				Basel 2.5 – for the year ended 31.12.12			
CHF million	**Min.**	**Max.**	**Average**	**31.12.13**	Min.	Max.	Average	31.12.12
Group	**15**	**42**	**23**	**17**	23	239	47	25

Stressed VaR

Method applied	Historical simulation
Data set	From 1 January 2007 to present
Holding period	10 days
Confidence level	99% based on expected tail loss
Population	Regulatory trading book

Stressed VaR (SVaR) adopts broadly the same methodology as regulatory VaR and is calculated using the same population, holding period (10-day) and confidence level (99%). However, unlike regulatory VaR, the historical data set for SVaR is not limited to five years. SVaR uses continuous one-year data sets to derive the largest potential loss arising from a one-year period of significant financial stress relevant to the current portfolio of the Group.

SVaR is subject to the same limitations as noted for VaR above, but the use of one-year data sets avoids the smoothing effect of the five-year data set used for VaR, and the removal of the five-year window provides for a longer history of potential loss events. Therefore, although the significant period of stress during the financial crisis is dropping out of the historical period used for regulatory VaR, SVaR will continue to use this data. This approach is intended to reduce the procyclicality of the regulatory capital requirements for market risks.

Stressed VaR model developments in 2013

In 2013, the stressed VaR model was changed to implement an expanding historical data set, with a starting date anchored at 1 January 2007, instead of a rolling five-year historical data set. This change aimed to reduce procyclicality (e.g., the Lehman crisis dropping out of the five-year historical data window).

Stressed value-at-risk (10-day, 99% confidence, 5 years of historical data) by business division and Corporate Center and general market risk type[1]

For the year ended 31.12.13									
CHF million					Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
	Min.				35	21	91	6	10
		Max.			155	104	235	210	81
			Average		58	53	148	56	24
				31.12.13	49	66	92	23	21
Total stressed VaR, Group	59	178	82	63	*Average (per business division and risk type)*				
Wealth Management	0	2	0	0	*0*	*1*	*0*	*0*	*0*
Wealth Management Americas	13	35	20	21	*1*	*9*	*30*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	2	1	0	*1*	*0*	*0*	*0*	*0*
Investment Bank	45	231	83	53	*54*	*55*	*131*	*48*	*24*
Corporate Center – Core Functions	12	53	26	44	*0*	*26*	*13*	*15*	*0*
Diversification effect[2, 3]			(48)	(65)	*(1)*	*(42)*	*(16)*	*(16)*	*0*
Group, excluding CC – Non-core and Legacy Portfolio	44	241	82	53	*54*	*49*	*158*	*47*	*24*
CC – Non-core and Legacy Portfolio	14	121	66	64	*19*	*30*	*71*	*30*	*2*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a minimum and maximum portfolio diversification effect.

For the year ended 31.12.12									
CHF million					Equity	Interest rates	Credit spreads	Foreign exchange	Commodities
	Min.				20	43	159	28	7
		Max.			1,015	285	528	222	110
			Average		76	93	326	83	23
				31.12.12	38	43	163	61	40
Total stressed VaR, Group	105	1,127	189	125	*Average (per business division and risk type)*				
Wealth Management	0	1	0	0	*0*	*0*	*0*	*0*	*0*
Wealth Management Americas	18	31	24	23	*1*	*11*	*37*	*0*	*0*
Retail & Corporate	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Global Asset Management	0	1	1	1	*0*	*0*	*0*	*0*	*0*
Investment Bank[4]	100	1,111	184	118	*76*	*114*	*253*	*90*	*23*
Corporate Center – Core Functions	12	86	20	21	*0*	*12*	*12*	*16*	*0*
Diversification effect[2, 3]			(41)	(42)	*(1)*	*(28)*	*(21)*	*(19)*	*(0)*
Group, excluding CC – Legacy Portfolio	103	1,131	188	121	*76*	*110*	*282*	*87*	*23*
Legacy Portfolio[4]	43	190	62	78	*0*	*14*	*80*	*8*	*0*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time-series, rendering invalid the simple summation of figures to arrive at the aggregate total. 2 Difference between the sum of the standalone VaRs for the business divisions and the "Corporate Center – Core Functions" shown and the VaR for the "Group, excluding CC – Legacy Portfolio" as a whole. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a minimum and maximum portfolio diversification effect. 4 Numbers have not been restated to take into account the transfer of non-core positions from the Investment Bank to the Corporate Center.

Calculation of SVaR-based RWA as of 31 December 2013

CHF million	Period end SVaR (A)	60 day average SVaR (B)	Scaling factor (C)	Max (A, B x C) (D)	Multiplier (E)	Basel III RWA (D x E)
	63	69	3	208	12.5	2,604

Derivation of SVaR-based RWA

SVaR is used to derive the SVaR component of the market risk Basel III RWA shown in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report. The derivation of this component is similar to that explained above for regulatory VaR, and is shown above.

Risks-not-in-VaR

Risks-not-in-VaR definition

We have an established framework to identify and quantify potential risk factors that are not fully captured by our VaR model. We refer to these risk factors as risks-not-in-VaR (RniV). This framework is used to underpin these potential risk factors with regulatory capital, calculated as a multiple of regulatory VaR and stressed VaR.

These RniV arise from approximations made by the VaR model to quantify the impact of risk factor changes on the profit and loss of positions and portfolios, as well as the use of proxies for certain market risk factors. We categorize RniV by means of items and keep track of which instrument classes are affected by each item.

When new types of instruments are included in the VaR population, we assess whether new items must be added to the inventory of RniV items.

Risks-not-in-VaR quantification

Risk officers perform a quantitative assessment for each position in the inventory of RniV items annually, as of a specific date. The assessment is made in terms of a 10-day 99%-VaR measure applied to the difference between the profit and loss scenarios which would have been produced based on our best estimate given available data, and the profit and loss scenarios generated by the current model used for the regulatory VaR calculation. Whenever the available market data allows, a historical simulation approach with five years of historical data is used to estimate the 10-day 99%-VaR for an item. Other eligible methods are based on analytical considerations or stress test and worst-case assessments. Statistical methods are used to aggregate the standalone risks, yielding a Group-level 10-day 99%-VaR estimate of the entire inventory of RniV items at the specific date. The ratio of this amount to regulatory VaR is used to produce estimates for arbitrary points in time by scaling the corresponding regulatory VaR figures with that fixed ratio. An analogous approach is applied for stressed VaR.

Risks-not-in-VaR mitigation

Material RniV items are monitored and controlled by means and measures other than VaR, such as position limits and stress limits. Additionally, there are ongoing initiatives to extend the VaR model to better capture these risks.

Derivation of RWA add-on for risks-not-in-VaR

This RniV framework is used to derive the RniV-based component of the market risk Basel III RWA, using the aforementioned approach, which is approved by FINMA and subject to an annual recalibration. As the RWA from RniV are add-ons, they do not reflect any diversification benefits across risks capitalized through VaR and stressed VaR.

In September 2013, following a new calibration approved by FINMA, RniV VaR capital was set at 58% of VaR capital, and RniV stressed VaR capital was set at 32% of stressed VaR capital, compared with prior ratios of 47% and 26% respectively. In addition, FINMA requires that RniV stressed VaR capital is floored at RniV VaR capital.

Based on the regulatory VaR and stressed VaR RWA noted above, the RniV RWA add-ons as of 31 December 2013 were CHF 1.0 billion and CHF 1.0 billion, respectively, compared with CHF 1.8 billion and CHF 1.5 billion as of 31 December 2012. The decreases in these RWA add-ons are due to the decreases in VaR and stressed VaR over the period, partially offset by the increases in the RniV VaR and stressed VaR add-on multipliers noted above.

Incremental risk charge

Method applied	Expected portfolio loss simulation
Holding period	One-year liquidity horizon
Confidence level	99.9%
Population	Regulatory trading book positions subject to issuer risk, excluding equity and securitization exposures

The incremental risk charge (IRC) represents an estimate of the default and rating migration risk of all trading book positions with issuer risk, except for equity products and securitization exposures, measured over a one-year time horizon at a 99.9% confidence level. The calculation of the measure assumes all positions in the IRC portfolio have a one-year liquidity horizon and are kept unchanged over this period.

The portfolio default and rating migration loss distribution is estimated using a Monte Carlo simulation of correlated rating migration events (defaults and rating changes) for all issuers in the IRC portfolio, based on a Merton-type model. For each position, default losses are calculated based on the maximum default exposure measure (the loss in the case of a default event assuming zero recovery) and a random recovery concept. To account for potential basis risks between instruments, different recovery values may be generated for different instruments even if they belong to the same issuer. To calculate rating migration losses a linear (delta) approximation is used: a loss due to a rating migration event is calculated as the estimated change in credit spread due to the change in rating migration multiplied by the corresponding sensitivity of a position to changes in credit spreads.

The table below provides a breakdown of the Group's period-end incremental risk charge by business division and Corporate Center. The reduction in the Group's period-end IRC, and more notably in the 12-month average IRC, was mainly attributable to the de-risking of Non-core positions.

Derivation of IRC-based RWA

IRC is calculated weekly, the results of which are used to derive the IRC-based component of the market risk Basel III RWA, shown in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report. The derivation is similar to that for VaR- and stressed VaR-based RWA but without a scaling factor, and is shown below.

Incremental risk charge by business division and Corporate Center

	For the year ended 31.12.13				For the year ended 31.12.12[1]			
CHF million	**Min.**	**Max.**	**Average**	**31.12.13**	Min.	Max.	Average	31.12.12
Wealth Management		**2**	**0**			2	0	
Wealth Management Americas	**8**	**27**	**14**	**22**	5	32	13	10
Retail & Corporate								
Global Asset Management								
Investment Bank	**128**	**314**	**208**	**172**	109	1,074	706	109
Corporate Center – Core Functions	**108**	**190**	**153**	**113**	143[2]	258[2]	196[2]	183[2]
Diversification effect[3, 4]				**(88)**				
Group, excluding CC – Non-core and Legacy Portfolio				**219**				
CC – Non-core and Legacy Portfolio	**50**	**207**	**118**	**65**				
Diversification effect[4, 5]				**(174)**			(212)	(168)
Total incremental risk charge, Group	**60**	**356**	**183**	**110**	131	1,045	703	135

1 Numbers have not been restated to take into account the transfer of non-core positions from the Investment Bank to the Corporate Center for the period prior to this event. 2 Includes positions in the Legacy Portfolio. 3 Difference between the sum of the standalone IRC for the business divisions and the "Corporate Center – Core Functions" shown and the IRC for the "Group, excluding CC – Non-core and Legacy Portfolio" as a whole. 4 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a minimum, maximum and average portfolio diversification effect. 5 Difference between the sum of the two standalone IRC for "Group, excluding CC – Non-core and Legacy Portfolio" and the "CC – Non-core and Legacy Portfolio" and the IRC for the Group as a whole.

Calculation of IRC-based RWA as of 31 December 2013

CHF million	Period end IRC (A)	Average of last 12 weeks IRC (B)	**Max(A, B) (C)**	Multiplier (D)	**Basel III RWA (CxD)**
	110	96	**110**	12.5	**1,377**

Comprehensive risk measure

Method applied	Expected portfolio loss simulation
Holding period	One-year liquidity horizon
Confidence level	99.9%
Population	Positions in the correlation trading portfolio

The comprehensive risk measure (CRM) represents an estimate of the default and complex price risk, including the convexity and cross-convexity of the correlation trading portfolio across credit spread, correlation and recovery, measured over a one-year time horizon at a 99.9% confidence level. The calculation of the measure assumes that all positions in the CRM portfolio have a one-year liquidity horizon and are kept unchanged over this time period. The model scope covers collateralized debt obligation (CDO) swaps and credit-linked notes (CLN), first and nth to default swaps and CLN and hedges for these positions, including credit default swaps (CDS), CLN and index CDS.

The CRM profit and loss distribution is estimated using a Monte Carlo simulation of defaults over the next 12 months, and calculates resulting cash flows in the CRM portfolio. The portfolio is then revalued on the one-year horizon date, with inputs such as credit spreads and index basis being migrated from spot to horizon date. The 99.9% negative quantile of the resulting profit and loss distribution is then taken to be the CRM result. Our CRM methodology is subject to minimum qualitative standards as well as stress testing.

The table below shows the period-end comprehensive risk charge for the Group. CRM reduction was primarily due to negotiated bilateral settlements of over-the-counter derivative contracts.

Derivation of CRM-based RWA

CRM is calculated weekly, the results of which are used to derive the CRM-based component of the market risk Basel III RWA, shown in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report. The calculation is subject to a floor calculation equal to 8% of the equivalent capital charge under the specific risk measure for the correlation trading portfolio. The calculation is shown below.

Securitization positions in the trading book

Our exposure to securitization positions in the trading book is limited and relates primarily to positions in Non-core and Legacy Portfolio which we will continue to wind down. A small amount of exposure also arises from secondary trading in commercial mortgage-backed securities (CMBS) in the Investment Bank. Refer to "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report for more information.

Group: Comprehensive risk charge

	For the year ended 31.12.13				For the year ended 31.12.12			
CHF million	**Min.**	**Max.**	**Average**	**31.12.13**	Min.	Max.	Average	31.12.12
Total comprehensive risk charge, Group	**308**	**618**	**457**	**308**	594	770	675	604

Calculation of CRM-based RWA as of 31 December 2013

CHF million	Period end CRM (A)	Average of last 12 weeks CRM[1] (B)	**Max (A, B) (C)**	Multiplier (D)	**Basel III RWA (D x E)**
	308	334	**334**	12.5	**4,176**

1 CRM = Max (CRM model result, 8% of equivalent charge under the SRM).

Interest rate risk in the banking book

Sources of interest rate risk in the banking book

Audited

Interest rate risk in the banking book arises from *Available-for-sale instruments, Loans and receivables, Debt issued* and client deposits, certain *Instruments designated at fair value through profit or loss,* derivatives measured at fair value through profit or loss and derivatives employed for cash flow hedge accounting purposes, as well as related funding transactions. These positions may impact *Other comprehensive income* or profit or loss, depending on accounting treatment.

Our largest banking book interest rate exposures arise from client deposits and lending products in both our wealth management businesses and Retail & Corporate. For Wealth Management and Retail & Corporate, the inherent interest rate risks are transferred either by means of back-to-back transactions or, in the case of products with no contractual maturity date or direct market-linked rate, by replicating portfolios from the originating business into Group Treasury, which manages the risks on an integrated basis allowing for netting interest rate risks across different sources. Any residual interest rate risks in Wealth Management and Retail & Corporate locations that are not transferred to Group Treasury are managed locally and are subject to independent monitoring and control both in the locations by local risk control units as well as centrally by Treasury Risk Control. To manage the interest rate risk centrally, Group Treasury utilizes derivative instruments, some of which are in designated hedge accounting relationships.

A significant amount of interest rate risk also arises from Group Treasury financing and investing activities, for example the financing of non-monetary corporate balance sheet items that have indefinite maturities, such as equity and goodwill. For these items senior management has defined specific target durations based on which we fund and invest as applicable. These targets are defined by replication portfolios, which establish rolling benchmarks to execute against. Group Treasury also maintains a portfolio of available-for-sale debt investments to meet the Group's liquidity needs.

Interest rate risk within Wealth Management Americas arises from the business division's portfolio of available-for-sale investments in addition to its lending and deposit products offered to clients. This interest rate risk is closely measured, monitored and managed within approved risk limits and controls, taking into account Wealth Management Americas' balance sheet items that mutually offset interest rate risk.

The Corporate Center – Legacy Portfolio assets that were reclassified to *Loans and receivables* from *Held for trading* in the fourth quarter of 2008 and the first quarter of 2009, and certain other debt securities held as *Loans and receivables,* also give rise to non-trading interest rate risk.

Effect of interest rate changes on shareholders' equity and Basel III CET1 capital

The table "Accounting and capital effect of changes in interest rates" below illustrates the accounting and Basel III CET1 capital treatment of gains and losses resulting from changes in interest rates. For instruments held at fair value, a change in interest rates results in an immediate fair value gain or loss recognized either in the income statement or through other comprehensive income (OCI), whereas changes in interest income and expense on interest-bearing assets and liabilities held at amortized cost will be realized over time. Typically, increases in interest rates would lead to an immediate reduction in the value of our longer-term assets held at fair value, but we would expect this to be offset over time through higher net interest income on our core banking products.

➔ **Refer to "Differences between Swiss SRB and BIS Basel III capital" in the "Capital management" section of this report for more information**

In addition to the differing accounting treatments, our banking book positions have different sensitivities to different points on the yield curves. For example, our portfolios of available-for-sale debt securities and interest rate swaps designated as cash flow hedges, on the whole, are more sensitive to changes in longer-duration interest rates, whereas our deposits and a significant portion of our loans contributing to net interest income are more sensitive to short-term rates. These factors are important as yield curves may not shift on a parallel basis and could, for example, exhibit an initial steepening, followed by a subsequent flattening over time.

By virtue of the accounting treatment and yield curve sensitivities outlined above, in a steepening yield curve scenario we would expect to recognize an initial reduction in shareholders'

Accounting and capital effect of changes in interest rates[1]

	Recognition		Shareholders' equity		Basel III CET1 capital	
	Timing	Location	Gains	Losses	Gains	Losses
Available-for-sale debt portfolios	Immediate	OCI	●	●		●
Economic hedges classified as held for trading	Immediate	Income statement	●	●	●	●
Designated cash flow hedges	Immediate	OCI[2]	●	●		
Loans and deposits at amortized cost	Gradual	Income statement	●	●	●	●

1 Refer to the table "Differences between Swiss SRB and BIS Basel III capital information" in the "Capital management" section of this report for more information on the differences between shareholders' equity and Basel III CET1 capital. 2 Excluding hedge ineffectiveness which is recognized in the income statement in accordance with our accounting policies.

equity as a result of fair value losses. This would be compensated over time by increased net interest income once increases in interest rates affect in particular the shorter end of the yield curve. The effect would be similar on Basel III CET1 capital, albeit less pronounced as gains and losses on interest rate swaps designated as cash flow hedges are not recognized or reversed for regulatory capital purposes.

We apply scenario analyses to monitor the effect of rising interest rates and changes in the yield curve on our interest rate sensitive banking book exposures.

Interest rate risk sensitivity to parallel shifts in yield curves

Audited

Interest rate risk in the banking book is not underpinned for capital purposes, but is subject to a regulatory threshold. The impact of an adverse parallel shift in interest rates of 200 basis points on our banking book interest rate risk exposures is significantly below the threshold of 20% of eligible capital recommended by regulators.

The interest rate risk sensitivity figures presented in the table "Interest rate sensitivity – banking book" below represent the impacts of +1, ±100 and ±200-basis-point parallel moves in yield curves on present values of future cash flows, irrespective of accounting treatment. For some portfolios, the +1-basis-point sensitivity has been estimated by dividing the +100-basis-point sensitivity by 100. Due to the low level of interest rates, downward moves by 100/200 basis points are floored to ensure that the resulting interest rates are not negative. This effect results in nonlinear behavior of the sensitivity, in particular in US dollar when combined with prepayment risk on US mortgages and related products.

The sensitivity of the banking book to rising rates decreased year on year by CHF 1.2 million per basis point mainly due to reductions in Wealth Management Americas and Corporate Center – Core Functions, partly offset by a slight increase in the Investment Bank's banking book sensitivity. Wealth Management Americas' sensitivity declined by CHF 0.9 million as the steeper USD yield curve with higher longer-term USD rates led to a shorter effective duration of client deposits, which represent the majority of Wealth Management Americas' liabilities. This effect was partly offset by a shortening of the duration in Wealth Management Americas' investment portfolio. Corporate Center – Core Functions' sensitivity is chiefly driven by Group Treasury, which was the main contributor to the reported change of CHF 0.6 million.

Audited

Interest rate sensitivity – banking book [1, 2]

	31.12.13				
CHF million	**–200 bps**	**–100 bps**	**+1 bp**	**+100 bps**	**+200 bps**
CHF	**(9.6)**	**13.7**	**0.1**	**14.5**	**32.0**
EUR	**73.9**	**47.3**	**(0.6)**	**(55.4)**	**(105.9)**
GBP	**21.5**	**14.2**	**(0.3)**	**(25.8)**	**(51.0)**
USD	**100.1**	**(40.6)**	**3.0**	**301.0**	**610.0**
Other	**(6.2)**	**(5.6)**	**0.1**	**5.6**	**11.6**
Total impact on interest rate-sensitive banking book positions	**179.7**	**29.0**	**2.4**	**239.8**	**496.7**
of which: Wealth Management Americas	***172.4***	***18.3***	***3.0***	***297.7***	***597.0***
of which: Investment Bank	***29.1***	***16.8***	***(0.2)***	***(20.4)***	***(40.3)***
of which: Corporate Center – Core Functions	***(27.0)***	***(11.7)***	***(0.3)***	***(23.1)***	***(30.8)***
of which: CC – Non-core and Legacy Portfolio	***4.3***	***5.1***	***(0.1)***	***(11.6)***	***(23.5)***

	31.12.12				
CHF million	–200 bps	–100 bps	+1 bp	+100 bps	+200 bps
CHF	(22.5)	(13.5)	(0.2)	(13.7)	(23.5)
EUR	19.8	12.1	(0.4)	(42.5)	(82.1)
GBP	(5.5)	(2.8)	(0.0)	(4.6)	(10.0)
USD	(198.3)	(139.3)	4.1	415.8	800.0
Other	2.5	(6.0)	0.2	19.4	38.7
Total impact on interest rate-sensitive banking book positions	(203.9)	(149.5)	3.6	374.3	723.1
of which: Wealth Management Americas	*(168.3)*	*(111.3)*	*3.9*	*391.7*	*745.9*
of which: Investment Bank	*15.5*	*9.7*	*(0.3)*	*(35.0)*	*(70.0)*
of which: Corporate Center – Core Functions	*(54.5)*	*(51.0)*	*0.3*	*35.9*	*83.8*
of which: CC – Legacy Portfolio	*2.9*	*2.7*	*(0.1)*	*(14.6)*	*(29.3)*

1 Does not include interest rate sensitivities for credit valuation adjustments on monoline credit protection, US and non-US reference-linked notes and the option to acquire equity of the SNB StabFund. Also not included are the interest rate sensitivities of our inventory of student loan auction rate securities, as from an economic perspective these exposures are not materially affected by parallel shifts in US dollar interest rates, holding other factors constant. 2 In the fourth quarter of 2013, we removed the sensitivity of the debit valuation adjustment to interest rate movements from this table, as this sensitivity is not considered to be part of the banking book for regulatory capital purposes. Prior periods have been restated. The net effect of this exclusion for the –200, –100, +1, +100 and +200 basis point shocks for 31 December 2012 was CHF 3.5, (2.8), 0.3, 31.8 and 63.7 million respectively.

Audited

The sensitivity of the banking book to rising rates includes the interest rate sensitivities arising from debt investments classified as *Financial investments available-for-sale* and their associated hedges. The sensitivity of these positions (excluding hedges and excluding investments in funds accounted for as available-for-sale) to a 1-basis-point parallel increase in the yields of the respective instruments is approximately negative CHF 8 million, which would be recorded in *Other comprehensive income* if such change occurred.

The sensitivity of the banking book to rising rates also includes interest rate sensitivities arising from interest rate swaps designated in cash flow hedges. Fair value gains or losses associated with the effective portion of these swaps are recognized initially in *Equity*. When the hedged forecast cash flows affect profit or loss, the associated gains or losses on the hedging derivatives are reclassified from *Equity* to profit or loss. These swaps are denominated in US dollar, euro, British pound and Swiss franc. As of 31 December 2013, the fair value of these interest rate swaps amounted to CHF 4.8 billion (positive replacement values) and CHF 2.3 billion (negative replacement values). The impact of a 1-basis-point increase of underlying LIBOR curves would have decreased equity by approximately CHF 22.3 million, ignoring adjustments for tax.

➔ **Refer to "Note 15 Financial investments available-for-sale" in the "Financial information" section of this report for more information**

Other market risk exposures

Own credit

We are exposed to changes in UBS's own credit which are reflected in the valuation of those financial liabilities designated at fair value, for which UBS's own credit risk would be considered by market participants. We also estimate debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives. Changes in fair value due to changes in own credit are recognized in the income statement and therefore affect shareholders' equity and CET1 capital.

➔ **Refer to "Note 24 Fair value measurement" in the "Financial information" section of this report for more information on own credit**

Structural foreign exchange risk

On consolidation, assets and liabilities held in foreign operations are translated into Swiss francs at the closing foreign exchange rate on the balance sheet date, and items of income and expense are translated into Swiss francs at the average rate for the period. The resulting foreign exchange differences are recognized in *Other comprehensive income* and therefore affect shareholders' equity and Basel III CET1 capital.

Group Treasury employs strategies to manage this foreign currency exposure, including matched funding of assets and liabilities and net investment hedging.

➔ **Refer to the "Treasury management" section of this report for more information on our exposure to and management of structural foreign exchange risk**

Equity investments

Audited

Under IFRS, equity investments not in the trading book may be classified as *Financial investments available-for-sale, Financial assets designated at fair value* or *Investments in associates.*

We make direct investments in a variety of entities and buy equity holdings in both listed and unlisted companies for a variety of purposes. This includes investments such as exchange and clearing house memberships that are held to support our business activities. We may also make investments in funds that we manage, in order to fund or "seed" them at inception, or to demonstrate that our interests concur with those of investors. We also buy, and are sometimes required by agreement to buy, securities and units from funds that we have sold to clients.

The fair value of equity investments tends to be dominated by factors specific to the individual investments. Equity investments are generally intended to be held for the medium or long term and may be subject to lockup agreements. For these reasons, we generally do not control these exposures using the market risk measures applied to trading activities. Such equity investments are, however, subject to a different range of controls, including pre-approval of new investments by business management and Risk Control, portfolio and concentration limits, and regular monitoring and reporting to senior management. They are also included in our Group-wide statistical and stress testing metrics which flow into our risk appetite framework.

Audited

As of 31 December 2013, we held equity investments totaling CHF 1.5 billion, of which CHF 0.6 billion were classified as *Financial investments available-for-sale,* and CHF 0.8 billion as *Investments in associates.* This was broadly unchanged from the prior year.

➔ **Refer to "Note 15 Financial investments available-for-sale" and "Note 30 Interests in other entities" in the "Financial information" section of this report for more information**

Debt investments

Audited

Debt investments classified as *Financial investments available-for-sale* are measured at fair value with changes in fair value recorded through *Equity,* and can broadly be categorized as money market instruments and debt securities primarily held for statutory, regulatory or liquidity reasons.

The risk control framework applied to debt instruments classified as *Financial investments available-for-sale* depends on the nature of the instruments and the purpose for which we hold them. Our exposures may be included in market risk limits or be subject to specific monitoring such as interest rate sensitivity analysis. They are also included in our Group-wide statistical and stress testing metrics which flow into our risk appetite framework.

Debt instruments classified as *Financial investments available-for-sale* had a fair value of CHF 58.9 billion as of 31 December 2013 compared with CHF 65.7 billion as of 31 December 2012.

➔ **Refer to "Note 15 Financial investments available-for-sale" in the "Financial information" section of this report for more information**

➔ **Refer to "Interest rate risk sensitivity to parallel shifts in yield curves" in this section for more information**

➔ **Refer to the "Treasury management" section of this report for more information**

Pension risk

We maintain a number of defined benefit pension plans for past and current employees. The ability of each plan to meet the projected pension payments is maintained principally through investments. Pension risk arises because the fair value of these plan assets might decline, their investment returns might decrease or the estimated value of the defined benefit obligation might increase. If plan assets are insufficient to meet the projected pension payments, UBS may be required, or might choose, to make extra contributions to the pension plans.

Under IFRS, remeasurements of the defined benefit obligation and the fair values of the plan assets are recognized through *Other comprehensive income* and therefore affect shareholders' equity. An increase in the overall net defined benefit liability of a pension plan (where the defined benefit obligation exceeds the fair value of plan assets) will reduce our equity. Where the defined benefit obligation is less than the fair value of the plan assets, the pension plan is in a surplus position. Such surplus can only be recognized on the balance sheet to the extent that it does not exceed the estimated future economic benefit. Where the amount of surplus recognized has been capped, any reduction in the estimated future economic benefit will reduce equity. Changes in the surplus, due to changes in the defined benefit obligation or fair value of plan assets, will not affect equity until the surplus falls below any cap.

Remeasurements of the defined benefit obligations and plan assets similarly affect our Basel III CET1 capital on a fully applied basis, albeit pension surpluses are not recognized.

Investment policies and strategies are in place for our defined benefit pension plans which take account of the maturity profile of plan liabilities and ensure diversified portfolios of assets are maintained. These strategies are managed by responsible governance bodies in each jurisdiction according to local laws and regulations.

Pension risk is included in our Group-wide statistical and stress testing metrics which flow into our risk appetite framework.

➔ **Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information**

UBS own share exposure

We hold our own shares primarily to hedge employee share and option participation plans. A smaller number are held by the Investment Bank which relate to market-making and hedging activities.

➔ **Refer to "Holding of UBS shares" in the "Capital management" section of this report for more information**

Country risk

Country risk framework

Country risk includes all country-specific events that occur within a sovereign's jurisdiction and may lead to an impairment of UBS's exposures. Country risk can take the form of sovereign risk, which refers to the ability and willingness of a government to honor its financial commitments, transfer risk, which would arise if an issuer or counterparty could not acquire foreign currencies following a moratorium of a central bank on foreign exchange transfers, or "other" country risk that may manifest itself through increased and multiple counterparty and issuer default risk (systemic risk) on the one hand, and by events that may affect the standing of a country (e.g., political stability, institutional and legal framework) on the other hand. We have a well-established risk control framework through which we assess the risk profile of all countries where we have exposure.

We attribute to each country a sovereign rating, which expresses the probability of the sovereign defaulting on its own financial obligations in foreign currency. Our ratings are expressed by statistically derived default probabilities as described in the "Probability of default" section above. Based on this internal analysis we also define the probability of a transfer event occurring and establish rules as to how the aspects of "other" country risk should be incorporated into the analysis of the counterparty rating of incorporated entities that are domiciled in the respective country.

We ensure that our exposure to all countries is commensurate with the credit ratings we assign to them, and that it is not disproportionate to the respective country risk profile. For all countries rated 3 and below we set country risk ceilings, which are approved either by the Board of Directors or under delegated authority by the Group Chief Executive Officer or Group Chief Risk Officer, depending on the size of the limit and the country rating. A country risk ceiling applies to all our exposures to counterparties or issuers of securities and financial investments in the respective country. We may limit the extension of credit, transactions in traded products or positions in securities based on a country ceiling, even if our exposure to a counterparty is otherwise acceptable.

For internal measurement and control of country risk, we also consider the financial impact of market disruptions arising prior to, during and following a country crisis. These may take the form of a severe deterioration in a country's debt, equity or other asset markets or of a sharp depreciation of the currency. We use stress testing to assess the potential financial impact of a severe country and/or sovereign crisis. This involves the development of plausible stress scenarios for combined stress testing and the identification of countries that may potentially be subject to a crisis event, determining potential losses and making assumptions about recovery rates depending on the types of credit transactions involved and their economic importance to the affected countries.

Our exposures to market risks are also subject to regular stress tests that cover major global scenarios, which are used for combined stress testing as well, whereby we apply market shock factors to equity indices, interest and currency rates in all relevant countries and consider the potential liquidity of the instruments.

In light of the ongoing European sovereign debt crisis, we maintain increased monitoring of, and focus on, the quality of collateral we hold.

Country risk exposure

Country risk exposure measure

The presentation of country risk follows our internal risk view, whereby the basis for measurement of exposures depends on the product category into which we have classified our exposures. In addition to the classification of exposures into banking products and traded products as defined in "Credit risk profile of the Group – Internal risk view," we classify within trading inventory issuer risk on securities such as bonds and equities, as well as the risk relating to the underlying reference assets for derivative positions, including those linked to credit protection we buy or sell and loan or security underwriting commitments pending distribution.

As we manage the trading inventory on a net basis, we net the value of long positions against short positions with the same underlying issuer. Net exposures are, however, floored at zero per issuer in the figures presented. We therefore do not recognize the potentially offsetting benefit of certain hedges and short positions across issuers.

We do not recognize any expected recovery values when reporting country exposures as *Exposure before hedges* except for the risk-reducing effects of master netting agreements and collateral held in the form of either cash or portfolios of diversified marketable securities, which we deduct from the basic positive exposure values. Within banking products and traded products, the risk-reducing effect of any credit protection is taken into account on a notional basis when determining the *Net of hedges* exposures.

Country risk exposure allocation

In general, exposures are shown against the country of domicile of the contractual counterparty or the issuer of the security. For some counterparties whose economic substance in terms of assets or source of revenues is primarily located in a different country, the exposure is allocated to the risk domicile of that different country.

This is the case, for example, with legal entities incorporated in financial offshore centers, which have their main assets and revenue streams outside the country of domicile. The same principle applies to exposures for which we hold third-party guarantees or collateral, where we report the exposure against the country of domicile of either the guarantor or the issuer of the underlying security, or against the country where pledged physical assets are located.

We apply a specific approach to banking products exposures to branches of financial institutions which are located in a country other than that of the domicile of the legal entity. In such cases, exposures are recorded in full against the country of domicile of the counterparty and additionally in full against the country in which the branch is located.

In the case of derivatives, we show the counterparty risk associated with the positive replacement value against the country of domicile of the counterparty (presented within traded products). In addition, the risk associated with the instantaneous fall in value of the underlying reference asset to zero (assuming no recovery) is shown against the country of domicile of the issuer of the reference asset (presented within trading inventory). This approach ensures that we capture both the counterparty and, where applicable, issuer elements of risk arising from derivatives and applies comprehensively for all derivatives, including single-name CDS and other credit derivatives.

As a basic example: if a CDS protection for a notional value of 100 bought from a counterparty domiciled in country X referencing debt of an issuer domiciled in country Y has a positive replacement value of 20, we record (i) the fair value of the CDS (20) against country X (within traded products) and (ii) the hedge benefit (notional minus fair value) of the CDS (100 – 20 = 80) against country Y (within trading inventory). In the example of protection bought, the 80 hedge benefit would offset against any exposure arising from securities held and issued by the same entity as the reference asset, floored at zero per issuer. In the case of protection sold, this would be reflected as a risk exposure of 80 in addition to any exposure arising from securities held and issued by the same entity as the reference asset. In the case of derivatives referencing a basket of assets, the issuer risk against each reference entity is calculated as the expected change in fair value of the derivative given an instantaneous fall in value to zero of the corresponding reference asset (or assets) issued by that entity. Exposures are then aggregated by country across issuers, floored at zero per issuer.

Exposures to selected eurozone countries

We continue to monitor and manage closely our exposures to peripheral European countries. Our direct exposures to Greece, Italy, Ireland, Portugal and Spain remain limited, but we nevertheless remain vigilant regarding the potential broader implications of adverse developments in the eurozone. As noted in the "Stress testing" section, the Euro Crisis scenario was our binding scenario for Combined Stress Test purposes during 2013, making it central to the regular monitoring of risk exposure against the minimum capital and earnings objectives in our risk appetite framework.

The table "Exposures to selected eurozone countries" on the next page provides an overview of our exposures to eurozone countries rated lower than AAA / Aaa by at least one of the major rating agencies as of 31 December 2013. Following the downgrade of its credit rating by Standard & Poor's from AAA to AA+ in November 2013, the Netherlands has been added to this disclosure. The table shows an internal risk view of gross and net exposures split by sovereign, agencies and central banks, local governments, banks and other counterparties (including corporates, insurance companies and funds). Exposures to Andorra, Cyprus, Estonia, Malta, Monaco, Montenegro, San Marino, Slovakia and Slovenia are grouped in Other.

CDS are primarily bought and sold in relation to our trading businesses, but are also used to hedge parts of our risk exposure, including that related to selected eurozone countries. As of 31 December 2013, and not taking into account the risk-reducing effect of master netting agreements, we had purchased approximately CHF 60 billion gross notional of single name CDS protection on issuers domiciled in Greece, Italy, Ireland, Portugal or Spain (GIIPS) and had sold CHF 57 billion gross notional of single-name CDS protection. On a net basis, taking into account the risk reducing effect of master netting agreements, this equates to approximately CHF 14 billion notional purchased and CHF 11 billion notional sold. More than 99% of gross protection purchased was from investment grade counterparties (based on our internal ratings) and on a collateralized basis. The vast majority of this was from financial institutions domiciled outside the eurozone. Approximately CHF 0.7 billion of the gross protection purchased was from counterparties domiciled in a GIIPS country and less than CHF 0.3 billion was with counterparties domiciled in the same country as the reference entity.

Holding CDS for credit default protection does not necessarily protect the buyer of protection against losses, as the contracts will only pay out under certain scenarios. The effectiveness of our CDS protection as a hedge of default risk is influenced by a number of factors, including the contractual terms under which the CDS was

Exposures to selected eurozone countries

CHF million	Total		Banking products (loans, guarantees, loan commitments)			Traded products (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral		Trading inventory (securities and potential benefits / remaining exposure from derivatives)
31.12.13		Net of hedges[1]	Exposure before hedges	Net of hedges[1]	*of which: unfunded*	Exposure before hedges	Net of hedges	Net long per issuer
France	**10,291**	**9,469**	**1,955**	**1,257**	***751***	**2,406**	**2,283**	**5,930**
Sovereign, agencies and central bank	5,653	5,530	56	56		260	137	5,337
Local governments	15	15	6	6		3	3	6
Banks	1,438	1,438	219	219		1,016	1,016	203
Other[2]	3,185	2,486	1,674	975		1,127	1,127	384
Netherlands	**7,616**	**6,878**	**2,080**	**1,408**	***326***	**734**	**667**	**4,803**
Sovereign, agencies and central bank	3,166	3,166	1	1		62	62	3,103
Local governments	0	0				0	0	
Banks	1,117	1,117	643	643		449	449	25
Other[2]	3,334	2,595	1,436	764		223	156	1,675
Italy	**3,982**	**3,273**	**1,775**	**1,070**	***888***	**633**	**629**	**1,574**
Sovereign, agencies and central bank	881	881	37	37		67	67	776
Local governments	138	138				92	92	46
Banks	1,048	1,048	366	366		120	120	562
Other[2]	1,916	1,207	1,373	667		354	350	189
Spain	**2,341**	**1,579**	**810**	**198**	***133***	**396**	**246**	**1,135**
Sovereign, agencies and central bank	222	222	20	20				201
Local governments	13	13				7	7	5
Banks	255	255	59	59		176	176	21
Other[2]	1,851	1,089	731	119		213	63	908
Austria	**1,581**	**1,360**	**53**	**53**	***16***	**709**	**487**	**820**
Sovereign, agencies and central bank	1,198	977	12	12		585	364	601
Local governments	1	1				1	1	1
Banks	342	342	20	20		120	120	202
Other[2]	40	40	21	21		3	3	16
Ireland[3]	**1,051**	**1,051**	**136**	**136**	***1***	**614**	**614**	**301**
Sovereign, agencies and central bank	38	38				0	0	38
Local governments								
Banks	243	243	108	108		31	31	104
Other[2]	770	770	29	29		583	583	158
Belgium	**642**	**642**	**169**	**169**	***41***	**129**	**129**	**344**
Sovereign, agencies and central bank	252	252	4	4		71	71	176
Local governments								
Banks	142	142	87	87		30	30	24
Other[2]	249	249	78	78		28	28	143
Portugal	**180**	**57**	**125**	**3**	***2***	**13**	**13**	**42**
Sovereign, agencies and central bank								
Local governments								
Banks	20	20	2	2		13	13	4
Other[2]	160	37	123	0		0	0	37
Greece	**50**	**50**	**5**	**5**	***5***	**4**	**4**	**41**
Sovereign, agencies and central bank	23	23						23
Local governments								
Banks	9	9	5	5		4	4	0
Other[2]	19	19	0	0		0	0	18
Other	**195**	**195**	**120**	**120**	***32***	**71**	**71**	**5**

1 Not deducted from the "Net of hedges" exposures are total allowances and provisions for credit losses of CHF 35 million (of which: Malta CHF 13 million, Austria CHF 9 million and France CHF 5 million). 2 Includes corporates, insurance companies and funds. 3 The majority of the Ireland exposure relates to funds and foreign bank subsidiaries.

Exposure from single-name credit default swaps referencing Greece, Italy, Ireland, Portugal or Spain

CHF million	Protection bought						Protection sold		Net position (after application of counterparty master netting agreements)			
			of which: counterparty domiciled in GIIPS country		*of which: counterparty domicile is the same as the reference entity domicile*							
31.12.13	Notional	RV	Notional	RV	Notional	RV	Notional	RV	Buy notional	Sell notional	PRV	NRV
Greece	**751**	**(16)**	***0***	***0***	***0***	***0***	**(728)**	**19**	**240**	**(217)**	**14**	**(11)**
Italy	**35,539**	**238**	***272***	***0***	***158***	***(1)***	**(33,954)**	**(436)**	**6,491**	**(4,907)**	**172**	**(370)**
Ireland	**4,216**	**(32)**	***13***	***0***	***0***	***0***	**(4,067)**	**58**	**1,409**	**(1,259)**	**57**	**(31)**
Portugal	**4,485**	**128**	***138***	***5***	***0***	***0***	**(4,319)**	**(135)**	**1,273**	**(1,107)**	**66**	**(73)**
Spain	**15,099**	**(133)**	***286***	***43***	***100***	***40***	**(14,364)**	**109**	**4,470**	**(3,736)**	**136**	**(160)**
Total	**60,090**	**185**	***709***	***47***	***258***	***40***	**(57,433)**	**(385)**	**13,884**	**(11,226)**	**445**	**(645)**

written. Generally, only the occurrence of a credit event as defined by the CDS terms (which may include among other events, failure to pay, restructuring or bankruptcy) results in a payment under the purchased credit protection contracts. For CDS contracts on sovereign obligations, repudiation can also be deemed as a default event. The determination as to whether a credit event has occurred is made by the relevant International Swaps and Derivatives Association (ISDA) determination committees (comprised of various ISDA member firms) based on the terms of the CDS and the facts and circumstances surrounding the event.

Exposure to emerging market countries

The table "Emerging markets net exposure by major geographical region" on the following page shows the five largest emerging market country exposures in each major geographical area by product type as of 31 December 2013 compared with 31 December 2012. Based on the main country rating categories, as of 31 December 2013, 93% of our emerging market country exposure was rated investment grade compared with 92% as of 31 December 2012.

Emerging markets net exposure[1] by internal UBS country rating category

CHF million	**31.12.13**	31.12.12
Investment grade	**14,880**	16,953
Sub-investment grade	**1,126**	1,428
Total	**16,007**	18,381

1 Net of credit hedges (for banking products and for traded products), net long per issuer (for trading inventory). Total allowances and provisions of CHF 65 million are not deducted (31 December 2012: CHF 73 million).

Emerging markets net exposure by major geographical region

CHF million	Total		Banking products (loans, guarantees, loan commitments)		Traded products (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral		Trading inventory (securities and potential benefits / remaining exposure from derivatives)	
	Net of hedges[1]		Net of hedges[1]		Net of hedges		Net long per issuer	
	31.12.13	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Emerging America	**2,223**	2,498	**789**	707	**626**	489	**807**	1,302
Brazil	**1,335**	1,353	**387**	185	**521**	305	**427**	863
Mexico	**331**	214	**93**	97	**49**	75	**190**	43
Colombia	**192**	192	**139**	124	**12**	23	**42**	44
Chile	**152**	322	**81**	200	**44**	82	**26**	40
Argentina	**57**	59	**37**	34			**20**	25
Other	**156**	357	**53**	67	**1**	4	**103**	286
Emerging Asia	**9,720**	11,184	**3,722**	4,341	**1,783**	1,846	**4,216**	4,998
China	**3,528**	3,163	**1,160**	838	**263**	245	**2,105**	2,080
Hong Kong	**1,436**	1,557	**588**	674	**541**	510	**307**	374
India	**1,335**	2,155	**735**	1,156	**190**	254	**410**	744
South Korea	**1,158**	1,532	**273**	447	**472**	462	**413**	623
Taiwan	**921**	1,072	**309**	299	**193**	247	**420**	526
Other	**1,342**	1,704	**657**	926	**124**	127	**561**	651
Emerging Europe	**1,591**	1,833	**978**	864	**89**	247	**525**	722
Russia	**835**	1,061	**509**	489	**24**	174	**302**	398
Turkey	**324**	264	**248**	204	**25**	23	**51**	38
Bulgaria	**76**	38	**40**	38		0	**36**	0
Croatia	**60**	49	**12**	4	**1**	0	**47**	45
Ukraine	**49**	121	**27**	37	**0**	0	**23**	84
Other	**247**	300	**141**	92	**39**	50	**67**	158
Middle East and Africa	**2,473**	2,867	**890**	1,006	**1,005**	1,105	**578**	756
Saudi Arabia	**673**	599	**149**	107	**503**	473	**20**	19
South Africa	**438**	559	**154**	114	**43**	31	**241**	414
Kuwait	**357**	309	**9**	16	**348**	293	**1**	0
United Arab Emirates	**281**	525	**141**	196	**67**	217	**72**	112
Israel	**154**	299	**38**	190	**13**	4	**103**	105
Other	**570**	575	**399**	383	**30**	86	**140**	107
Total	**16,007**	18,381	**6,379**	6,918	**3,502**	3,686	**6,126**	7,777

1 Not deducted are total allowances and provisions of CHF 65 million (31 December 2012: CHF 73 million).

Operational risk

Key developments during the period

Reporting of significant risk issues and operational effectiveness was further extended and strengthened through 2013. Where a particular operational risk issue is considered of strategic concern to the Group, it is categorized as a "Group Significant Operational Risk Issue." Remediation programs related to these issues are led by members of the Group Executive Board and are subject to independent quality assurance. Completion is assessed against clearly defined success criteria to confirm that an adequate and sustainable standard of control has been achieved. The Group Executive Board members have confirmed their personal and collective commitment to the timely and sustainable remediation of Group Significant Operational Risk Issues. In 2013, we made significant progress on these remediation programs resulting in the completion of many remediation activities.

The Investment Bank's unauthorized trading incident remediation program has been completed and this has further enhanced the Group's ability to detect or prevent such incidents. Independent third-party reviews have been completed with no material issues identified.

In the past year we have entered into a number of settlements, the largest of which relates to Federal Housing Finance Agency.

Multiple security programs have been initiated in 2013 to address the evolving and increasingly complex threat of cyber-attacks and cyber-criminal activity facing the financial services industry and the increased use of mobile devices, social networking, and the growing sophistication of cyber-attacks have been identified as an area of increasing operational risk.

Operational risk is an inevitable consequence of being in business, as losses can result from inadequate or failed internal processes, people and systems, or from external events. The impact of operational risk remains at elevated levels, and can arise as a result of past and current business activities across all business divisions and Corporate Center. In acknowledgement of the dynamic industry and the environment in which we operate, we will continue to refine our framework to ensure it is adaptive to organizational changes, is responsive to regulatory requirements and supports forward-looking risk identification.

As of 1 January 2014, our Operational Risk Control unit merged with the compliance function to manage the Group's compliance, conduct and operational risks in a more integrated and effective way. The new function will continue to report to the Group Chief Risk Officer and will continue to manage, implement and enhance the operational risk framework.

Sources of operational risk

Operational risk is an inevitable consequence of being in business and managing it is a core element of our business activities. Our aim is to provide a framework that supports the identification and assessment of material operational risks and their potential concentrations, in order to achieve an appropriate balance between risk and reward.

Operational risk framework

The business division Chief Executive Officers and Corporate Center function heads are ultimately accountable for the effectiveness of operational risk management and for the implementation of our operational risk framework. The business division Chief Executive Officers are responsible for establishing and maintaining an effective front-to-back control environment, notwithstanding the delegation of those responsibilities to the business division Chief Operating Officers. Management in all functions (business, logistics and control functions) are responsible for establishing an appropriate operational risk management environment, including the establishment and maintenance of robust internal controls, effective supervision and a strong risk culture. Controls must be regularly assessed for design and operating effectiveness and supported by positive demonstrable evidence.

Operational Risk Control provides an independent and objective view of the adequacy of operational risk management across the Group. It is governed by the Operational Risk Management Committee, which is chaired by the Global Head of Operational Risk Control, who reports to the Group Chief Risk Officer and is a member of the Risk Executive Committee. The Operational Risk Management Committee oversees operational risk activities and work streams, provides oversight of the implementation and refinement of the operational risk framework and ensures an effective and independent assessment of the operational risk profile.

The operational risk framework describes general requirements for managing and controlling operational risk at UBS. The refinement of the operational risk framework was the key focus during 2013, building on the main elements previously established. The framework is built on four main pillars:

1. classification of inherent risks through the operational risk taxonomy;
2. assessment of the design and operating effectiveness of controls through the internal control assessment process;
3. assessment of residual risk through the operational risk assessment process and
4. remediation to address identified deficiencies which are outside accepted levels of residual risk.

The operational risk taxonomy provides a clear and logical classification of our inherent operational risks, across all business divisions. The operational risk framework requires that each category of the operational risk taxonomy is supported by clearly defined core controls. Core controls are the high-level critical controls that, if designed and operating effectively, will materially ensure that our operational risk profile stays within acceptable levels. The completeness of core controls is tested using scenarios through which the inherent risk, including stress and tail risk, may materialize. To support the core controls, functions are required to identify key procedural controls relevant to their activities. Full implementation and integration of scenarios, core and key procedural controls is key to ensuring a comprehensive view of residual risk in the organization. A review of these elements is achieved through a quarterly internal control assessment process that requires functions to assess and evidence operating and design effectiveness of their key procedural controls. This also forms the basis for the assessment and testing of the controls which oversee financial reporting as required by the Sarbanes-Oxley Act, section 404 (SOX 404). The enhanced framework facilitates the identification of SOX 404 relevant controls for independent testing, functional assessments, gathering of evidence, management affirmation and remediation tracking.

To further enhance and strengthen the operational risk framework, a program of independent management testing for key procedural controls commenced in 2013. The program is testing all key procedural controls in the areas with the highest levels of inherent risk in addition to those relevant for SOX 404, with full front-to-back business engagement.

Significant control deficiencies that surface during the internal control and operational risk assessment processes must be reported in the operational risk inventory and sustainable remediation must be instigated. All significant issues are assigned to owners at senior management level and must be reflected in the respective employees' annual performance measurement and management objectives to ensure effective, sustainable remediation.

The aggregated impact of control deficiencies and the adequacy of remediation efforts are assessed by Operational Risk Control for all relevant operational risk taxonomy categories as part of the operational risk assessment process. This front-to-back process, complemented by internal subject matter expertise, provides a transparent assessment of the current operational risk exposure against agreed risk appetite statements and measures.

Risk appetite measures indicate a breach of operational risk appetite limits, which requires management to adapt their business activities or adjust the internal control environment accordingly. Risk appetite can be expressed through the establishment of quantitative constraints such as operating limits or qualitative statements in the form of policies. To assist with prioritization of all known operational risk issues, irrespective of origin, a common rating methodology is adopted by all internal control functions and both internal and external audit. Assessment of all known issues irrespective of source against the same rating scale supports clear prioritization and appropriate management focus on the key issues. Group Internal Audit applies an enhanced assurance process to issue closure to promote stronger management discipline for identifying, mitigating and sustainably remediating operational risk issues. As described in the "Risk principles and risk culture" section, we have policies and initiatives in place to embed the desired risk culture within the Group and have taken steps in 2013 to strengthen our culture further, re-emphasizing the importance of a strong control culture and individual responsibility across all levels of the Group.

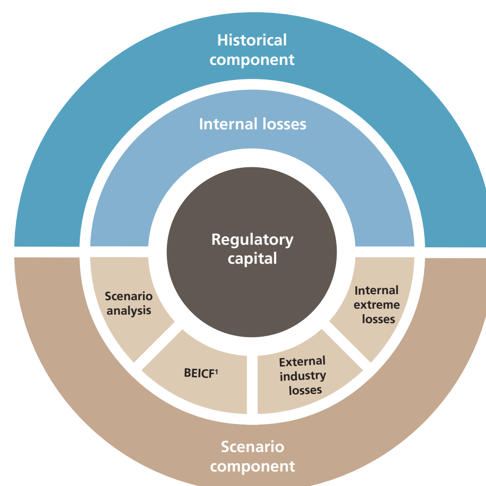
Advanced measurement approach model

The operational risk framework is aligned to and underpins the calculation of capital, representing a major step forward in our approach in quantifying operational risk and setting effective management incentives. The processes detailed above are integral to the quantification of operational risk, which reinforces integration and alignment of the operational risk framework and the calculation of capital.

We measure operational risk exposure and calculate operational risk regulatory capital by utilizing the advanced measurement approach (AMA) in accordance with FINMA requirements. For regulated subsidiaries, the basic indicator or standardized approaches are adopted as agreed with local regulators. Regulatory requirements are currently leading to the implementation of AMA models in UBS locations.

The AMA model consists of a backward-looking historical component and a forward-looking scenario component. The historical component is a retrospective view based on our history of

AMA model components and inputs



1 Business environment and internal control factors.

operational risk losses since January 2002, excluding extreme internal losses, which are captured through the scenario component. The key assumption within the historical component is that past events form a reasonable proxy for future events. A distribution of aggregated losses over one year is derived by modeling severities and frequencies separately and then combining them. This is referred to as a loss distribution approach and is used to project future total losses based on historical experience and determine the expected loss portion of our capital requirement.

The scenario component is a forward-looking view of potential operational losses that may occur taking into account the operational risk issues facing the Group. The aim is to reach a reasonable estimate of unexpected or tail loss exposure (corresponding to a low frequency/high severity event). We use 20 AMA taxonomy categories which are aligned to the operational risk taxonomy. For each of these categories three frequency/severity pairs are defined, representing the base, stress and worst case. Calibration is based on internal extreme losses, loss data from peer banks, business environment and internal control factors, as well as extensive annual verification by internal subject matter experts. Qualitative adjustments to the parameters of the scenario component utilize the assessments of operational risk exposure resulting from the operational risk assessment process as well as control deficiencies, scenarios and core controls. The chart on the previous page provides a high-level overview of the model components and their respective inputs into the calculation.

The AMA model adds the sampled losses from the historical and the scenario component to derive the regulatory capital figure which equals the 99.9% quantile of the overall loss distribution. Currently, we do not reflect mitigation through insurance or any other risk transfer mechanism in our AMA model.

In 2013, there were no methodological changes to our AMA model. Developments focused on enhancing the benchmarking framework and analysis to support the plausibility of AMA model results and establishing granular reporting of operational risk exposure by event type (i.e., AMA taxonomy) and business lines. Further progress has been made in the adaptation of the Group's AMA model to support local and regional entity-specific regulatory requirements and ensuring a consistent approach for the measurement of operational risk globally.

Operational risk regulatory capital continued to be allocated to the business divisions based on historical operational risk-related losses. In 2013, we concentrated on developing and improving the current capital allocation methodology to strengthen the linkage between the quality of operational risk management and the resulting capital allocation to promote and incentivize excellence in risk management behavior. This enhanced capital allocation methodology is planned to be introduced in early 2014.

At the end of the third quarter, we received an order from FINMA announcing the imposition, with effect from 1 October 2013, of a temporary 50% add-on to our AMA based operational risk-related RWA in relation to known or unknown litigation, compliance and other operational risk matters. During the fourth quarter of 2013 and in January of 2014, UBS and FINMA reviewed this temporary operational risk-related RWA add-on and mutually agreed that, effective on 31 December 2013, a supplemental analysis would be used to calculate the incremental operational risk capital required to be held for litigation, regulatory and similar matters and other contingent liabilities. The incremental RWA calculated based upon this supplemental analysis replaced the temporary operational risk-related RWA add-on, and is reflected in the 31 December 2013 RWA and capital ratio information in this report. The incremental RWA calculated based upon this supplemental analysis as of 31 December 2013 was CHF 22.5 billion, approximately CHF 5 billion less than the incremental RWA determined as of 1 October 2013 under the previously disclosed 50% operational risk add-on.

➔ **Refer to the "Capital management" section of this report for more information on the development of risk-weighted assets for operational risk**

Corporate Center – Non-core and Legacy Portfolio

During 2013, Non-core and Legacy Portfolio balance sheet assets declined by CHF 218 billion to CHF 211 billion, a 51% reduction, mainly due to a CHF 170 billion reduction in positive replacement values (PRV) and, to a lesser extent, a CHF 39 billion reduction in funded assets along with a CHF 9 billion reduction in collateral delivered against over-the-counter (OTC) derivatives.

Risk-weighted assets (RWA) for Non-core and Legacy Portfolio declined by CHF 39 billion to CHF 64 billion from CHF 103 billion, significantly below our target of CHF 85 billion for year-end 2013 despite increased operational risk RWA mainly resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

Non-core

Beginning in the first quarter of 2013, the non-core businesses formerly in the Investment Bank were transferred to Corporate Center – Non-core, and they are now managed and reported in that unit. These positions are capital- and balance sheet-intensive or are in areas with high operational complexity and long tail risks. Non-core consists of a large number of positions previously originated mainly within the Investment Bank's rates and credit businesses. The majority of Non-core positions consist of OTC derivatives reported as replacement values on UBS's balance sheet. In contrast to the Legacy Portfolio, credit risk from counterparty exposures in Non-core is well-diversified by both currency and geography, and single-name exposures are limited. Over 95% of gross PRV was collateralized as of 31 December 2013. Overall market risk is hedged and primarily relates to liquid market parameters such as interest rates and foreign currencies.

Non-core balance sheet assets decreased by CHF 204 billion to CHF 185 billion as of 31 December 2013, mainly due to lower PRV which declined by CHF 161 billion. This decrease came primarily from a reduction in OTC derivative exposures by means of negotiated bilateral settlements with specific counterparties, (i.e., unwinds), third-party novations, including transfers to central clearing houses, (i.e., trade migrations), agreements to net down trades with other dealer counterparties, (i.e., trade compressions), as well as, to a lesser extent, fair value changes due to interest rate movements. Funded assets decreased by CHF 33 billion, primarily from the exit of government and other liquid bond positions along with the sale of a portfolio of distressed assets. Remaining funded asset positions are largely corporate loans and bonds held to hedge OTC positions. Lastly, collateral delivered against OTC derivatives declined by CHF 9 billion. Funded assets and PRV classified as Level 3 in the fair value hierarchy totaled CHF 3 billion, or 2%, of total Non-core balance sheet assets as of 31 December 2013.

Non-core RWA totaled CHF 33 billion as of 31 December 2013, a decrease of CHF 32 billion compared with 31 December 2012, due to ongoing RWA reduction activity resulting in a CHF 21 billion decrease in credit risk and a CHF 10 billion decrease in market risk RWA.

Legacy Portfolio

The Legacy Portfolio was created in the fourth quarter of 2011 and comprises positions previously originated in the Investment Bank. It also included our option to acquire the equity of the SNB StabFund, which we exercised during the fourth quarter of 2013. The majority of Legacy Portfolio positions are relatively concentrated and illiquid.

Legacy Portfolio balance sheet assets decreased by CHF 14 billion to CHF 25 billion during 2013. PRV decreased by CHF 8 billion, which included the impact of the exercise of our option to acquire the equity of the SNB StabFund. Funded assets decreased by CHF 6 billion, which included sales and redemptions of student loan auction rate securities. Funded assets and PRV classified as Level 3 in the fair value hierarchy totaled CHF 4 billion, or 16%, of total Legacy Portfolio balance sheet assets as of 31 December 2013.

Legacy Portfolio RWA totaled CHF 31 billion as of 31 December 2013, a decrease of CHF 7 billion compared with 31 December 2012 due to a CHF 17 billion combined reduction in credit risk and market risk RWA, which was partly offset by a CHF 10 billion increase in operational risk RWA, mainly resulting from the aforementioned supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

An overview of the composition of Non-core and Legacy Portfolio is presented below and on the following page, including position and RWA information for the current and prior year. The groupings of positions by exposure category and the order in which these are listed are not necessarily representative of the magnitude of the risks associated with them, nor do the metrics shown in the tables necessarily represent the risk measures used to manage and control these positions. For example, OTC derivatives trading is largely conducted on a collateralized basis and under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of PRV with negative replacement values in the event of default. The funded assets and PRV measures presented are intended to provide additional transparency regarding progress in the execution of our strategy to exit these positions. All positions, primarily PRV, are affected by market factors outside the control of UBS, for example, by interest rate movements.

Composition of Non-core

CHF billion

Exposure category		Description	Changes in 2013	RWA [1]		Funded assets [2]		PRV [3]	
				31.12.13	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Rates	**Linear OTC**	Government bonds and other liquid bonds along with primarily vanilla interest rate, inflation, basis, flow commodities and cross-currency swaps for all major currencies and some emerging markets. Over 95% of gross PRV is collateralized. Approximately 50% of the current gross PRV is due to mature by 2019.	Decrease in funded assets due to exit of government, agencies, CMO pass-throughs and other liquid bonds. Reduction in RWA primarily due to a decrease in PRV, mainly as a result of trade unwinds, trade compressions, transfers to central clearing houses, as well as interest rate movements.	**13.8**	29.3	**1.1**	16.0	**109.7**	222.8
	Non-linear OTC	Vanilla and structured options. Over 95% of gross PRV is collateralized. Non-linear exposures are typically longer dated than linear exposures.	Decrease in funded assets primarily due to the sale of a structured bond. Decrease in PRV mainly due to trade unwinds, trade compressions and transfers to central clearing houses, as well as interest rate movements.			**1.0**	1.7	**36.8**	72.1
Credit	**Loans and distressed trading**	Corporate lending, distressed credit trading, asset-based lending, syndicated loans, structured financing and structured repo exposures.	Decrease in funded assets and RWA reflects the sale of distressed assets, corporate loan sales, and repayments along with exit of financing positions.	**7.8**	20.3	**2.4**	5.9	**0.0**	0.7
	Cash and credit default swaps (CDS)	Vanilla CDS and corporate bonds.	Decrease in funded assets due to sales of bond positions. Decrease in PRV primarily due to transfer of CDS positions to the "Structured credit" category for risk management purposes and to facilitate unwinds with certain counterparties. Ongoing reduction in cash positions contributed to a reduction in RWA.			**0.2**	3.8	**0.1**	7.4
	Structured credit	Tranches of structured credit products, liquid index tranches, credit-linked notes, structured entities and bond-repackaged notes with granular risk characteristics and average remaining maturity of less than 4 years. This portfolio is managed under a correlation trading strategy.	Following the transfer of CDS positions from the "Cash and CDS" category as mentioned above, PRV decreased due to CDS and collateralized debt obligation (CDO) trade unwinds, maturing trades and trade netting of selected positions with counterparties resulting in RWA reduction.			**0.4**	0.5	**13.3**	16.7
Other		Exposures to precious metal deposits, equities, CVA and related hedging activity.	Decrease in funded assets mainly due to the reduction in physical gold holdings held on behalf of clients. PRV and RWA decrease due to sales of certain equity positions and ongoing CVA exposure management and hedging activity.	**1.4**	4.5	**2.2**	12.6	**0.4**	2.0
Operational risk		Operational risk RWA allocated to Non-core.	Reduction in operational risk RWA reflects a lower allocation of total Group operational risk RWA.	**9.5**	10.4	–	–	–	–
Total				**32.6**	64.5	**7.3**	40.5	**160.3**	321.7

1 Phase-in and fully applied Basel III RWA. 2 Funded assets are defined as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives (CHF 17.4 billion as of 31.12.13 and CHF 26.5 billion as of 31.12.12). 3 Positive replacement values (gross exposure excluding the impact of any counterparty netting).

Composition of Legacy Portfolio

CHF billion

Exposure category	Description	Changes in 2013	RWA [1]		Funded assets [2]		PRV [3]	
			31.12.13	31.12.12	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Collateralized debt obligations (CDO)	Includes ABS, RMBS, CDO, CMBS and CLO bonds as well as single-name CDS trades referencing these asset classes.	RWA reduction due to sales and unwinds of certain CDO positions and hedges. RWA reduced >70% since 30.9.11.	**5.1**	9.8	**2.5**	3.1	**0.5**	2.1
Reference-linked notes (RLN)	RLN consist of a series of transactions, mainly issued in note form, whereby UBS purchased credit protection on a reference portfolio of fixed income assets, along with related cash bonds held for hedging purposes.	Decrease in funded assets due to the sale of certain cash bonds. PRV increase partly due to maturity date extensions on specific RLN. RWA reduction reflective of the lower ratings of the bonds sold. RWA reduced > 70% since 30.9.11.	**3.1**	5.7	**1.7**	2.4	**0.6**	0.2
Monolines	Primarily CDS protection purchased from monoline insurers to hedge specific positions. The majority of this exposure is hedged via single-name credit default swaps.	RWA decreased due to certain trade unwinds along with ratings upgrades for specific counterparties. Total fair value of CDS protection was stable at CHF 0.4 billion (of which CHF 0.1 billion from monolines rated BBB and above) after cumulative CVA of CHF 0.1 billion.	**2.2**	4.0	–	–	**0.4**	0.5
Real estate assets	Primarily CDS on ABS and CMBX[4] derivatives positions and CMBS cash bonds.	Decrease in PRV and RWA primarily due to ongoing trade unwinds and novation of CMBX trades. RWA reduced >70% since 30.9.11.	**2.0**	2.4	**0.5**	0.5	**0.9**	2.0
Auction rate securities (ARS) and auction preferred stock (APS)	Portfolio of student loan and municipal ARS as well as APS. 100% of student loan ARS exposures were rated BB– and higher as of 31.12.13, with over 86% of the collateral backed by Federal Family Education Loan Program guaranteed collateral. All APS were rated A and higher as of 31.12.13.	Reduction in funded assets and RWA due to sales and redemptions of student loan ARS positions. Student loan ARS funded assets decreased to CHF 0.9 billion from CHF 3.8 billion. RWA reduced >90% since 30.9.11.	**1.6**	3.2	**3.8**	7.1	–	–
Muni swaps and options	Swaps and options with US state and local governments.	Decrease in PRV primarily due to interest rate movements supported by trade unwinds. RWA reduced due to a refined market risk RWA allocation benefit in line with Basel III of CHF 1.8 billion introduced in 1Q 2013, along with lower PRV.	**1.0**	4.6	–	0.0	**3.1**	5.0
Loan to BlackRock fund	Loan to structured entity managed by BlackRock Financial Management Inc. The loan's LTV ratio was below 60% as of 31.12.13.	Outstanding loan balance (including amounts held in escrow) decreased by CHF 0.9 billion to CHF 2.4 billion reflecting repayment of principal.	**0.3**	0.8	**2.4**	3.3	–	–
SNB StabFund option	Represented the value of UBS's option to acquire the equity of the SNB StabFund. The option value was directly deducted from equity.	Decrease in PRV in connection with the exercise of our option. The fund's remaining assets had a market value of less than CHF 1 million at exercise and were transferred to the "Real estate assets" category of the Legacy Portfolio.	–	–	–	–	–	2.1
Other	Includes a number of smaller positions.	Decrease in PRV mainly due to interest rate and FX movements. RWA decreased due to market movements and lower VaR.	**2.3**	3.7	**3.5**	3.9	**4.1**	6.0
Operational risk	Operational risk RWA allocated to the Legacy Portfolio.	Increase in RWA primarily reflects the effect of the supplemental operational risk capital analysis as well as an increased allocation of total Group operational risk RWA.	**13.3**	3.8	–	–	–	–
Total			**30.9**	38.0	**14.4**	20.3	**9.6**	17.9

1 Phase-in and fully applied Basel III RWA. 2 Funded assets are defined as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives (CHF 1.5 billion as of 31.12.13 and CHF 1.7 billion as of 31.12.12). 3 Positive replacement values (gross exposure excluding the impact of any counterparty netting). 4 Index of CMBS.

Treasury management

Liquidity and funding management

Strategy and objectives

As described more fully in the "Our strategy" section of this report, we are continuing in our commitment to focus our activities on a set of highly synergistic, less capital- and balance sheet-intensive businesses dedicated to serving clients and well-positioned to maximize value for shareholders. This is reflected in the substantial progress we have made in further improving our leading capital position and in reducing risk-weighted assets (RWA).

Audited

We manage our liquidity and funding risk with the overall objective of optimizing the value of our business franchise across a broad range of temporal market conditions and in consideration of current and future regulatory constraints. In line with the implementation of our strategy, as our balance sheet assets are reduced we generate capacity within our liquidity and funding positions. This reduction in our funding needs has enabled us to execute tender offers to repurchase certain outstanding long-term debt in 2013, which lowers our interest expense and allows us to optimize our funding liability structure for the future.

Our liquidity risk management aims to maintain a sound liquidity position to meet all our liabilities when due and to provide adequate time and financial flexibility to respond to a firm-specific liquidity crisis in a generally stressed market environment, without incurring unacceptable losses or risking sustained damage to our various businesses. Complementing this, our funding risk management aims for the optimal asset and liability structure to finance our businesses reliably and cost-efficiently.

We employ a number of measures to monitor our liquidity and funding positions under normal and stressed conditions. Our primary tool for cash management is an operational cash ladder, which is used to monitor our funding requirements on a daily basis, within limits set by the Group Asset and Liability Management Committee (Group ALCO), the Group Chief Financial Officer (Group CFO) and the Group Treasurer. This cumulative cash ladder shows the projected net cumulative funding requirement for a specific day, from the current day to three months forward. We then use stress scenarios to apply behavioral adjustments and calibrate the results with external measures, primarily the evolving regulatory requirements for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

As of 31 December 2013, our estimated pro-forma regulatory Basel III LCR based on current supervisory guidance from FINMA was 110% and our management LCR, which includes additional available funding not eligible under the Basel III LCR framework, was 148%. Based on current regulatory guidance, our estimated pro-forma NSFR was 109% as of 31 December 2013. The Basel Committee on Banking Supervision issued a Consultative Document on the NSFR in January 2014.

➔ **Refer to the "Regulatory and legal developments" section of this report for more information**

We continued to maintain a sound liquidity position throughout the year. As of 31 December 2013, our liquidity asset buffer, that is derived from high-quality liquid assets (HQLA) and supports our estimated pro-forma regulatory LCR, was CHF 153 billion, with additional available funding of CHF 54 billion. In aggregate, these sources of available liquidity represented 28% of our funded balance sheet assets.

The remainder of this section provides more detailed information on our liquidity and funding management including our sources of funding and liquidity, our contingency planning and stress testing, current and potential future regulatory requirements and our governance structure.

Funding

Audited

Our business activities generate asset and liability portfolios that are highly diversified with respect to market, product, tenor and currency. This reduces our exposure to individual funding sources and provides a broad range of investment opportunities, reducing liquidity risk.

Our wealth management businesses and Retail & Corporate provide significant, cost-efficient and reliable sources of funding. These include core deposits and pledging a portion of our portfolio of Swiss residential mortgages as collateral to generate long-term funding through Swiss Pfandbriefe and our own covered bond program. In addition, we have a number of short-, medium- and long-term funding programs under which we issue senior unsecured and structured notes, as well as short-term secured debt – generally for the highest-quality assets. These programs allow institutional and private investors in Europe, the US and Asia Pacific to customize their investments in UBS's debt. Collectively, these broad product offerings and funding sources, together with the global scope of our business activities, support our funding stability.

UBS: funding by product and currency

	In CHF billion											
	All currencies		All currencies[1]		CHF[1]		EUR[1]		USD[1]		Others[1]	
	31.12.13	31.12.12	31.12.13	31.12.12	31.12.13	31.12.12	31.12.13	31.12.12	31.12.13	31.12.12	31.12.13	31.12.12
Securities lending	9.5	9.2	1.4	1.2	0.3	0.4	0.3	0.2	0.6	0.5	0.2	0.2
Repurchase agreements	13.8	38.6	2.1	5.2	0.0	0.1	0.5	1.1	1.3	3.3	0.3	0.6
Due to banks	12.9	23.0	1.9	3.1	0.5	0.5	0.2	0.2	0.7	0.7	0.6	1.6
Short-term debt issued[2]	27.6	32.5	4.2	4.3	0.3	0.3	0.2	0.8	3.2	2.7	0.5	0.6
Retail savings / deposits	143.1	134.3	21.7	18.0	13.6	11.8	1.0	0.8	7.1	5.4	0.0	0.0
Demand deposits	179.0	163.0	27.1	21.8	8.9	8.0	5.4	4.1	8.9	6.4	3.9	3.2
Fiduciary deposits	21.5	25.0	3.3	3.3	0.1	0.1	0.6	0.8	2.2	2.0	0.4	0.5
Time deposits	47.3	51.3	7.2	6.9	0.4	0.2	0.3	0.5	4.0	3.7	2.5	2.5
Long-term debt issued[3]	123.9	164.2	18.8	22.0	3.0	2.7	5.6	7.3	7.9	9.0	2.2	2.9
Cash collateral payables on derivative instruments	49.1	71.1	7.4	9.5	0.3	0.3	3.4	5.0	2.8	3.2	0.9	0.9
Prime brokerage payables	32.5	35.6	4.9	4.8	0.0	0.1	0.7	0.5	3.3	3.3	0.8	0.8
Total	660.2	747.7	100.0	100.0	27.3	24.6	18.3	21.4	42.0	40.1	12.4	13.9

1 As a percent of total funding sources. 2 Short-term debt issued is comprised of deposit, commercial paper, acceptances and promissory notes, and other money market papers. 3 Long-term debt issued also includes debt with a remaining time to maturity of less than one year.

Funding management

Audited

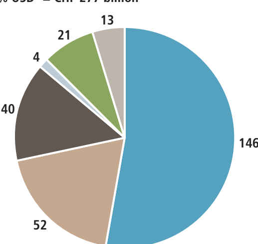
Group Treasury regularly monitors our funding status, including concentration risks, to ensure we maintain a well-balanced and diversified liability structure. Our funding activities are planned by analyzing the overall liquidity and funding profile of our balance sheet, taking into account the amount of stable funding that would be needed to support ongoing business activities through periods of difficult market conditions.

Funding by currency

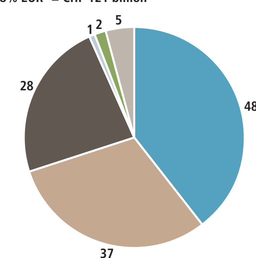
CHF billion

As of 31.12.13

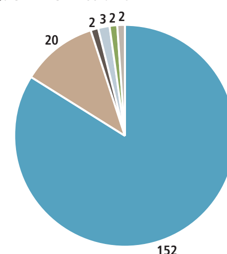
42% USD[1] = CHF 277 billion



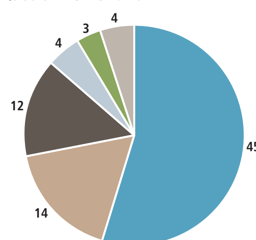
18% EUR[1] = CHF 121 billion



27% CHF[1] = CHF 180 billion



12% Other[1] = CHF 82 billion



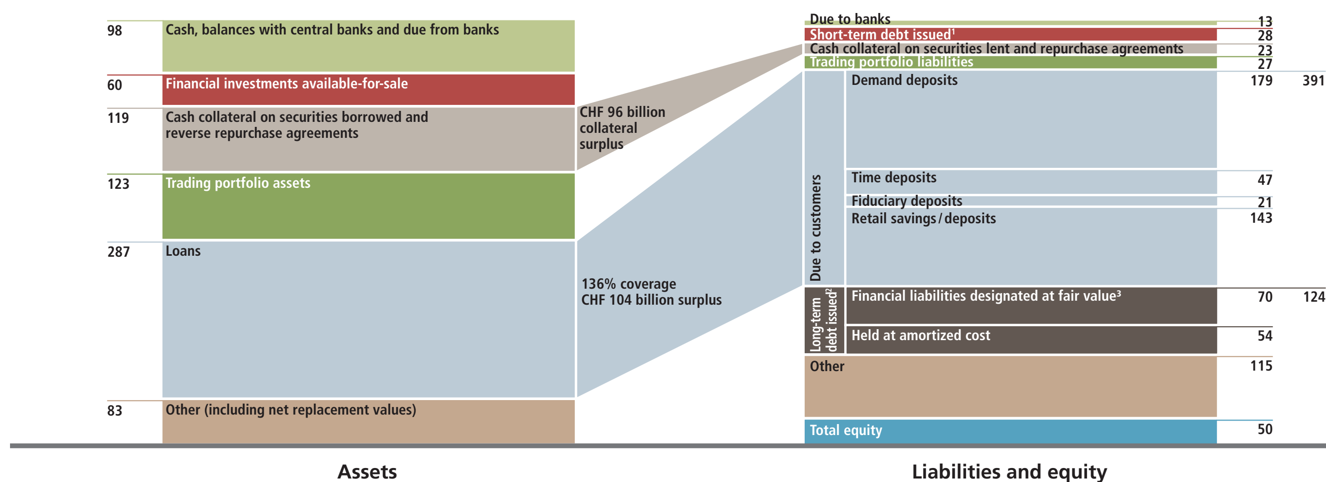
Customer deposits · Bonds and notes issued · Cash margin[2] · Interbank · Money market paper issued · Repos and securities borrowing

1 As a percent of total funding sources of CHF 660 billion and CHF 748 billion, on the balance sheet as of 31 December 2013 and 31 December 2012, respectively. 2 Consists of cash collateral payables on derivative instruments and prime brokerage payables.

UBS asset funding

CHF billion, except where indicated

As of 31.12.13

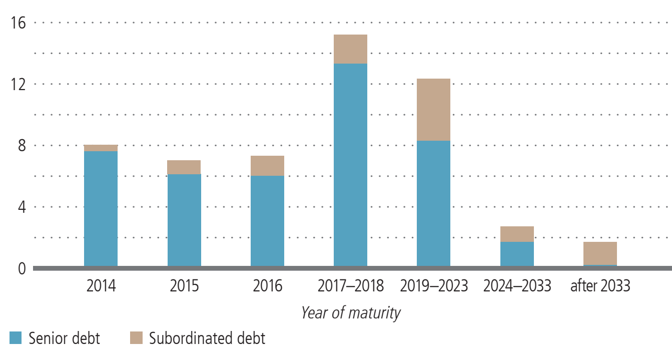


1 Short-term debt issued is comprised of certificates of deposit, commercial paper, acceptances and promissory notes, and other money market paper. 2 Long-term debt issued also includes debt with a remaining time to maturity of less than one year. 3 Including structured over-the-counter debt instruments.

Long-term debt[1] – contractual maturities

CHF billion

As of 31.12.13



1 Excluding structured debt.

Changes in sources of funding during the reporting period

During 2013, the composition of our funding sources moved towards less reliance on wholesale funding. The implementation of our strategy has driven a reduction in secured funding needs, as well as lower issuances of short-term and structured debt and the repurchase of unsecured debt. At the same time, our Retail & Corporate and wealth management businesses continued to attract new customer deposits. In 2013, total customer deposits increased to CHF 391 billion from CHF 374 billion, or 59% of our total funding sources compared with 50% as of 31 December 2012. Our ratio of customer deposits to outstanding loan balances was 136%, compared with 133% as of 31 December 2012.

In contrast, our outstanding long-term debt, including structured debt reported as financial liabilities at fair value, decreased by CHF 40 billion to CHF 124 billion as of 31 December 2013, representing 19% of our funding sources compared with 22% as of 31 December 2012. Excluding structured debt, long-term debt – which comprises senior debt and subordinated debt and is presented within *Debt issued* on the balance sheet – decreased to CHF 54.0 billion as of 31 December 2013 from CHF 72.3 billion as of 31 December 2012, primarily due to decreases in senior debt to CHF 43.0 billion from CHF 61.0 billion. Senior debt comprises both publicly and privately placed notes and bonds, as well as covered bonds. As shown on the long-term debt contractual maturity chart, CHF 8.0 billion will mature within one year, representing 15% of outstanding long-term debt excluding structured debt, compared with CHF 13.9 billion, or 19%, in the prior year. In addition, CHF 0.5 billion of subordinated debt has an early call date in 2014.

As part of our reduction in wholesale funding, we successfully completed two cash tender offers during 2013 to repurchase certain subordinated and senior unsecured bonds. In February 2013, we executed a cash tender offer to repurchase 14 senior unsecured note issuances denominated in US dollar, euro and Italian lira, with remaining maturities ranging between June 2013 and January 2027, for a total repurchase amount equivalent to CHF 5.1 billion. In December 2013, we executed a cash tender offer to repurchase certain subordinated and senior unsecured bonds denominated in Swiss franc, euro, British pound and Italian lira, with an aggregate principal repurchase amount equivalent to CHF 1.9 billion.

During the year, we continued to raise medium- and long-term funds through medium-term notes and private placements and through Swiss Pfandbriefe issuances with a principal amount of CHF 1.5 billion, as well as a USD 1.25 billion three-year covered bond. We also contributed to our targeted loss-absorbing capital by executing a USD 1.5 billion issuance of loss-absorbing Basel III-compliant tier 2 subordinated notes. These 10-year notes with an optional call at year five will pay a non-deferrable coupon at an initial rate of 4.75%. In February 2014, we issued further loss-absorbing Basel III-compliant tier 2 subordinated notes: EUR 2 billion notional with 12-year duration and an optional call in year seven and which will pay a non-deferrable coupon at an initial rate of 4.75%.

Our short-term interbank deposits (presented as *Due to banks* on the balance sheet), together with our outstanding short-term debt, represented 6.1% of total funding sources compared with 7.4% as of 31 December 2012.

Secured financing, in the form of repurchase agreements and securities lent against cash collateral received, represented 3.5% of our funding sources as of 31 December 2013 compared with 6.4% as of 31 December 2012. As of 31 December 2013, we were borrowing CHF 87 billion less cash on a collateralized basis than we were lending, significantly lower than the difference of CHF 121 billion as of 31 December 2012.

Liquidity management, contingency funding and stress testing

Audited

Our Group contingency funding plan is an integral part of our global crisis management concept, which covers various types of crisis events. This contingency funding plan contains an assessment of contingent funding sources in a stressed environment, liquidity status indicators and metrics and contingency procedures. Our funding diversification and global scope help protect our liquidity position in the event of a crisis. We regularly assess and test all material, known and expected cash flows, as well as the level and availability of high-grade collateral that could be used to raise additional funding if required. Our contingent funding sources include a large, multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury, available and unutilized liquidity facilities at several major central banks, and contingent reductions of liquid trading portfolio assets.

The table below shows a breakdown of our liquidity asset buffer derived from high-quality liquid assets (HQLA) that support our regulatory LCR pro-forma calculation, analyzed by asset type, balance sheet carrying value and LCR eligible amount. In accordance with the Basel Committee on Banking Supervision's guidance issued in January 2013, HQLA comprise unencumbered cash or assets that can be converted into cash at little or no loss of value in private markets to meet liquidity needs for a 30-calendar-day liquidity stress scenario. HQLA are eligible for inclusion as our liquidity asset buffer component of the LCR after applying certain haircuts and caps, dependent on whether the assets are categorized as Level 1 (fair values based on quoted prices in actively traded markets) or Level 2 (fair values based on valuation techniques for which all significant inputs are, or are based on, observable market data) in accordance with the aforementioned Basel guidance. As of 31 December 2013, our HQLA were CHF 157 billion and our liquidity asset buffer was CHF 153 billion. Our liquidity asset buffer was also CHF 153 billion as of 31 December 2012. The monthly average for 2013 was CHF 151 billion. In addition to the liquidity asset buffer component of the regulatory LCR, for our management LCR we include additional high-quality and unencumbered contingent funding sources not eligible under the regulatory Basel III liquidity framework, primarily local funding reserves and unutilized funding capacity.

➔ Refer to "Liquidity regulatory requirements" in this section for more information

Audited

We perform stress testing to determine the optimum asset and liability structure that allows us to maintain an appropriately balanced liquidity and funding position under various scenarios. Liquidity crisis scenario analysis and contingency funding planning support the liquidity management process, which ensures that immediate corrective measures to absorb potential sudden liquidity shortfalls can be put into effect.

We model our liquidity exposures under two main potential scenarios that encompass stressed and acute market conditions, including considering the possible impact on our access to markets from stress events affecting all parts of our business.

The acute scenario represents an extreme stress event that combines a firm-specific crisis with market disruption. This scenario assumes large drawdowns on otherwise stable client deposits mainly due on demand, inability to renew or replace maturing

Composition of liquidity asset buffer component of our regulatory Liquidity Coverage Ratio

As of 31.12.13		*of which Basel III LCR eligible:*		Liquidity asset buffer
CHF billion	High-quality liquid assets	*Level 1*	*Level 2*	Total
Cash and deposits with central banks	80.1	*80.1*	*0.0*	80.1
Central bank pledges	28.3	*16.2*	*10.3*	26.5
Government bills / bonds	31.9	*31.9*	*0.0*	31.9
Corporate bonds, including covered bonds issued by financial institutions	15.0	*0.6*	*12.3*	12.9
Reverse repurchase agreements	1.8	*0.0*	*1.6*	1.6
Total	157.1	*128.7*	*24.1*	152.8

unsecured wholesale funding, unusually large drawdowns on loan commitments, reduced capacity to generate liquidity from trading assets, liquidity outflows corresponding to a three-notch downgrade triggering contractual obligations to unwind derivative positions or to deliver additional collateral and additional collateral needs due to adverse movements in the market values of derivatives. It is run both daily and monthly, with the former used to project potential cash outflows over a one-month time horizon for day-to-day risk management, while the latter involves a more detailed assessment of asset and liability cash flows.

Since a liquidity crisis could have a myriad of causes, the stressed scenario encompasses potential stress effects across all markets, currencies and products but it is not typically firm-specific and focuses on a time horizon of up to one year. As well as the loss of ability to replace maturing wholesale funding, it assumes a gradual drawdown of otherwise stable client deposits and liquidity outflows corresponding to a two-notch downgrade.

We also use a cash capital model which measures the amount of long-term funding available to fund illiquid assets. The illiquid portion of assets is the difference (the haircut) between the carrying value of an asset on the balance sheet and its effective cash value when used as collateral in a secured funding transaction. Long-term funding used as cash capital to support illiquid assets comprises unsecured funding with a remaining time to maturity of at least one year, shareholders' equity and core deposits (the portion of our customer deposits that are deemed to have a behavioral maturity of at least one year).

All these models and their assumptions are reviewed regularly to incorporate the latest business and market developments. We continuously refine the assumptions used in our crisis scenario and maintain a robust, actionable and tested contingency plan.

Asset encumbrance

Part of our future funding and collateral needs are supported by assets currently available and unrestricted. The table on the next page presents both total IFRS on-balance sheet assets and off-balance sheet assets received as collateral, allocating these amounts between those assets that are available and those assets that are encumbered or otherwise not available to support future funding and collateral needs.

Assets are presented as *Encumbered* if they have been pledged as collateral against an existing liability or if they are otherwise restricted in their use to secure funding. Included within the latter category are assets protected under client asset segregation rules, assets held by the Group's insurance entities to back related liabilities to the policy holders, assets held in certain jurisdictions to comply with explicit minimum local asset maintenance requirements and assets held in consolidated bankruptcy remote entities, such as certain investment funds and other structured entities.

➔ Refer to "Note 25 Restricted and transferred financial assets" in the "Financial information" section of this report for more information

Assets which cannot be pledged as collateral represents those assets which are not encumbered but which, by their nature, are not considered available to secure funding or to meet collateral needs. These mainly include secured financing receivables, positive replacement values for derivatives, goodwill and intangible assets.

All other assets are presented as *Unencumbered.* Shown separately are those assets that are considered to be readily available to secure funding or to meet collateral needs, consisting of cash and securities readily realizable in the normal course of business. These include cash and deposits with central banks, our multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury and unencumbered positions in our trading portfolio. The majority of unencumbered assets not considered readily available are loans. This category also includes assets held by certain subsidiaries that are available to meet funding and collateral needs in certain jurisdictions which are not readily available for use by the Group as a whole.

Credit ratings

Credit ratings can affect the cost and availability of funding, especially funding from wholesale unsecured sources. Our credit ratings can also influence the performance of some of our businesses and levels of client and counterparty confidence. Rating agencies take into account a range of factors when assessing creditworthiness and setting credit ratings. These include the company's strategy, its business position and franchise value, stability and quality of earnings, capital adequacy, risk profile and management, liquidity management, diversification of funding sources, asset quality and corporate governance. Credit ratings reflect the opinions of the rating agencies and can change at any time.

In evaluating our liquidity requirements, we consider the potential impact of a reduction in UBS's long-term credit ratings and a corresponding reduction in short-term ratings. If our credit ratings were to be downgraded, "rating trigger" clauses, especially in derivative transactions, could result in an immediate cash outflow due to the unwinding of derivative positions, the need to deliver additional collateral or other ratings-based requirements. Based on UBS's credit ratings as of 31 December 2013, contractual liquidity outflows of approximately CHF 3.3 billion, CHF 5.0 billion and CHF 5.1 billion would have been required in the event of a one-notch, two-notch and three-notch reduction, respectively. Of these outflows, the portion related to derivative transactions is approximately CHF 1.4 billion, CHF 3.0 billion and CHF 3.2 billion, respectively.

Liquidity regulatory requirements

In December 2010, the Basel Committee on Banking Supervision (BCBS) published its "International framework for liquidity risk measurement, standards and monitoring" (Basel III Liquidity). The framework includes two liquidity ratios: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). In January 2014, the BCBS published its final LCR requirements and issued a

Asset encumbrance

CHF million	Total Group assets (IFRS)	Encumbered: Assets pledged as collateral	Encumbered: Assets otherwise restricted to use to secure funding	Unencumbered: Cash and securities available to secure funding	Unencumbered: Other realizable assets	Assets which cannot be pledged as collateral	Percentage of cash and securities available to secure funding
Balance sheet as of 31 December 2013							
Cash and balances with central banks	**80,879**	**0**	**2**	**71,984**	**8,893**	**0**	**32%**
Due from banks	17,170	0	6,570	0	10,192	407	0%
Financial assets designated at fair value	7,364	0	581	0	1,743	5,041	0%
Loans	286,959	33,632	0	931	251,734	661	0%
of which: mortgage loans	*160,050*	*33,632*	*0*	*0*	*126,418*	*0*	*0%*
Lending	**311,492**	**33,632**	**7,150**	**931**	**263,669**	**6,109**	**0%**
Cash collateral on securities borrowed	27,496	0	0	0	0	27,496	0%
Reverse repurchase agreement	91,563	0	1,989	0	0	89,574	0%
Collateral trading	**119,060**	**0**	**1,990**	**0**	**0**	**117,070**	**0%**
Trading portfolio assets excluding financial assets for unit-linked investment contracts	**106,999**	**48,368**[1]	**8,403**	**43,600**	**6,629**	**0**	**20%**
of which: government bills/bonds	*13,061*	*6,039*	*1,976*	*4,757*	*288*	*0*	*2%*
of which: corporate bonds, municipal bonds, including bonds issued by financial institutions	*16,008*	*3,924*	*3,237*	*7,288*	*1,559*	*0*	*3%*
of which: loans	*3,033*	*26*	*94*	*0*	*2,913*	*0*	*0%*
of which: investment fund units	*11,137*	*3,977*	*2,243*	*4,744*	*173*	*0*	*2%*
of which: asset-backed securities	*3,280*	*222*	*0*	*1,794*	*1,265*	*0*	*1%*
of which: mortgage-backed securities	*1,973*	*181*	*0*	*955*	*836*	*0*	*0%*
of which: equity instruments	*51,881*	*34,180*	*852*	*16,418*	*431*	*0*	*7%*
of which: precious metals and other physical commodities	*8,599*	*0*	*0*	*8,599*	*0*	*0*	*4%*
Financial assets for unit-linked investment contracts	**15,849**	**0**	**15,849**	**0**	**0**	**0**	**0%**
Positive replacement values	**245,835**	**0**	**1**	**0**	**0**	**245,834**	**0%**
Financial investments available-for-sale	**59,525**	**0**	**44**	**50,380**	**9,102**	**0**	**23%**
Cash collateral receivables on derivative instruments	28,007	0	7,939	0	0	20,068	0%
Investments in associates	842	0	0	0	842	0	0%
Property and equipment	6,006	0	0	0	5,917	89	0%
Goodwill and intangible assets	6,293	0	0	0	0	6,293	0%
Deferred tax assets	8,845	0	0	0	0	8,845	0%
Other assets	20,228	0	167	0	0	20,062	0%
Other	**70,221**	**0**	**8,106**	**0**	**6,759**	**55,356**	**0%**
Total assets	**1,009,860**	**82,000**	**41,544**	**166,895**	**295,052**	**424,370**	**75%**

CHF million	Fair value of assets received which can be sold or repledged	Encumbered: Fair value of assets received that have been sold or repledged as collateral	Encumbered: Fair value of assets received otherwise restricted to use to secure funding	Unencumbered: Fair value of assets available to secure funding	Unencumbered: Fair value of other realizable assets		
Off-balance sheet as of 31 December 2013							
Fair value of assets received as collateral which can be sold or repledged	351,712	240,176	28,074	54,990	28,471		25%
Total off-balance sheet	**351,712**	**240,176**	**28,074**	**54,990**	**28,471**		**25%**
Total balance sheet and off-balance sheet		**322,176**	**69,618**	**221,885**	**323,523**	**424,370**	**100%**

1 Includes CHF 42,449 million assets pledged as collateral which may be sold or repledged by counterparties.

Liquidity Coverage Ratio (LCR)

CHF billion, except where indicated	31.12.13
Cash outflows	236
Cash inflows	97
Net cash outflows	139
Liquidity asset buffer	153
Regulatory LCR (%)	110
Additional contingent funding sources[1]	54
Management LCR (%)	148

1 Additional contingent funding sources including dedicated local liquidity reserves and additional unutilized borrowing capacity.

Net Stable Funding Ratio (NSFR)

CHF billion, except where indicated	31.12.13
Available stable funding	346
Required stable funding	318
NSFR (%)	109

further Consultative Document on the NSFR. Local regulators, including the Swiss authorities, are considering how to incorporate the final LCR requirements into local regulatory guidance. Consequently, banks currently employ a wide range of interpretations to calculate LCR and NSFR. We were in compliance with FINMA's current liquidity requirements throughout 2013.

The LCR provides a measure that illustrates the extent to which a bank holds enough highly liquid assets to survive short-term (30-day) severe general market and firm-specific stress. The NSFR assigns a required stable funding factor to assets (representing the illiquid part of assets) and assigns all liabilities an available stable funding factor (representing the stability of a liability) to illustrate the extent to which a bank is not overly reliant on short-term funding and has sufficient long-term funding for illiquid assets. Based on current regulatory guidance, the future minimum regulatory requirement is 100% for both the LCR (as of 2019) and NSFR (as of 2018), with minimum quantitative requirements for Switzerland expected to be effective as of January 2015.

The tables above show our pro-forma Basel III liquidity ratios based on current supervisory guidance from FINMA. These calculations include estimates of the impact of the rules and their interpretation and will be refined as regulatory interpretations evolve and as new models and the associated systems are enhanced. For the LCR, cash out- and inflows are estimated for up to a 30-day period under severe general market and firm-specific stress scenarios. The liquidity asset buffer includes our dedicated Group liquidity reserve, excess cash at major central banks and unencumbered collateral pledged to central banks. A more detailed breakdown of the liquidity asset buffer and the HQLA from which it is derived is shown in the table "Composition of liquidity asset buffer component of our regulatory Liquidity Coverage Ratio" on page 219. Available stable funding for our NSFR consists mainly of client deposits from our wealth management businesses, long-term debt issued and capital. This source of stable funding is used primarily to support residential mortgages as well as other loans.

Governance

Audited

Our liquidity and funding strategy is proposed by Group Treasury, approved by the Group Asset and Liability Management Committee (Group ALCO) and overseen by the Risk Committee.

Group Treasury monitors and oversees the implementation and execution of our liquidity and funding strategy, and ensures adherence to our liquidity and funding policies including limits and targets, reporting the Group's overall liquidity and funding position, including funding status and concentration risks, at least monthly to the Group ALCO and the Risk Committee. This enables close control of both our cash and collateral, including our stock of high-quality liquid securities, and ensures that the Group's general access to wholesale cash markets is centralized in Group Treasury. In addition, should a crisis require contingency funding measures to be invoked, Group Treasury is responsible for coordinating liquidity generation with representatives of the relevant business areas.

Audited

Liquidity and funding limits and targets are set at a Group and business division level, and are reviewed and reconfirmed at least once a year by the Board of Directors, the Group ALCO, the Group CFO, the Group Treasurer and the business divisions taking into consideration current and projected business strategy and risk tolerance. The principles underlying our limit and target framework aim to maximize and sustain the value of our business franchise and maintain an appropriate balance in the asset and liability structure. Structural limits and targets focus on the structure and composition of the balance sheet, while supplementary limits and

Audited

targets are designed to drive the utilization, diversification and allocation of funding resources. Together the limits and targets focus on liquidity and funding risk for periods out to one year, including stress testing. To complement and support this framework, Group Treasury monitors the markets with a dashboard of early warning indicators reflecting the current liquidity situation. The liquidity status indicators are used at a Group level to assess both the overall global and regional situations for potential threats.

➔ Refer to the "Corporate governance" section of this report for more information

Internal funding and funds transfer pricing

We employ an integrated liquidity and funding framework to govern the liquidity management of all our branches and subsidiaries and our major sources of liquidity are channeled through entities that are fully consolidated. Group Treasury meets internal demands for funding by channeling funds from units generating surplus cash to those in need of financing.

Funding costs and benefits are allocated to our business divisions and Non-core and Legacy Portfolio according to our liquidity and funding risk management framework. Our internal funds transfer pricing system is designed to provide the proper liability structure to support the assets and planned activities of each business division while minimizing cross-divisional subsidies. The funds transfer pricing mechanism aims to allocate funding and liquidity costs to the activities generating the liquidity and funding risks and deals with the movement of funds from those businesses in surplus to those that have a shortfall. Funding is internally transferred or allocated among businesses at rates and tenors that reflect each business's asset composition, liquidity and reliable external funding. We continue to review and enhance our internal funds transfer pricing system.

Maturity analysis of assets and liabilities

The table on the next page provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. The contractual maturity of liabilities is based on the earliest date on which we could be required to pay and the contractual maturity of assets is based on the latest date the asset will mature. This basis of presentation differs from "Note 27b Maturity analysis of financial liabilities" in the "Financial information" section of this report, which is presented on an undiscounted basis, and the funding analysis above, for which long-term debt is presented based on original, rather than contractual maturity.

Derivative replacement values and trading portfolio assets and liabilities are assigned to the column *Due less than 1 month,* although the respective contractual maturities may extend over significantly longer periods.

Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the *Perpetual/not applicable* time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the *Perpetual/not applicable* time bucket.

Non-financial assets and liabilities with no contractual maturity (such as property, plant and equipment, goodwill and intangible assets, current and deferred tax assets and liabilities and retirement benefit liabilities) are generally included in the *Perpetual* time bucket.

Loan commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets and liabilities

CHF billion	Due less than 1 month	Due between 1 and 3 months	Due between 3 and 6 months	Due between 6 and 9 months	Due between 9 and 12 months	Due between 1 and 2 years	Due between 2 and 5 years	Due over 5 years	Perpetual / not applicable	Total
Assets										
Cash and balances with central banks	80.9									80.9
Due from banks	13.6	1.1	0.6	1.0	0.4	0.0	0.1	0.3		17.2
Cash collateral on securities borrowed	27.5	0.0	0.0		0.0					27.5
Reverse repurchase agreements	60.3	22.3	4.4	2.2	2.2	0.1	0.1			91.6
Trading portfolio assets	122.8									122.8
of which: assets pledged as collateral which may be sold or repledged by counterparties	*42.4*									*42.4*
Positive replacement values	245.8									245.8
Cash collateral receivables on derivative instruments	28.0									28.0
Financial assets designated at fair value	1.0	0.3	0.2	0.2	0.2	1.3	3.1	0.6	0.6	7.4
Loans	99.0	46.6	13.1	5.9	6.6	19.9	49.4	46.4		287.0
of which: residential mortgages	*15.6*	*28.7*	*6.7*	*3.0*	*3.0*	*12.9*	*31.5*	*35.9*		*137.3*
of which: commercial mortgages	*4.3*	*6.2*	*1.7*	*0.6*	*0.6*	*1.8*	*4.3*	*3.3*		*22.7*
of which: Lombard loans	*66.2*	*9.1*	*3.5*	*1.5*	*2.2*	*1.7*	*2.2*	*0.4*		*86.8*
of which: other loans	*12.9*	*2.6*	*1.2*	*0.8*	*0.9*	*3.5*	*11.2*	*2.1*		*35.3*
of which: securities							*0.2*	*4.6*		*4.8*
Financial investments available-for-sale	4.0	5.8	9.3	4.5	3.5	18.7	8.5	4.3	1.0	59.5
Investments in associates									0.8	0.8
Property and equipment									6.0	6.0
Goodwill and intangible assets									6.3	6.3
Deferred tax assets									8.8	8.8
Other assets	16.1	0.1					1.7	2.3		20.2
Total assets 31.12.13	**699.1**	**76.2**	**27.6**	**13.8**	**12.9**	**40.0**	**63.0**	**53.9**	**23.5**	**1,009.9**
Liabilities										
Due to banks	9.5	1.3	1.5	0.1	0.1	0.0	0.3	0.0		12.9
Cash collateral on securities lent	8.3	0.7	0.6							9.5
Repurchase agreements	12.1	1.1	0.1	0.0	0.1		0.3	0.1		13.8
Trading portfolio liabilities	26.6									26.6
Negative replacement values	240.0									240.0
Cash collateral payables on derivative instruments	49.1									49.1
Financial liabilities designated at fair value	3.5	4.0	3.9	5.2	3.4	11.7	19.2	17.9	1.2	69.9
Due to customers	378.1	6.8	2.9	1.5	1.1	0.1	0.1	0.1		390.8
Debt issued	6.3	8.6	14.7	2.4	3.6	7.1	21.5	16.4	1.2	81.6
Provisions	3.0									3.0
Other liabilities	59.2	2.9	0.1			0.1	0.2	0.2		62.8
Total liabilities 31.12.13	**795.7**	**25.4**	**23.6**	**9.2**	**8.3**	**18.9**	**41.5**	**34.7**	**2.4**	**959.9**
Financial liabilities not recognized on balance sheet										
Loan commitments	54.5	0.3	0.1	0.0	0.0	0.0	0.0			54.9
Underwriting commitments	0.8									0.8
Total commitments	55.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0		55.7
Guarantees	18.3	0.0	0.0	0.0	0.0	0.1	0.1	0.0		18.8
Reverse repurchase agreements	9.4									9.4
Securities borrowing agreements	0.0									0.0
Total 31.12.13	**83.0**	**0.3**	**0.1**	**0.1**	**0.0**	**0.1**	**0.1**	**0.0**		**83.9**

Currency management

Our Group currency management activities are designed to reduce adverse currency effects on our reported financial results in Swiss francs, within limits set by the Board of Directors. Group Treasury focuses on three principal areas of currency risk management: currency-matched funding of investments in non-Swiss franc assets and liabilities, sell-down of non-Swiss franc profits and losses and selective hedging of anticipated non-Swiss franc profits and losses. Non-trading foreign exchange risks are managed under market risk limits, with the exception of Group Treasury management of consolidated capital activity.

Currency-matched funding and investment of non-Swiss franc assets and liabilities

For monetary balance sheet items and non-core investments, as far as it is practical and efficient we follow the principle of matching the currencies of our assets and liabilities for funding purposes. This avoids profits and losses arising from the retranslation of non-Swiss franc assets and liabilities.

Net investment hedge accounting is applied to non-Swiss franc core investments to balance the effect of foreign exchange movements on both the common equity tier 1 (CET1) capital ratio and CET1 capital on a fully applied basis.

➔ Refer to "Note 1a Significant accounting policies" and "Note 14 Derivative instruments and hedge accounting" in the "Financial information" section of this report for more information

Sell-down of reported profits and losses

Reported profit and losses are translated each month from their original transaction currencies into Swiss francs using the relevant month-end rate. Monthly income statement items of foreign subsidiaries and branches with a functional currency other than the Swiss franc are translated into Swiss francs using the relevant month-end rate. Weighted average rates for a year represent an average of 12 month-end rates, weighted according to the income and expense volumes of all foreign subsidiaries and branches with the same functional currency for each month. To reduce earnings volatility on the retranslation of previously recognized earnings in foreign currencies, Group Treasury centralizes the profits and losses arising in the Parent Bank and its branches and sells or buys the profit or loss for Swiss francs. Our operating entities follow a similar monthly sell-down process into their own reporting currencies. Retained earnings in operating entities with a reporting currency other than the Swiss franc are integrated and managed as part of net investment hedge accounting.

Hedging of anticipated future reported profits and losses

At any time, the Group ALCO may instruct Group Treasury to execute hedges to protect anticipated future profit and losses in foreign currencies against possible adverse trends of foreign exchange rates. Although intended to hedge future earnings, these transactions are accounted for as open currency positions and are subject to internal market risk VaR and stress loss limits.

Capital management

Our strong capital position provides us with a solid foundation for growing our business and enhancing our competitive positioning. At the end of 2013, our common equity tier 1 (CET1) capital ratio[1] was 18.5% on a phase-in basis and 12.8% on a fully applied basis, a significant increase compared with year-end 2012 pro-forma ratios, and the highest fully applied ratio in our peer group.

Capital management objectives

Audited

Adequate capital is a prerequisite to support our business activities, in accordance with both our own internal assessment and regulatory requirements. We aim to maintain a strong capital position and sound capital ratios at all times and therefore consider not only the current situation but also projected business and regulatory developments. We are committed to continuing to improve these ratios, mainly through a combination of retained earnings, the issuance of additional loss-absorbing capital (LAC) and efforts to reduce risk-weighted assets (RWA).

Ongoing compliance with regulatory capital requirements and target capital ratios is central to our capital adequacy management. We are targeting a fully applied CET1 ratio of 13% in 2014. By achieving our targets, we will exceed the Swiss Financial Market Supervisory Authority's (FINMA) requirements for Swiss systemically relevant banks (SRB), which are stricter than Basel Committee on Banking Supervision (BCBS) requirements. We believe this will provide even greater comfort to our stakeholders, further increase confidence in our firm and contribute to strong external credit ratings.

➔ Refer to the "Our strategy" section of this report for more information on our targets

➔ Refer to the "Swiss SRB and BIS Basel III capital requirements" chart in this section for more information on differences in capital requirements

Annual strategic and ongoing capital planning process

Audited

The annual strategic planning process incorporates a capital planning component and is key in defining mid- and longer-term capital targets. It is based on an attribution of Group RWA and leverage ratio denominator (LRD) limits to the business divisions. These resource allocations in turn impact business plans and earnings projections, which are then reflected in our capital plans.

Capital limits and targets are established at both Group and business division levels, and submitted to the Board of Directors for approval or for information on at least an annual basis. Group Treasury monitors and plans for consolidated RWA, LRD and capital developments. Monitoring activities may form the basis of adjustments to RWA and/or LRD limits, actions related to the issuance or redemption of capital instruments and other business-related decisions. In the event of limits being breached, an action plan is triggered, which defines remediating actions required to return the exposures to a limit-compliant level. Monitoring activities also consider developments in capital regulations.

Consideration of stress scenarios

Through a set of quantitative risk appetite objectives, we aim to ensure that aggregate risk exposure is within our desired risk capacity, based on our capital and business plans. We use both scenario-based stress tests and statistical frameworks to assess the impact of a severe stress event at an aggregate, Group-wide level. We have set an objective that our CET1 capital ratio remains at 10% or above if a severe stress event were to occur, and we are firmly committed to return capital to shareholders with a payout ratio of at least 50%, conditional on our achievement of both a fully applied CET1 ratio of a minimum of 13% and a post-stress CET1 ratio of a minimum of 10%.

➔ Refer to the "Risk management and control" section of this report for more information on our risk appetite framework

Capital adequacy management

Audited

During 2013, we managed our capital according to our capital ratio targets. In the target-setting process, we take into account the current and future capital requirements set by regulators as well as actual and potential future capital requirements including capital buffer requirements. We also consider our aggregate risk

[1] Unless otherwise indicated, all information in this section is based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB).

Audited

exposure in terms of capital-at-risk, the views of rating agencies, comparisons with peer institutions and the impact of expected accounting policy changes. Our progress towards meeting the Swiss SRB Basel III fully applied capital requirements was evidenced by a series of capital transactions, including the following:
- the redemption of CHF 1.0 billion of two tier 2 capital instruments and the repurchase of CHF 1.0 billion of certain other tier 2 capital instruments in a public tender offer, as these capital instruments are not eligible for full recognition under Basel III and are being phased out by 2019;
- an increase in our Deferred Contingent Capital Plan (DCCP) of CHF 0.5 billion to a total of CHF 1.0 billion, under which deferred compensation balances will forfeit if a 7% Basel III CET1 ratio level (or 10% with respect to awards granted to Group Executive Board members) is breached or if a viability event occurs during the five-year period after the award date and
- our issuances of Basel III-compliant tier 2 loss-absorbing notes with a nominal amount of USD 1.5 billion in May 2013 and EUR 2.0 billion in February 2014, respectively, which both qualify as tier 2 capital and progressive buffer capital in compliance with Swiss SRB Basel III rules.

Active management of RWA

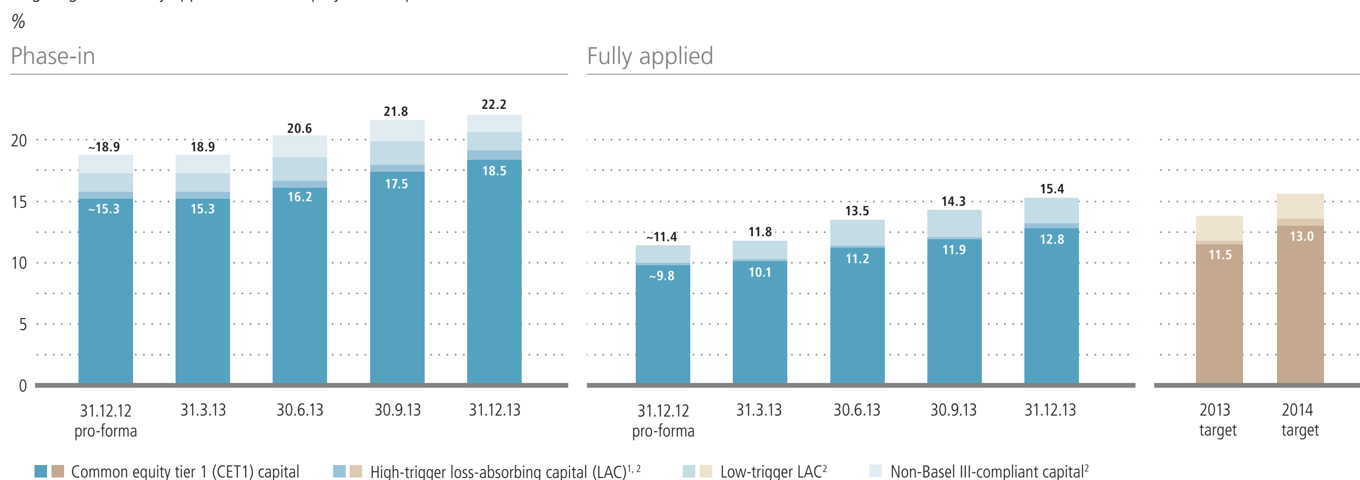
We have a strong track record of RWA reduction, surpassing our 2013 Basel III RWA targets well ahead of schedule and demonstrating progress towards achieving our RWA target of less than CHF 200 billion by 2017 on a fully applied basis, despite the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

Having fully adapted its business to Basel III, our Investment Bank has operated with fully applied RWA of less than CHF 70 billion. In line with our strategy to deploy capital efficiently, RWA are expected to increase both in our wealth management businesses and in Retail & Corporate, as we deliver attractive lending and mortgage opportunities to our clients.

With the transfer of non-core assets from our Investment Bank to our Non-core and Legacy Portfolio unit, Corporate Center was tasked with managing these diversified assets in a manner that protects shareholder value and within the same robust oversight structure that successfully supported our RWA reduction in our Legacy Portfolio. While we managed approximately CHF 102.5 billion of RWA in our Non-core and Legacy Portfolio unit at the beginning of 2013, we reduced these to CHF 64 billion as of

Our capital ratios and targets

Targeting a 13% fully applied common equity tier 1 capital ratio in 2014



1 Consists of our Deferred Contingent Capital Plan. 2 Eligible as tier 2 capital.

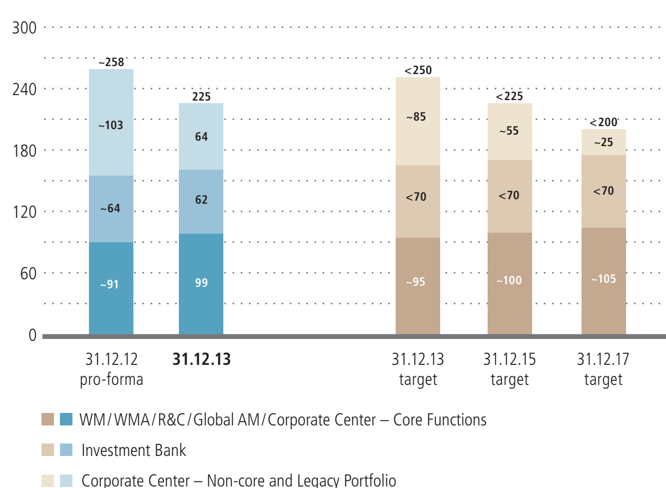
31 December 2013 and therefore significantly exceeded our target of CHF 85 billion for that unit by the end of 2013. We aim to further reduce RWA in our Non-core and Legacy Portfolio to CHF 55 billion by the end of 2015 and CHF 25 billion by the end of 2017.

Active management of sensitivity to currency movements

The majority of our capital and a significant portion of our RWA are denominated in Swiss francs, but we also hold RWA and some eligible capital in other currencies, primarily US dollars, euros and British pounds. A significant depreciation of the Swiss franc against these currencies can adversely affect our key ratios, and Group Treasury is mandated with the task of minimizing such effects. If the Swiss franc depreciates against other currencies, consolidated RWA increase relative to our capital, and vice versa. The Group Asset and Liability Management Committee, a committee of the UBS Group Executive Board, can adjust the currency mix in capital, within limits set by the Board of Directors, to balance the effect of foreign exchange movements on the fully applied CET1 capital and capital ratio. Limits are in place for the sensitivity of both CET1 capital and capital ratio to a ±10% change in the value of the Swiss franc against other currencies. As of 31 December 2013, we estimate that a 10% depreciation of the Swiss franc against other currencies would increase CET1 capital by CHF 1,075 million (31 December 2012: CHF 845 million) and would decrease the CET1 capital ratio by 15 basis points (31 December 2012: 30 basis points). Conversely, we estimate that a 10% appreciation of the Swiss franc against other currencies would decrease CET1 capital by CHF 973 million (31 December 2012: CHF 764 million) and would increase the CET1 capital ratio by 15 basis points (31 December 2012: 30 basis points).

Risk-weighted assets development and targets

fully applied, in CHF billion



Swiss SRB Basel III capital information

As we are required to comply with regulations based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB), our capital disclosures focus on Swiss SRB Basel III capital information. Differences between the Swiss SRB and BIS Basel III capital regimes are outlined in the subsection "Differences between Swiss SRB and BIS Basel III capital."

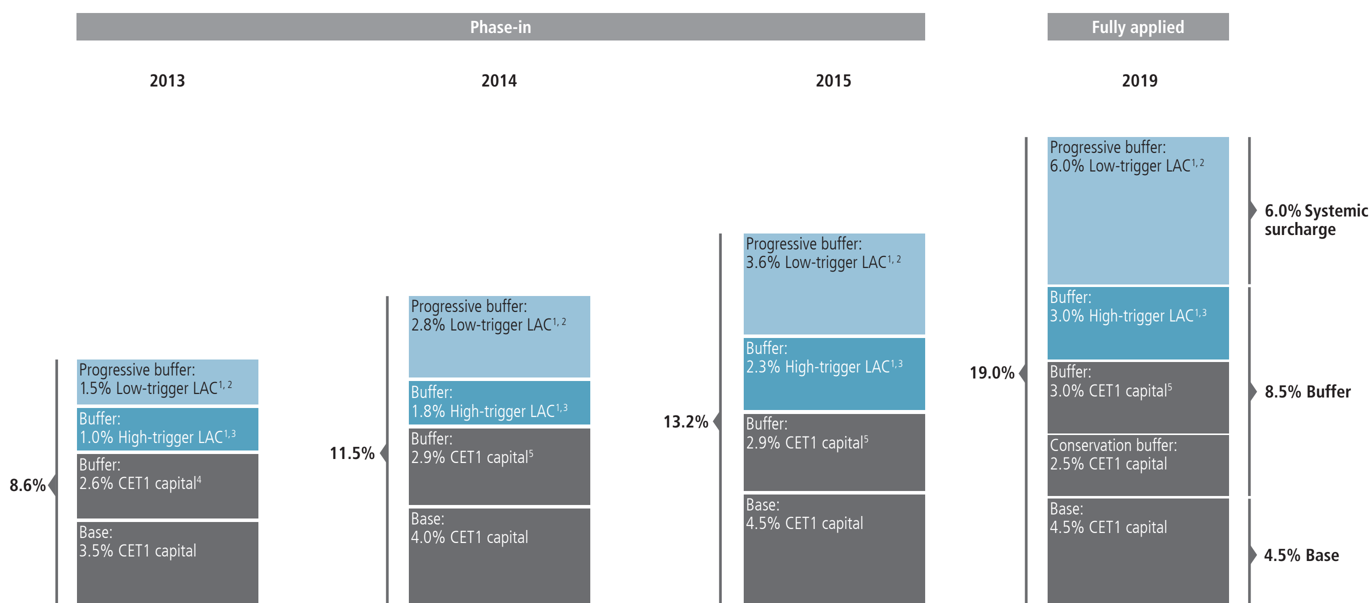
Regulatory framework

The Basel III framework came into effect in Switzerland on 1 January 2013 and includes prudential filters for the calculation of capital. These prudential filters consist mainly of capital deductions for deferred tax assets recognized for tax loss carry-forwards and the inclusion of the effects of IAS 19 (revised) relating to post-employment benefits. As these filters are being phased in between 2014 and 2018, their effects are gradually factored into our calculations of capital, RWA and capital ratios on a phase-in basis and are entirely reflected in our capital and capital ratios on a fully applied basis.

Furthermore, based on the most recent Swiss Financial Market Supervisory Authority (FINMA) regulation, capital instruments which were treated as hybrid tier 1 capital and as tier 2 capital under the Basel 2.5 framework are being phased out under Basel III between 2013 and 2019. On a phase-in basis, our capital and capital ratios include the applicable portion of these capital instruments not yet phased out. Our capital and capital ratios on a fully applied basis do not include these capital instruments.

All Basel III numbers for 31 December 2012 provided in this report are on a pro-forma basis. The pro-forma numbers were either disclosed in our report for the fourth quarter of 2012 and/or our Annual Report 2012 or were introduced as comparatives during 2013. Some of the models applied when calculating 31 December 2012 pro-forma information required regulatory

Our capital requirements



1 Loss-absorbing capital. High-trigger loss-absorbing capital qualifies as progressive buffer capital until the end of 2017. 2 Our requirement for the progressive buffer is dynamic and depends on our leverage ratio denominator and our market share in the loans and deposits business in Switzerland. Numbers are based on the latest information available to us and current supervisory guidance from FINMA. We expect our 2019 requirement of 6.0% on a fully applied basis to fall to 4.5% due to our planned balance sheet reduction related to the accelerated implementation of our strategy announced in October 2012 and the resulting reduction of the leverage ratio denominator. Systemically relevant banks (SRB) are eligible for a capital rebate on the progressive buffer if they take actions that facilitate recovery and resolvability beyond the minimum requirements to ensure the integrity of systemically important functions in the case of impending insolvency. 3 Can be substituted by CET1 capital. 4 National regulators can put in place a countercyclical buffer requirement of up to 2.5% of risk-weighted assets for credit exposures in their jurisdiction. In September 2013, the Swiss Federal Council activated a countercyclical buffer of 1% of RWA for mortgage loans on residential property in Switzerland, resulting in an overall 0.1% additional capital requirement, which is included in the 2.6% CET1 buffer capital requirement for 2013. 5 In January 2014, the Swiss Federal Council approved the increase of the countercyclical buffer requirement from the aforementioned 1% to 2%. The resulting effect is reflected in the 2.9% CET1 buffer capital requirement and will be effective 30 June 2014. Capital requirements presented for 2015 and 2019 do not include a countercyclical buffer requirement.

approval and included estimates (as discussed with our primary regulator) of the effect of these new capital charges.

Capital requirements

In Switzerland, all banks must comply with the Basel III capital framework, as required by the Swiss Capital Ordinance and regulations issued by FINMA. In addition, UBS, Credit Suisse and, since 1 November 2013, Zürcher Kantonalbank are required to comply with specific Swiss SRB rules.

Audited

As of 31 December 2013, our total capital requirement was 8.6% of our RWA. This requirement consisted of: (i) base capital of 3.5%, (ii) buffer capital of 3.6% (including a countercyclical buffer capital requirement that increased our effective capital requirement by 0.1%) and (iii) progressive buffer capital of 1.5%. As of 31 December 2013, we satisfied the base and buffer (including the countercyclical buffer) capital requirements through our CET1 capital. High- and low-trigger loss-absorbing capital significantly exceeded the progressive buffer capital requirement.

Capital ratios

As of 31 December 2013, our phase-in CET1 capital ratio was 18.5%, an increase of 3.2 percentage points compared with 15.3% as of 31 December 2012. On a fully applied basis, our CET1 capital ratio increased 3.0 percentage points to 12.8% during the year, exceeding our target ratio of 11.5% for 2013.

The significant improvement in our CET1 capital ratio was mainly due to a CHF 33.2 billion reduction in RWA, despite incre-

Swiss SRB Basel III available capital versus capital requirements

CHF million, except where indicated

	Phase-in						
	Requirements		Actual information				
	Required ratio (%)	Swiss SRB Basel III capital requirements	Available Swiss SRB Basel III capital		Actual ratio (%)		Capital type
		31.12.13	**31.12.13**	Pro-forma 31.12.12	**31.12.13**	Pro-forma 31.12.12	
Base capital	3.5	**8,000**	**8,000**	9,163	**3.5**	3.5	CET1
Buffer capital	3.6	**8,149**	**34,180**[1]	30,869[1]	**15.0**	11.8	CET1
of which: effect of countercyclical buffer	*0.1*	***149***					
Progressive buffer	1.5	**3,428**	**5,665**[2]	4,160[2]	**2.5**	1.6	LAC
Phase-out capital			**2,971**	5,384	**1.3**	2.1	
Total	8.6	**19,577**	**50,815**	49,576	**22.2**	18.9	

1 Swiss SRB Basel III CET1 capital exceeding the base capital requirement is allocated to the buffer capital. 2 During the transition period until end of 2017, high-trigger loss-absorbing capital (LAC) can be included in the progressive buffer.

Swiss SRB Basel III capital information

CHF million, except where indicated	Phase-in		Fully applied	
	31.12.13	Pro-forma 31.12.12	**31.12.13**	Pro-forma 31.12.12
Swiss SRB Basel III tier 1 capital	**42,179**[1]	40,032[1]	**28,908**	25,182
of which: common equity tier 1 capital	***42,179***	*40,032*	***28,908***	*25,182*
Swiss SRB Basel III tier 2 capital	**8,636**	9,544	**5,665**	4,160
of which: high-trigger loss-absorbing capital	***955***	*504*	***955***	*504*
of which: low-trigger loss-absorbing capital	***4,710***	*3,656*	***4,710***	*3,656*
of which: phase-out capital	***2,971***	*5,384*		
Swiss SRB Basel III total capital	**50,815**	49,576	**34,573**	29,342
Swiss SRB Basel III common equity tier 1 capital ratio (%)	**18.5**	15.3	**12.8**	9.8
Swiss SRB Basel III tier 1 capital ratio (%)	**18.5**	15.3	**12.8**	9.8
Swiss SRB Basel III total capital ratio (%)	**22.2**	18.9	**15.4**	11.4
Swiss SRB Basel III risk-weighted assets	**228,557**	261,800	**225,153**	258,113

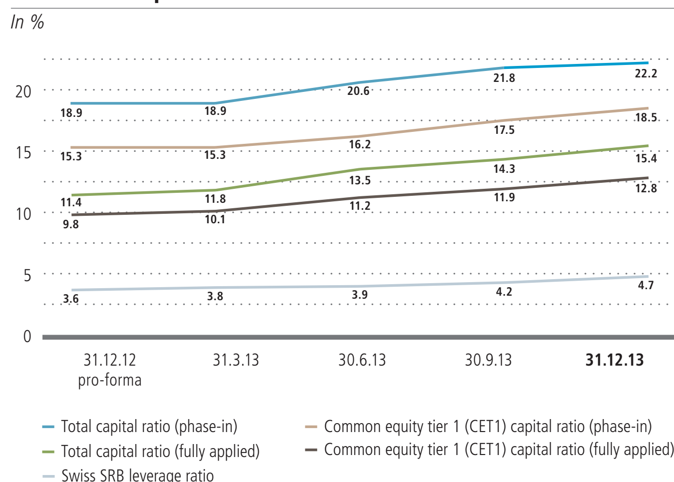
1 Includes additional tier 1 capital in the form of hybrid instruments, which was entirely offset by the required deductions for goodwill.

mental RWA of CHF 22.5 billion resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA. A CHF 2.1 billion increase in our CET1 capital, consistent with our strategy of high-quality capital accretion, also contributed to the increase in our CET1 capital ratio.

Our phase-in total capital ratio stood at 22.2% as of 31 December 2013 compared with 18.9% as of 31 December 2012. This improvement was primarily due to the aforementioned reduction in RWA and the increase in our CET1 capital. Our fully applied total capital ratio increased 4.0 percentage points to 15.4%.

➔ Refer to the "Regulatory and legal developments" section of this report for more information on the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA

Swiss SRB capital ratios



Eligible capital

Common equity tier 1 (CET1) and tier 1 capital

Our CET1 capital mainly comprises share capital, share premium, which primarily consists of additional paid-in capital related to shares issued, and retained earnings. A detailed reconciliation of IFRS equity to CET1 capital is provided in the table "Reconciliation IFRS equity to Swiss SRB Basel III capital."

Our phase-in tier 1 capital is equal to our phase-in CET1 capital, as additional tier 1 capital in the form of hybrid capital instruments is entirely offset by required deductions for goodwill. These hybrid tier 1 capital instruments are not eligible as capital under Basel III and are therefore not included in our fully applied tier 1 capital.

During 2013, phase-in CET1 capital increased by CHF 2.1 billion to CHF 42.2 billion. This increase was mainly due to the full year net profit attributable to UBS shareholders of CHF 3.2 billion and the exercise of our option to acquire the SNB StabFund's equity, which resulted in a CHF 2.1 billion increase in capital. These increases were partly offset by an increased deduction for goodwill as a result of a reduction in hybrid capital against which this goodwill was previously offset, adverse foreign currency translation effects and a number of other required adjustments to regulatory capital.

On a fully applied basis, CET1 capital increased by CHF 3.7 billion to CHF 28.9 billion, largely due to the same factors that contributed to the increase in phase-in CET1 capital with the main exception being the effect of the goodwill deduction on phase-in CET1 capital, which is not relevant for the fully applied CET1 capital calculation.

A more granular analysis of our 2013 CET1 capital movement on both a phase-in and fully applied basis is shown in the table "Swiss SRB Basel III capital movement."

Tier 2 capital

Low-trigger loss-absorbing capital accounted for CHF 4.7 billion of tier 2 capital as of 31 December 2013 and consisted of three US dollar-denominated subordinated notes with a write-down threshold set at a 5% phase-in CET1 ratio (after giving effect to the write-down of any high-trigger loss-absorbing capital). Furthermore, our tier 2 capital included high-trigger loss-absorbing capital of CHF 1.0 billion, in the form of our DCCP, with a write-down threshold set at a 7% phase-in CET1 ratio or 10% with respect to awards granted to Group Executive Board members for the performance year 2013. Additionally, our loss-absorbing capital instruments would be written down if FINMA determines that a write-down is necessary to ensure UBS's viability, or if UBS receives a commitment of governmental support that FINMA determines to be necessary to ensure UBS's viability.

The remainder of tier 2 capital consisted of outstanding tier 2 instruments which will be phased out by 2019, based on the most recent FINMA regulation.

During 2013, our phase-in tier 2 capital decreased by CHF 0.9 billion to CHF 8.6 billion. This decrease was primarily due to the redemption and amortization of tier 2 capital instruments of CHF 1.3 billion, the repurchase of certain other tier 2 capital instruments of CHF 1.0 billion in a public tender offer and adverse foreign currency translation effects, partly offset by an increase of CHF 1.2 billion in low-trigger loss-absorbing capital and CHF 0.5 billion in high-trigger loss-absorbing capital in the form of our DCCP.

Fully applied tier 2 capital increased by CHF 1.5 billion to CHF 5.7 billion, almost entirely due to the issuance of loss-absorbing capital.

A more detailed overview of our tier 2 capital instruments eligible as capital on a phase-in basis under Basel III as of 31 December 2013 is provided in the tables later on in this section.

Swiss SRB Basel III capital movement

CHF billion	Phase-in	Fully applied
Common equity tier 1 capital as of 31.12.12	**40.0**	**25.2**
Movements during 2013:		
Net profit attributable to UBS shareholders	3.2	3.2
Exercise of the SNB StabFund option	2.1	2.1
Own credit related to financial liabilities designated at fair value and replacement values, net of tax	0.4	0.4
Foreign currency translation effects	(0.3)	(0.3)
Deferred tax assets recognized for tax loss carry-forwards, less deferred tax liabilities, as applicable		(0.1)
Compensation and own shares related capital components (including share premium)	(0.5)	(0.5)
Goodwill net of tax, less hybrid capital, as applicable (including goodwill relating to significant investments in financial institutions)	(1.2)	
Defined benefit pension plans	(0.5)	0.0
Expected losses on advanced internal ratings-based portfolio less general provisions	(0.3)	(0.3)
Other	(0.9)	(0.9)
Total movement	*2.1*	*3.7*
Common equity tier 1 capital as of 31.12.13	**42.2**	**28.9**
Tier 2 capital as of 31.12.12	**9.5**	**4.2**
Movements during 2013:		
Redemption and amortization of phase-out capital instruments	(1.3)	
Buyback of phase-out capital instruments	(1.0)	
Increase in loss-absorbing capital	1.7	1.7
Foreign currency translation effects	(0.3)	(0.1)
Total movement	*(0.9)*	*1.5*
Tier 2 capital as of 31.12.13	**8.6**	**5.7**
Total capital as of 31.12.13	**50.8**	**34.6**
Total capital as of 31.12.12	49.6	29.3

Reconciliation IFRS equity to Swiss SRB Basel III capital

	Phase-in		Fully applied	
	Audited		Audited	
CHF million	**31.12.13**	Pro-forma 31.12.12	**31.12.13**	Pro-forma 31.12.12
Equity attributable to UBS shareholders	**48,002**	45,949	**48,002**	45,949
Equity attributable to preferred noteholders and non-controlling interests	**1,935**	3,152	**1,935**	3,152
Total IFRS equity	**49,936**	49,100	**49,936**	49,100
Reversal of the effect of the adoption of IAS 19R, net of tax	**2,540**	3,948		
Own credit related to financial liabilities designated at fair value and replacement values, net of tax	**304**	(142)	**304**	(142)
Equity attributable to preferred noteholders and non-controlling interests	**(1,935)**	(3,152)	**(1,935)**	(3,152)
Goodwill net of tax, less hybrid capital, as applicable (including goodwill relating to significant investments in financial institutions)	**(3,044)**	(1,949)	**(6,157)**	(6,265)
Intangible assets, net of tax	**(435)**	(501)	**(435)**	(501)
Fair value of the call option to acquire SNB StabFund's equity, pre-tax		(2,103)		(2,103)
Unrealized (gains)/losses from cash flow hedges, net of tax	**(1,463)**	(2,983)	**(1,463)**	(2,983)
Deferred tax assets recognized for tax loss carry-forwards, less deferred tax liabilities, as applicable			**(6,665)**	(6,586)
Compensation and own shares related capital components (not recognized in net profit)	**(1,430)**	(495)	**(1,430)**	(495)
Net defined benefit pension and post-employment assets (IAS 19R), pre-tax			**(952)**	0
Unrealized gains related to financial investments available-for-sale, net of tax	**(325)**	(183)	**(325)**	(183)
Expected losses on advanced internal ratings-based portfolio less general provisions	**(304)**	(43)	**(304)**	(43)
Prudential valuation adjustments	**(107)**	(136)	**(107)**	(136)
Consolidation scope	**(55)**	(65)	**(55)**	(65)
National specific regulatory adjustments and other[1]	**(1,502)**	(1,264)	**(1,502)**	(1,264)
Swiss SRB Basel III common equity tier 1 capital	**42,179**	40,032	**28,908**	25,182
Hybrid capital	**3,113**	4,316		
Goodwill net of tax, less hybrid capital, as applicable (including goodwill relating to significant investments in financial institutions)	**(3,113)**	(4,316)		
Swiss SRB Basel III additional tier 1 capital	**0**	0		
Swiss SRB Basel III tier 1 capital	**42,179**	40,032	**28,908**	25,182
Swiss SRB Basel III tier 2 capital	**8,636**	9,544	**5,665**	4,160
Swiss SRB Basel III total capital	**50,815**	49,576	**34,573**	29,342

1 Includes an accrual for the proposed distribution of capital contribution reserves, a charge for the increase in high-trigger loss-absorbing capital and other items.

High-trigger loss-absorbing capital

million, except where indicated

No.	Issuer	Date	Outstanding amount as of 31.12.13	**Amount recognized in regulatory capital as of 31.12.2013**	Coupon rate and frequency of payment
1	UBS AG	31.12.2012	CHF 458	**CHF 458**	Issues in CHF: 5.40%, issues in USD: 6.25%, annually
2	UBS AG	31.12.2013	CHF 497	**CHF 497**	Issues in CHF: 3.50%, issues in USD: 5.125%, annually
Total high-trigger loss-absorbing capital				**CHF 955**	

Low-trigger loss-absorbing capital

million, except where indicated

No.	Issuer	Issue date	Outstanding amount as of 31.12.13	**Amount recognized in regulatory capital as of 31.12.2013**	Coupon rate and frequency of payment	Optional call date
1	UBS AG, Jersey branch	22.02.2012	USD 2,000	**CHF 1,783**	7.25% / 6.061% + Mid Market Swap Rate from 22 February 2017, annually	22.02.2017
2	UBS AG, Stamford branch	17.08.2012	USD 2,000	**CHF 1,629**	7.625%, semi-annually	
3	UBS AG	22.05.2013	USD 1,500	**CHF 1,298**	4.75% / 3.765% + Mid Market Swap Rate from 22 May 2018, annually	22.05.2018
Total low-trigger loss-absorbing capital				**CHF 4,710**		

Phase-out capital

million, except where indicated

No.	Issuer	Issue date	Outstanding amount as of 31.12.13	**Amount recognized in regulatory capital as of 31.12.2013**	Coupon rate and frequency of payment	Optional call date
1	UBS AG, NY branch	21.07.1995	USD 350	**CHF 315**	7.5%, semi-annually	
2	UBS AG, NY branch	21.07.1995	USD 150	**CHF 27**	7.375%, semi-annually	
3	UBS AG, NY branch	24.10.1995	USD 300	**CHF 54**	7%, semi-annually	
4	UBS AG, NY branch	03.09.1996	USD 300	**CHF 271**	7.75%, semi-annually	
5	UBS AG, NY branch	20.06.1997	USD 300	**CHF 161**	7.375%, semi-annually	
6	UBS AG, Jersey branch	18.12.1995	GBP 150	**CHF 221**	8.75%, annually	
7	UBS AG, Jersey branch	16.09.2004	EUR 381	**CHF 468**	4.5% / 3-month EURIBOR + 1.26%, annually / quarterly	16.09.2014
8	UBS AG, Jersey branch	30.06.2005	CHF 488	**CHF 97**	2.375%, annually	
9	UBS AG, Jersey branch	21.06 2006	GBP 163	**CHF 236**	5.25% / 3-month Sterling LIBOR + 1.29%, annually / quarterly	21.06.2016
10	UBS AG, Jersey branch	19.11.2007	GBP 250	**CHF 369**	6.375% / 3-month Sterling LIBOR + 2.10%, annually / quarterly	19.11.2019
11	UBS AG, Stamford branch	26.07.2006	USD 1,000	**CHF 348**	5.875%, semi-annually	
12	UBS AG	30.06.2004	CHF 400	**CHF 0**	3.125%, annually	
13	UBS AG	28.06.2006	CHF 434	**CHF 174**	3.125%, annually	
14	UBS AG	27.12.2007	CHF 385	**CHF 231**	4.125%, annually	
Total phase-out capital				**CHF 2,971**		

Additional capital information

In order to improve the consistency and comparability of regulatory capital instruments disclosures across market participants, BIS and FINMA Basel III Pillar 3 rules require banks to disclose the main features of eligible capital instruments and their terms and conditions. This information is available in the "Bondholder information" section of our Investor Relations website.

➔ Refer to "Bondholder information" at www.ubs.com/investors for more information on the capital instruments of UBS Group and UBS AG (Parent Bank)

In order to fulfill BIS and FINMA Basel III Pillar 3 composition of capital disclosure requirements, a full reconciliation of all regulatory capital elements to the published IFRS balance sheet is disclosed in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report.

➔ Refer to the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report for more information

BIS and Swiss SRB Basel III rules require banks to disclose differences between the accounting scope of consolidation and the regulatory scope of consolidation.

The scope of consolidation for the purpose of calculating Group regulatory capital is generally the same as the scope under IFRS and includes subsidiaries directly or indirectly controlled by UBS AG that are active in the banking and finance sector. However, subsidiaries consolidated under IFRS that are active in sectors other than banking and finance are excluded from the regulatory scope of consolidation. More information on the IFRS scope of consolidation as well as the list of significant subsidiaries included in this scope as of 31 December 2013 are available in the "Financial information" section of this report. Details on entities which are treated differently under the regulatory scope of consolidation are available in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report.

➔ Refer to "Note 1 Summary of significant accounting policies," "Note 30 Interests in subsidiaries and other entities" and "Supplemental disclosures required under Basel III Pillar 3 regulations" in the "Financial information" section of this report for more information on the IFRS scope of consolidation

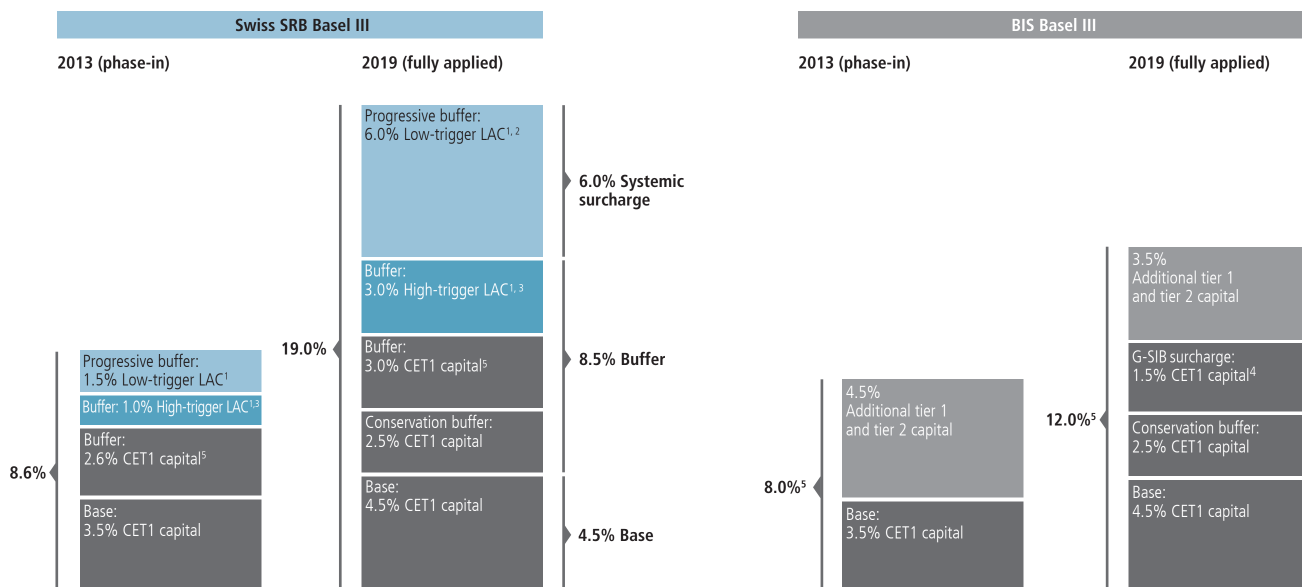
We have estimated the loss in capital that we could incur as a result of the risks associated with the matters described in "Note 22 Provisions and contingent liabilities" to our consolidated financial statements. We have utilized for this purpose the advanced measurement approach (AMA) methodology that we use when determining the capital requirements associated with operational risks, based on a 99.9% confidence level over a 12-month horizon. The methodology takes into consideration UBS and industry experience for the AMA operational risk categories to which those matters correspond in isolation from other areas. On this standalone basis, we estimate the loss in capital that we could incur over a 12-month period as a result of our risks associated with these operational risk categories at CHF 2.7 billion as of 31 December 2013. Because this estimate is based upon historical data for the relevant risk categories, it does not constitute a subjective assessment of UBS's actual exposures in those matters and does not take into account any provisions recognized for those matters. For this reason, and because some of these matters are not expected to be resolved within the next 12 months, any possible losses that we may incur with respect to these matters may be materially more or materially less than this estimated amount.

➔ Refer to "Note 22 Provisions and contingent liabilities" in the "Financial information" section of this report for more information

Differences between Swiss SRB and BIS Basel III capital

Our Swiss SRB Basel III and BIS Basel III capital have the same basis of calculation, on both a phase-in and fully applied basis, except for two specific items. Firstly, our DCCP instruments, representing high-trigger loss-absorbing capital, are amortized over five years under BIS Basel III, but are not amortized under Swiss SRB regulations, resulting in Swiss SRB Basel III tier 2 capital being higher by CHF 92 million as of 31 December 2013. Secondly, a portion of unrealized gains on financial investments available-for-sale, totaling CHF 30 million as of 31 December 2013, is recognized as tier 2 capital under BIS Basel III, but not under Swiss SRB regulations.

Swiss SRB and BIS Basel III capital requirements



1 Loss-absorbing capital. High-trigger loss-absorbing capital qualifies as progressive buffer capital until the end of 2017. 2 We expect our 2019 requirement of 6.0% for the progressive buffer on a fully applied basis to fall to 4.5% due to our planned balance sheet reduction related to the accelerated implementation of our strategy announced in October 2012 and the resulting reduction in total exposure. Systemically relevant banks (SRB) are eligible for a capital rebate on the progressive buffer if they take actions that facilitate recovery and resolvability beyond the minimum requirements to ensure the integrity of systemically important functions in the case of impending insolvency. 3 Can be substituted by Swiss SRB Basel III CET1 capital. 4 Applies to UBS as one of the global systemically important banks (G-SIB) and will be phased in between 2016 and 2018, becoming fully effective on 1 January 2019. 5 National regulators can put in place a countercyclical buffer requirement of up to 2.5% of risk-weighted assets for credit exposures in their jurisdiction. In September 2013, the Swiss Federal Council has activated a countercyclical buffer of 1% of RWA for mortgage loans on residential property in Switzerland, resulting in an overall 0.1% additional capital requirement, which is included in the 2.6% CET1 buffer capital requirement for 2013. BIS Basel III for 2013 and 2019 and Swiss SRB Basel III for 2019 presented in this graph do not include a countercyclical buffer requirement.

Differences between Swiss SRB and BIS Basel III capital information

	Phase-in			Fully applied		
	Swiss SRB	BIS	Differences Swiss SRB versus BIS	Swiss SRB	BIS	Differences Swiss SRB versus BIS
CHF million, except where indicated		31.12.13			31.12.13	
Tier 1 capital	42,179	42,179	0	28,908	28,908	0
of which: common equity tier 1 capital	*42,179*	*42,179*	*0*	*28,908*	*28,908*	*0*
Tier 2 capital	8,636	8,575	61	5,665	5,604	61
of which: high-trigger loss-absorbing capital	*955*	*863*	*92*	*955*	*863*	*92*
of which: low-trigger loss-absorbing capital	*4,710*	*4,710*	*0*	*4,710*	*4,710*	*0*
of which: phase-out capital and other tier 2 capital	*2,971*	*3,001*	*(30)*		*30*	*(30)*
Total capital	50,815	50,754	61	34,573	34,512	61
Common equity tier 1 capital ratio (%)	18.5	18.5	0.0	12.8	12.8	0.0
Tier 1 capital ratio (%)	18.5	18.5	0.0	12.8	12.8	0.0
Total capital ratio (%)	22.2	22.2	0.0	15.4	15.3	0.0
Basel III risk-weighted assets	228,557	228,557	0	225,153	225,153	0

Risk-weighted assets

Our risk-weighted assets (RWA) under BIS Basel III are the same as under Swiss SRB Basel III. RWA on a fully applied basis are the same as on a phase-in basis, except for differences related to the adoption of IAS 19 (revised) *Employee Benefits,* which are phased in between 2014 and 2018. On a fully applied basis, net defined benefit assets/liabilities are determined in accordance with IAS 19 (revised), and any net defined benefit asset that is recognized is deducted from common equity tier 1 capital rather than being risk-weighted. On a phase-in basis, defined benefit-related assets/liabilities are determined in accordance with the previous IAS 19 requirements ("corridor method"), and any defined benefit-related asset that is recognized is risk-weighted at 100%. As a result, our phase-in RWA as of 31 December 2013 were CHF 3.4 billion higher than our fully applied RWA.

Phase-in RWA decreased by CHF 33.2 billion to CHF 228.6 billion in 2013 and fully applied RWA by CHF 32.9 billion to CHF 225.2 billion. These decreases were both mainly due to a CHF 41 billion reduction in credit risk RWA and a CHF 17 billion reduction in market risk RWA, partly offset by a CHF 25 billion increase in operational risk RWA, primarily due to the aforementioned supplemental operational risk capital analysis.

In accordance with our strategy to focus on sustainable, less capital-intensive business activities and due to our active portfolio management and risk-mitigation activities, RWA both in the Investment Bank and in Corporate Center – Non-core and Legacy Portfolio were substantially reduced during 2013.

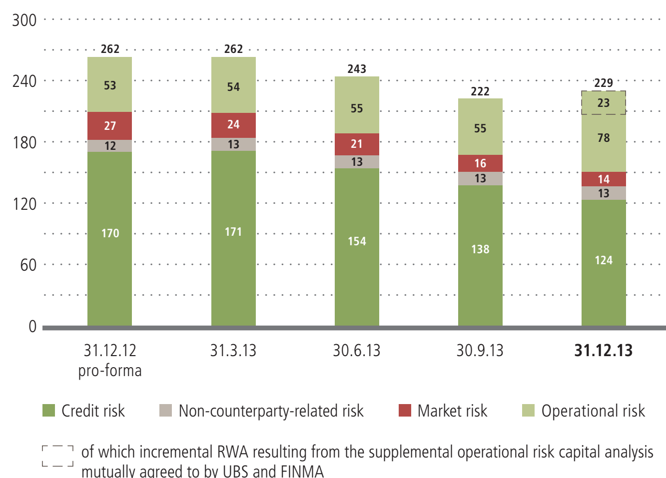
The tables "Basel III RWA by risk type, exposure and reporting segment" and "Basel III RWA movement by key driver, risk type and reporting segment" on the following pages provide more granular disclosures of RWA movements by reporting segment.

➔ **Refer to "Investment Bank" and "Corporate Center" in the "Financial and operating performance" section and to the "Risk management and control" section of this report for more information on RWA developments**

➔ **Refer to "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report for more information on gross and net exposure at default by exposure segment**

Phase-in Basel III risk-weighted assets

CHF billion



The following changes in our RWA calculations are expected to add approximately CHF 3 billion to our RWA in the first quarter of 2014: (i) a further reduction of the difference in the RWA calculation for Swiss residential mortgages between the advanced internal ratings-based (IRB) and the standardized approaches as a result of the FINMA requirement to apply a bank-specific multiplier for banks using the internal ratings-based approach (this difference will be reduced annually until 2019) and (ii) net long and net short securitization positions in the trading book requiring separate underpinning, (rather than the higher of net long or net short positions underpinned during the transitional phase until 31 December 2013).

Basel III RWA by risk type, exposure and reporting segment

	31.12.13								
CHF billion	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total RWA	Total capital requirement[1]
Credit risk	**12**	**8**	**30**	**3**	**36**	**5**	**31**	**124**[2]	**11**
Advanced IRB approach	8	2	27	1	29	4	25	97	8
Sovereigns	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*0*
Banks	*0*	*0*	*1*	*0*	*7*	*1*	*2*	*12*	*1*
Corporates[3]	*0*	*0*	*14*	*0*	*18*	*2*	*6*	*41*	*3*
Retail	*7*	*2*	*10*	*0*	*0*	*0*	*0*	*20*	*2*
Other[4]	*1*	*0*	*1*	*1*	*3*	*0*	*17*	*24*	*2*
Standardized approach	4	6	3	1	7	1	6	27	2
Sovereigns	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Banks	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*2*	*0*
Corporates	*2*	*3*	*2*	*1*	*2*	*2*	*2*	*14*	*1*
Central counterparties	*0*	*0*	*0*	*0*	*1*	*1*	*0*	*2*	*0*
Retail	*2*	*2*	*0*	*0*	*0*	*0*	*0*	*3*	*0*
Other[4]	*0*	*0*	*0*	*0*	*4*	*(2)*	*4*	*6*	*0*
Non-counterparty-related risk	**0**	**0**	**0**	**0**	**0**	**12**	**0**	**13**	**1**
Market risk	**0**	**2**	**0**	**0**	**8**	**(5)**[5]	**9**	**14**[2]	**1**
Value-at-risk (VaR)	*0*	*0*	*0*	*0*	*2*	*(1)*	*1*	*2*	*0*
Stressed value-at-risk (SVaR)	*0*	*1*	*0*	*0*	*3*	*(2)*	*2*	*3*	*0*
Add-on for risks-not-in-VaR	*0*	*0*	*0*	*0*	*1*	*0*	*1*	*2*	*0*
Incremental risk charge (IRC)	*0*	*0*	*0*	*0*	*2*	*(1)*	*0*	*1*	*0*
Comprehensive risk measure (CRM)	*0*	*0*	*0*	*0*	*0*	*0*	*4*	*4*	*0*
Securitization / re-securitization in the trading book	*0*	*0*	*0*	*0*	*0*	*0*	*2*	*2*	*0*
Operational risk	**9**	**15**	**1**	**1**	**19**	**9**	**23**	**78**	**7**
of which: incremental RWA[6]	*3*	*4*	*0*	*0*	*6*	*3*	*7*	*23*	*2*
Total Basel III RWA phase-in	**21**	**24**	**31**	**4**	**63**	**21**	**64**	**229**	**20**
Phase-out items	0	0	2	0	0	1	0	3	
Total Basel III RWA fully applied	**21**	**24**	**30**	**4**	**62**	**21**	**64**	**225**	

1 Calculated based on our Swiss SRB Basel III total capital requirement of 8.6% of RWA. 2 In line with Basel III Pillar 1 requirements, RWA related to securitization / re-securitization in the trading book are newly presented as market risk RWA. Previously, these RWA were presented as credit risk RWA. Prior periods were restated for this change in presentation. 3 Includes stressed expected positive exposures across all exposure classes. 4 Includes securitization / re-securitization exposures in the banking book, equity exposures in the banking book according to the simple risk weight method, credit valuation adjustments, settlement risk and business transfers. 5 Corporate Center – Core Functions market risk RWA were negative as this included the effect of portfolio diversification across businesses. 6 Reflects the effect of the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

RWA movement by risk type, exposure and reporting segment

Credit risk

Phase-in credit risk RWA amounted to CHF 124 billion as of 31 December 2013 compared with CHF 166 billion as of 31 December 2012.

This decrease was mainly due to a CHF 24 billion reduction related to Other exposure segments. This was primarily driven by a reduction in RWA for advanced and standardized credit valuation adjustments (CVA) of CHF 18 billion, mainly due to benefits from economic CVA hedges, ratings migration, reduced exposures and market-driven reductions in Corporate Center – Non core and Legacy Portfolio and to a lesser extent in the Investment Bank. Furthermore, a decline of CHF 6 billion was realized due to the sale of securitization exposures in Corporate Center – Legacy Portfolio.

Credit risk RWA for exposures to corporates decreased by CHF 10 billion, primarily due to a reduction in drawn loans, undrawn loan commitments and derivative exposures in Wealth Management Americas, Investment Bank and Corporate Center – Non-core and Legacy Portfolio.

Credit risk RWA for exposures to banks declined by CHF 6 billion, mainly due to lower derivative exposures in the Investment Bank and Corporate Center – Non-core and Legacy Portfolio.

Basel III RWA by risk type, exposure and reporting segment (continued)

	31.12.12 (pro-forma)								
CHF billion	Wealth Manage-ment	Wealth Manage-ment Americas	Retail & Corporate	Global Asset Manage-ment	Invest-ment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total RWA	Total capital require-ment[1]
Credit risk	**11**	**9**	**31**	**3**	**42**	**6**	**64**	**166[2]**	**13**
Advanced IRB approach	8	2	28	2	36	4	54	133	11
Sovereigns	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*2*	*0*
Banks	*1*	*0*	*1*	*0*	*10*	*1*	*5*	*18*	*1*
Corporates[3]	*0*	*0*	*15*	*0*	*21*	*2*	*11*	*50*	*4*
Retail	*6*	*2*	*11*	*0*	*0*	*0*	*0*	*19*	*2*
Other[4]	*1*	*0*	*1*	*2*	*5*	*1*	*36*	*44*	*4*
Standardized approach	3	7	2	1	6	2	10	33	3
Sovereigns	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Banks	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*2*	*0*
Corporates	*2*	*4*	*2*	*1*	*1*	*1*	*4*	*15*	*1*
Central counterparties	*0*	*0*	*0*	*0*	*1*	*1*	*1*	*2*	*0*
Retail	*1*	*2*	*0*	*0*	*0*	*0*	*0*	*3*	*0*
Other[4]	*0*	*0*	*0*	*0*	*4*	*0*	*5*	*10*	*1*
Non-counterparty-related risk	**0**	**0**	**0**	**0**	**0**	**12**	**0**	**12**	**1**
Market risk	**0**	**2**	**0**	**0**	**7**	**(2)[5]**	**25**	**31[2]**	**2**
Value-at-risk (VaR)	*0*	*1*	*0*	*0*	*1*	*(2)*	*3*	*4*	*0*
Stressed value-at-risk (SVaR)	*0*	*1*	*0*	*0*	*2*	*(3)*	*5*	*6*	*0*
Add-on for risks-not-in-VaR[6]	*0*	*0*	*0*	*0*	*2*	*0*	*2*	*3*	*0*
Incremental risk charge (IRC)	*0*	*0*	*0*	*0*	*1*	*2*	*2*	*5*	*0*
Comprehensive risk measure (CRM)	*0*	*0*	*0*	*0*	*0*	*0*	*9*	*9*	*1*
Securitization / re-securitization in the trading book	*0*	*0*	*0*	*0*	*0*	*0*	*4*	*4[2]*	*0*
Operational risk	**7**	**13**	**1**	**1**	**16**	**1**	**14**	**53**	**4**
Total Basel III RWA phase-in	**19**	**24**	**32**	**4**	**65**	**17**	**103**	**262**	**21**
Phase-out items	0	0	2	0	1	1	0	4	
Total Basel III RWA fully applied	**18**	**23**	**30**	**4**	**64**	**16**	**103**	**258**	

1 Calculated based on our Swiss SRB Basel III total capital requirement of 8.0% of RWA. 2 In line with Basel III Pillar 1 requirements, RWA related to securitization / re-securitization in the trading book are newly presented as market risk RWA. Previously, these RWA were presented as credit risk RWA. Prior periods were restated for this change in presentation. 3 Includes stressed expected positive exposures across all exposure classes. 4 Includes securitization / re-securitization exposures in the banking book, equity exposures in the banking book according to the simple risk weight method, credit valuation adjustments, settlement risk and business transfers. 5 Corporate Center – Core Functions market risk RWA were negative as this included the effect of portfolio diversification across businesses. 6 RWA related to risks-not-in-VaR are presented on a Basel 2.5 basis.

Non-counterparty-related risk

Phase-in non-counterparty-related risk RWA amounted to CHF 13 billion as of 31 December 2013 compared with CHF 12 billion as of 31 December 2012.

Market risk

Phase-in market risk RWA amounted to CHF 14 billion as of 31 December 2013 compared with CHF 31 billion as of 31 December 2012. This decline was due to a CHF 5 billion decrease in the comprehensive risk measure, a decline of CHF 4 billion in the incremental risk charge and reductions of CHF 2 billion, CHF 3 billion and CHF 1 billion in RWA related to value-at-risk (VaR), stressed VaR and risks-not-in-VaR, respectively. From a reporting segment perspective, the aforementioned decrease in market risk RWA was almost entirely recorded in Corporate Center – Non-core and Legacy Portfolio.

Basel III RWA by risk type, exposure and reporting segment (continued)

	31.12.13 vs 31.12.12 (pro-forma)								
CHF billion	Wealth Manage-ment	Wealth Manage-ment Americas	Retail & Corporate	Global Asset Manage-ment	Invest-ment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total RWA	Total capital require-ment
Credit risk	**1**	**(1)**	**(1)**	**0**	**(7)**	**(1)**	**(32)**	**(41)**	**(3)**
Advanced IRB approach	*1*	*1*	*(1)*	*0*	*(7)*	*0*	*(28)*	*(35)*	*(2)*
Sovereigns	*0*	*0*	*0*	*0*	*0*	*0*	*(1)*	*(1)*	*0*
Banks	*0*	*0*	*0*	*0*	*(3)*	*0*	*(4)*	*(6)*	*0*
Corporates	*0*	*0*	*0*	*0*	*(4)*	*0*	*(5)*	*(9)*	*0*
Retail	*1*	*1*	*0*	*0*	*0*	*0*	*0*	*1*	*0*
Other	*0*	*0*	*0*	*0*	*(1)*	*0*	*(18)*	*(20)*	*(1)*
Standardized approach	*1*	*(2)*	*0*	*0*	*0*	*(1)*	*(4)*	*(6)*	*0*
Sovereigns	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Banks	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Corporates	*0*	*(1)*	*0*	*0*	*1*	*1*	*(2)*	*(1)*	*0*
Central counterparties	*0*	*0*	*0*	*0*	*0*	*0*	*(1)*	*0*	*0*
Retail	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other	*0*	*0*	*0*	*0*	*(1)*	*(2)*	*(2)*	*(4)*	*0*
Non-counterparty-related risk	**0**	**0**	**0**	**0**	**0**	**1**	**0**	**0**	**0**
Market risk	**0**	**0**	**0**	**0**	**1**	**(3)**	**(15)**	**(17)**	**(1)**
Value-at-risk (VaR)	*0*	*0*	*0*	*0*	*0*	*0*	*(2)*	*(2)*	*0*
Stressed value-at-risk (SVaR)	*0*	*0*	*0*	*0*	*0*	*1*	*(4)*	*(3)*	*0*
Add-on for risks-not-in-VaR	*0*	*0*	*0*	*0*	*0*	*0*	*(1)*	*(1)*	*0*
Incremental risk charge (IRC)	*0*	*0*	*0*	*0*	*1*	*(4)*	*(2)*	*(4)*	*0*
Comprehensive risk measure (CRM)	*0*	*0*	*0*	*0*	*0*	*0*	*(5)*	*(5)*	*0*
Securitization / re-securitization in the trading book	*0*	*0*	*0*	*0*	*0*	*0*	*(2)*	*(2)*	*0*
Operational risk	**2**	**2**	**0**	**0**	**4**	**8**	**9**	**25**	**2**
Total Basel III RWA phase-in	**3**	**1**	**0**	**0**	**(2)**	**5**	**(39)**	**(33)**	**(1)**
Phase-out items	0	0	0	0	0	0	0	0	
Total Basel III RWA fully applied	**3**	**1**	**0**	**0**	**(2)**	**5**	**(39)**	**(33)**	

Operational risk

Phase-in operational risk RWA amounted to CHF 78 billion as of 31 December 2013, an increase of CHF 25 billion compared with 31 December 2012, primarily due to incremental RWA of CHF 22.5 billion resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

During the fourth quarter of 2013 and January of 2014, UBS and FINMA reviewed the temporary operational risk-related RWA add-on that became effective on 1 October 2013. Following a review of the advanced measurement approach (AMA) model, the litigation exposures and contingent liabilities of UBS, provisioning movements and methodologies, and progress on managing other operational risks, UBS and FINMA mutually agreed that, effective on 31 December 2013, a supplemental analysis will be used to calculate the incremental operational risk capital required to be held for litigation, regulatory and similar matters and other contingent liabilities. The incremental CHF 22.5 billion operational risk-related RWA was allocated to the business divisions and Corporate Center proportionally to the amount of allocated operational risk-related RWA excluding the incremental RWA as of 31 December 2013. The allocation methodology for operational risk-related RWA excluding the incremental RWA is based on the cumulative operational risk-related loss history of the business divisions and Corporate Center – Non-core and Legacy Portfolio.

➔ **Refer to the "Regulatory and legal developments" section of this report for more information on the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA**

Basel III RWA movement by key driver, risk type and reporting segment

CHF billion	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Group
Total RWA balance as of 31.12.12 (pro-forma)	**19**	**24**	**32**	**4**	**65**	**17**	**103**	**262**
Credit risk RWA movement during 2013:	*1*	*(1)*	*(1)*	*0*	*(7)*	*(1)*	*(32)*	***(41)***
Methodology changes and model parameter updates	1	0	0	0	(3)	(1)	(3)	**(6)**
Acquisitions and disposals of business operations	0	0	0	0	0	0	0	**0**
Book quality	0	0	0	0	1	0	(4)	**(3)**
Book size	1	(1)	(1)	0	(4)	0	(24)	**(29)**
Foreign currency translation effects	0	0	0	0	(1)	0	(2)	**(4)**
Non-counterparty-related risk RWA movement during the year 2013:	*0*	*0*	*0*	*0*	*0*	*1*	*0*	***0***
Exposure movements	0	0	0	0	0	1	0	**0**
Foreign currency translation effects	0	0	0	0	0	0	0	**0**
Market risk RWA movement during 2013:	*0*	*0*	*0*	*0*	*1*	*(3)*	*(15)*	***(17)***
Methodology changes	0	0	0	0	0	0	(1)	**(1)**
Model parameter updates	0	0	0	0	0	0	0	**0**
Regulatory add-ons	0	0	0	0	0	0	1	**1**
Movement in risk levels	0	0	0	0	1	(3)	(15)	**(17)**
Operational risk RWA movement during 2013:	*2*	*2*	*0*	*0*	*4*	*8*	*9*	***25***
Incremental RWA	3	4	1	0	6	3	7	**23**
Other model parameter updates	(1)	(2)	0	0	(2)	5	2	**2**
Total movement	**3**	**1**	**0**	**0**	**(2)**	**5**	**(39)**	**(33)**
Total RWA balance as of 31.12.13 (phase-in)	**21**	**24**	**31**	**4**	**63**	**21**	**64**	**229**

RWA movement by key driver, risk type and reporting segment

The following pages include information about the definitions of key driver categories and underlying judgments and assumptions.

Credit risk

The decrease of CHF 41 billion in credit risk RWA was mainly driven by reductions in book size in both Corporate Center – Non-core and Legacy Portfolio and the Investment Bank, primarily due to the aforementioned sale of securitization exposures, trade compressions and reduced derivative exposures, and a net improvement in book quality, primarily driven by economic CVA hedges in Corporate Center – Non-core and Legacy Portfolio.

Market risk

Substantially all of the decrease of CHF 17 billion in market risk RWA was the result of reduced market risk exposures. Only a small amount resulted from changes in methodology or routine model parameter updates.

➔ Refer to "Corporate Center – Non-core and Legacy Portfolio" in the "Risk management and control" section of this report for more information on RWA by portfolio composition and exposure category

Key drivers of RWA movement by risk type

We employ a range of analyses in our RWA monitoring framework to identify the key drivers of movements in the positions. This includes a top-down identification approach for several sub-components of the RWA movement, leveraging information available from our monthly detailed calculation, substantiation and control processes. Particular attention is paid to identifying and segmenting items within the day-to-day control of the business and those items that are driven by changes in risk models or regulatory methodology. We transitioned to Basel III in the first quarter of 2013. As RWA as of 31 December 2012 represent Basel III pro-forma information, certain 2013 movements were allocated to the various movement types on a best efforts basis only.

Credit risk RWA movements

Methodology changes and model parameter updates
Represents RWA movements arising from the implementation of new models and from parameter changes to existing models. This movement type also includes regulatory methodology changes, reviews of modeling assumptions and refinements to our Basel III (pro-forma) calculations applied until January 2013. The RWA impact of model and methodology changes is estimated based on the portfolio at the time of the implementation of the change. Methodology changes and model parameter updates were not segregated due to a combination of the aforementioned complexity associated with the transition from Basel III (pro-forma) to Basel III, inherent complexity related to some components of credit risk and materiality aspects.

Acquisitions and disposals of business operations
Represents the movement in RWA as a result of the disposal or acquisition of business operations, quantified based on the credit risk exposures as at the end of the month preceding a disposal or following an acquisition. Acquisition and disposal of exposures in the ordinary course of business are reflected under book size.

Book quality
Represents RWA movements resulting from changes in the underlying credit quality of counterparties. These are caused by changes to risk parameters which arise from actions such as, but not limited to, model recalibration, change in counterparty external rating or new credit hedges.

Book size
Represents RWA movements arising in the normal course of business, such as growth in credit exposures or reduction in book size from sales and write-offs. The amounts reported for each business division and Corporate Center may also include the effect of transfers and allocations of exposures between business divisions reflected in the period. Currently, the movement in book size is estimated based on amounts derived from the other four drivers. We will continue to refine our underlying RWA reporting and intend to provide more granular information in the future.

Foreign currency translation effects
Represents RWA movements as a result of changes in exchange rates of the transaction currencies versus the Swiss franc.

Non-counterparty-related risk RWA movements

Exposure movements

Represents RWA movements arising in the normal course of business, such as purchase or sale of relevant underlying exposures.

Foreign currency translation effects

Represents foreign currency translation effects on RWA movements as a result of changes in exchange rates of the transaction currencies versus the Swiss franc.

Market risk RWA movements

Methodology changes

Represents methodology changes to the calculation driven by regulatory and internal policy decisions. In some cases, the effects of methodology changes have been assessed at the time of implementation, and may not reflect the effects for the entire year 2013. Further, methodology changes may, on occasion, be implemented at the same time as parameter updates and changes in regulatory add-ons, the effects of which cannot be fully disaggregated.

Model parameter updates

Includes routine updates to model parameters such as the roll-forward of the five-year historical data used for VaR. The effect of each parameter update, assessed at the point of implementation, has been used to approximate the combined effect over the year.

Regulatory add-ons

Represents entirely the "Risks-not-in-VaR (RniV)" add-on described in the "Risk management and control" section of this report. The effect of the annual recalibration has been calculated by applying the old and new multiplication factors to the year-end VaR- and SVaR-based RWA.

Movement in risk levels

Represents changes as a result of movements in risk levels that are derived after accounting for the movements in the above three specific drivers. This includes changes in positions, effects of market moves on risk levels and currency translation effects. The amounts reported for each business division and Corporate Center may also include the effect of transfers and allocations of exposures between business divisions reflected in the period.

Operational risk RWA movements

Incremental RWA

Represents RWA movements relating to changes in the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

Other model parameter updates

Represents RWA movements arising from the regular update of our advanced measurement approach (AMA) model.

Swiss SRB leverage ratio

Requirements

The Swiss SRB leverage ratio is calculated by dividing the relevant capital amount by the three-month average total IFRS on-balance sheet assets and off-balance sheet items, based on the regulatory scope of consolidation and adjusted for netting of securities financing transactions and derivatives and other items. The capital considered in the calculation of the phase-in leverage ratio includes CET1 capital and loss-absorbing capital, but excludes tier 2 phase-out capital.

The table "Swiss SRB leverage ratio requirements" shows our total leverage ratio requirement, as well as the requirements by capital components, and our actual leverage ratio information. As of 31 December 2013, our CET1 capital covered the leverage ratio requirements for the base and buffer capital components, while our high- and low-trigger loss-absorbing capital satisfied our leverage ratio requirement for the progressive buffer component.

The Swiss SRB leverage ratio requirement is equal to 24% of the total capital ratio requirement. As of 31 December 2013, the effective total leverage ratio requirement was 2.06%, resulting from multiplying the total capital ratio requirement of 8.6% by 24%.

The Basel Committee on Banking Supervision (BCBS) issued a consultation on "Revised Basel III leverage ratio framework and disclosure requirements" in June 2013, followed by final rules in January 2014. The final calibration, and any final adjustments to the definition, will be completed by 2017. The ratio is expected to be incorporated within Pillar 1 capital requirements on 1 January 2018. According to the BCBS's timetable, the disclosure requirements are to become effective as of 1 January 2015 subject to implementation by national regulators.

➔ **Refer to the "Regulatory and legal developments" section of this report for more information on the new BIS Basel III leverage ratio framework published in January 2014**

Calculating the phase-in Swiss SRB leverage ratio

Our phase-in Swiss SRB leverage ratio was 4.65% as of 31 December 2013.

Swiss SRB leverage ratio (phase-in) = **Total capital** (Phase-in CET1 + loss-absorbing capital) / **Total exposure**[1] (Total IFRS assets **+ adjustments**) = **CHF 47.9 billion** (= CHF 42.2 billion + CHF 5.7 billion) / **CHF 1,028 billion** (= CHF 1,017 billion + CHF 11 billion) = **4.65%**

Adding CHF 219 billion: OTC derivatives (CHF 105 billion), off-balance sheet commitments and contingent liabilities (CHF 96 billion) and other factors (CHF 18 billion)

Deducting CHF 209 billion: derivatives (CHF 197 billion), repurchase agreements covered by eligible netting agreements under the Basel II framework (CHF 2 billion) and other factors (CHF 10 billion)

1 Calculated in accordance with Swiss SRB leverage ratio requirements and representing the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. The total adjusted exposure represents assets recognized on the balance sheet in accordance with IFRS measurement principles, but based on the regulatory scope of consolidation. In accordance with current Swiss SRB leverage ratio requirements, the leverage ratio denominator excludes forward starting repos, securities lending indemnifications and current exposure method (CEM) add-ons for exchange-traded derivatives (ETD), both proprietary and agency transactions.

Swiss SRB leverage ratio requirements

	Phase-in						
	Requirements		Actual information				
	Required Swiss SRB leverage ratio (%)[1]	Swiss SRB leverage ratio capital requirement	Available Swiss SRB Basel III capital		Actual Swiss SRB leverage ratio (%)		Capital type
CHF million, except where indicated		**31.12.13**	**31.12.13**	31.12.12	**31.12.13**	31.12.12	
Base capital	0.84	**8,634**	**8,634**	10,219	**0.84**	0.84	CET1
Buffer capital	0.86[2]	**8,795**	**33,545**[3]	29,813[3]	**3.26**	2.45	CET1
Progressive buffer	0.36	**3,700**	**5,665**[4]	4,160[4]	**0.55**	0.34	LAC
Total	2.06	**21,130**	**47,844**	44,192	**4.65**	3.63	

1 Requirements for base capital (24% of 3.5%), buffer capital (24% of 3.6%) and progressive buffer capital (24% of 1.5%). 2 This includes the effect of the countercyclical buffer requirement. 3 Swiss SRB Basel III CET1 exceeding the base capital requirements is allocated to the buffer capital. 4 During the transition period until end of 2017, high-trigger loss-absorbing capital (LAC) can be included in the progressive buffer.

Developments during 2013

Our phase-in total Swiss SRB leverage ratio increased 102 basis points to 4.65% as of 31 December 2013 from 3.63% as of 31 December 2012. This increase was mainly due to a CHF 189 billion decrease in the total adjusted exposure, also known as the leverage ratio denominator, resulting in an improvement of 70 basis points to the leverage ratio. In addition, the aforementioned increases in CET1 and loss-absorbing capital contributed 32 basis points to the improvement in the leverage ratio on a phase-in basis.

The exposure reduction of CHF 189 billion mainly reflected a CHF 253 billion reduction in average on-balance sheet assets, resulting from reductions in average positive replacement values and financial investments available-for-sale, partly offset by an increase of CHF 75 billion from the combined net effect of reduced derivative and securities financing exposure netting and a lower current exposure add-on for derivative exposures. Furthermore, the adjusted exposure for off-balance sheet items and assets of entities consolidated under IFRS but not under the regulatory scope of consolidation decreased by CHF 5 billion and CHF 7 billion, respectively.

On a fully applied basis, our Swiss SRB leverage ratio increased 96 basis points to 3.39% as of 31 December 2013 from 2.43% as of 31 December 2012.

Swiss SRB leverage ratio

CHF million, except where indicated	Average 4Q13	Pro-forma Average 4Q12
Total on-balance sheet assets[1]	**1,017,335**	1,270,627
Netting of securities financing transactions	**(1,537)**	(20,508)
Netting of derivative exposures	**(196,992)**	(332,076)
Current exposure method (CEM add-on) for derivative exposures	**105,352**	184,180
Off-balance sheet items	**96,256**	101,708
of which: commitments and guarantees – unconditionally cancellable (10%)	***21,538***	*20,168*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	***74,719***	*81,540*
Assets of entities consolidated under IFRS but not in regulatory scope of consolidation	**17,878**	24,630
Items deducted from Swiss SRB Basel III tier 1 capital, phase-in (at period-end)	**(10,428)**	(12,000)
Total adjusted exposure (“leverage ratio denominator”)[2]	**1,027,864**	1,216,561

	As of	
	31.12.13	31.12.12
Swiss SRB Basel III common equity tier 1 capital (phase-in)	**42,179**	40,032
Swiss SRB Basel III loss-absorbing capital	**5,665**	4,160
Swiss SRB Basel III common equity tier 1 capital including loss-absorbing capital	**47,844**	44,192
Swiss SRB leverage ratio phase-in (formerly referred to as “FINMA Basel III leverage ratio”) (%)	**4.65**	3.63

1 Represent assets recognized on the balance sheet in accordance with IFRS measurement principles, but based on the regulatory scope of consolidation. Refer to the “Supplemental disclosures required under Basel III Pillar 3 regulations” section of this report for more information on the regulatory scope of consolidation. 2 In accordance with current Swiss SRB leverage ratio requirements, the leverage ratio denominator excludes forward starting repos, securities lending indemnifications and CEM add-ons for exchange-traded derivatives (ETD), both proprietary and agency transactions.

Swiss SRB leverage ratio denominator

We implemented the disclosure of the Swiss SRB leverage ratio on a Group level in 2013, with comparative 2012 information provided on a pro-forma basis only. The table below provides Swiss SRB leverage ratio denominator information by reporting segment for 31 December 2013 which represents the average of the fourth quarter 2013. It is the first time such segment disclosure is made. No comparative information is provided in this table due to organizational changes.

Swiss SRB leverage ratio denominator by reporting segment

	Average 4Q13							
CHF billion	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total LRD
Total on-balance sheet assets[1]	104.9	45.3	142.8	4.0	245.9	245.1	229.4	1,017.3
Netting of securities financing transactions	0.0	(0.0)	0.0	0.0	(1.1)	(0.4)	0.0	(1.5)
Netting of derivative expsoures	(0.1)	(0.0)	(0.3)	0.0	(49.0)	0.0	(147.6)	(197.0)
Current exposure method (CEM add-on) for derivative exposures	1.2	0.0	1.1	0.0	34.4	0.0	68.6	105.4
Off-balance sheet items	9.6	11.7	21.1	0.0	44.2	0.0	9.6	96.3
of which: commitments and guarantees – unconditionally cancellable (10%)	*5.9*	*11.0*	*4.2*	*0.0*	*0.4*	*0.0*	*0.0*	*21.5*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	*3.7*	*0.6*	*16.9*	*0.0*	*43.9*	*0.0*	*9.6*	*74.7*
Assets of entities consolidated under IFRS but not in regulatory scope of consolidation	6.6	0.2	0.0	10.0	0.9	0.2	(0.0)	17.9
Items deducted from Swiss SRB Basel III tier 1 capital, phase-in (at period-end)						(10.4)		(10.4)
Total adjusted exposure ("leverage ratio denominator")[2]	**122.1**	**57.2**	**164.7**	**14.0**	**275.3**	**234.5**	**160.0**	**1,027.9**

1 Represent assets recognized on the balance sheet in accordance with IFRS measurement principles, but based on the regulatory scope of consolidation. Refer to the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report for more information on the regulatory scope of consolidation. 2 In accordance with current Swiss SRB leverage ratio requirements, the leverage ratio denominator excludes forward starting repos, securities lending indemnifications and CEM add-ons for exchange-traded derivatives (ETD), both proprietary and agency transactions.

Equity attribution framework

The equity attribution framework reflects our objectives of maintaining a strong capital base and managing performance, by guiding each business towards activities that appropriately balance profit potential, risk and capital usage. This framework, which includes some forward-looking elements, enables us to integrate Group-wide capital management activities with those at a business division level and to calculate and assess return on attributed equity (RoAE) in each of our business divisions.

Tangible equity is attributed to our business divisions by applying a weighted-driver approach that combines phase-in Basel III capital requirements with internal models to determine the amount of capital required to cover each business division's risk. RWA and leverage ratio denominator usage are converted to their common equity tier 1 (CET1) equivalents based on capital ratios as targeted by industry peers. Risk-based capital (RBC) is converted to its CET1 equivalent based on a conversion factor that considers the amount of RBC exposure covered by loss-absorbing capital. In addition to tangible equity, we allocate equity to support goodwill and intangible assets as well as certain capital deduction items. The amount of equity attributed to all business divisions and Corporate Center corresponds to the amount we believe is required to maintain a strong capital base and to support our businesses adequately, and can differ from the Group's actual equity during a given period.

Average total equity attributed to the business divisions and Corporate Center was CHF 43.5 billion in 2013, a decrease from CHF 50.8 billion for 2012. This reduction was due to decreases in RWA, the leverage ratio denominator and RBC as a result of the

Average attributed equity

	For the year ended	
CHF billion	**31.12.13**	31.12.12
Wealth Management	**3.5**	4.0
Wealth Management Americas	**2.8**	6.2
Retail & Corporate	**4.1**	4.5
Global Asset Management	**1.8**	2.2
Investment Bank	**8.0**	10.9
Corporate Center	**23.3**	23.1
of which: Core Functions	***12.5***	*6.6*
of which: Group items[1]	***8.6***	*3.6*
of which: Non-core and Legacy Portfolio	***10.8***	*16.5*
Average equity attributed to the business divisions and Corporate Center	**43.5**	50.8
Difference	**3.7**	(2.1)
Average equity attributable to UBS shareholders	**47.2**	48.7

1 Group items within the Corporate Center carries common equity not allocated to the business divisions, reflecting equity that we have targeted above a 10% common equity tier 1 ratio. Additionally, this includes attributed equity for PaineWebber goodwill and intangible assets as well as attributed equity for centrally held risk-based capital items.

Return on attributed equity (RoAE) and return on equity (RoE)[1]

	For the year ended	
%	**31.12.13**	31.12.12
Wealth Management	**64.2**	60.9
Wealth Management Americas	**30.9**	9.7
Retail & Corporate	**35.6**	40.6
Global Asset Management	**32.0**	25.9
Investment Bank	**28.7**	2.4
Corporate Center – Core Functions	**(14.8)**	(56.2)
Corporate Center – Non-core and Legacy Portfolio	**(21.4)**	(22.8)
UBS Group	**6.7**	(5.1)

1 Return on attributed equity shown for the business divisions and Corporate Center and return on equity shown for UBS Group.

accelerated implementation of our strategy announced in October 2012. Average attributed equity also decreased for all business divisions as a result of methodology refinements. From 1 January 2013, equity associated with goodwill and intangible assets that arose from the PaineWebber acquisition is attributed to the Corporate Center. Furthermore, attributed equity for the business divisions decreased because a number of centrally managed risks that are included in RBC have been moved from the business divisions to the Corporate Center. This change took effect in the third quarter of 2013, together with the implementation of the abovementioned RBC conversion to a CET1-equivalent measure. These changes contributed to an overall increase in average attributed equity for Corporate Center – Core Functions in 2013. Furthermore, as of 1 January 2014, equity required to underpin certain Basel III capital deduction items that are relevant from 2014 will be allocated to Group items within Corporate Center – Core Functions.

➔ Refer to the "Risk management and control" section of this report for more information on risk-based capital

Average equity attributable to UBS shareholders decreased to CHF 47.2 billion in 2013 from CHF 48.7 billion in 2012. The difference between average equity attributable to UBS shareholders and average equity attributed to the business divisions and Corporate Center increased to positive CHF 3.7 billion in 2013 from negative CHF 2.1 billion in 2012, with the 2013 difference mainly resulting from holding higher levels of equity than required under the Basel III phase-in rules.

Annualized return on attributed equity (RoAE) is a pre-tax profitability measure that is an indicator of efficiency in the usage of the firm's financial resources.

The return on equity (RoE) for the Group increased to positive 6.7% in 2013 from negative 5.1% in the prior year due to an increase in net profit attributable to UBS shareholders, coupled with a decrease in average equity attributable to UBS shareholders. For 2013, the RoE of the Group was lower than the average of the RoAE of the business divisions because of the negative RoAE of the Corporate Center and due to the fact that more equity was attributable to UBS shareholders than the total equity attributed to the business divisions and Corporate Center.

UBS shares

The majority of our common equity tier 1 capital comprises share capital, share premium and retained earnings attributable to UBS shareholders. As of 31 December 2013, total IFRS equity attributable to UBS shareholders amounted to CHF 48,002 million and was represented by a total of 3,842,002,069 shares issued.

Audited

In 2013, shares issued increased by a total of 6,751,836 shares due to exercises of employee options. Each share has a par value of CHF 0.10 and entitles the holder to one vote at the shareholders' meeting, if entered into the share register as having the right to vote, as well as a proportionate share of distributed dividends. As the Articles of Association of UBS AG indicate, there are no other classes of shares and no preferential rights for shareholders.

➔ **Refer to "Capital structure" and "Shareholders' participation rights" in the "Corporate governance" section of this report for more information**

Holding of UBS shares

We hold our own shares primarily to hedge employee share and option participation plans.

In addition, the Investment Bank holds a limited number of own shares in its capacity as a liquidity provider to the equity index futures market and as a market-maker in UBS shares and derivatives on UBS shares. Furthermore, to meet client demand, UBS has issued structured debt instruments linked to UBS shares, which are economically hedged by cash-settled derivatives and, to a limited extent, own shares held by the Investment Bank.

As of 31 December 2013, we held 73,800,252 treasury shares, or 1.9% of shares issued, compared with 87,879,601, or 2.3%, as of 31 December 2012.

As of 31 December 2013, total future share delivery obligations in relation to employee share-based compensation awards were 109 million shares, taking into account the UBS share price at year-end 2013 as well as performance conditions. Share delivery obligations related to unvested and vested notional share awards, performance share awards, options and stock appreciation rights.

As of 31 December 2013, we held 73 million treasury shares (31 December 2012: 74 million shares) which were available to satisfy delivery obligations related to notional share awards, performance share awards and options and stock appreciation rights. An additional 139 million unissued shares (31 December

UBS shares

	As of		Change from
	31.12.13	31.12.12	31.12.12
Shares outstanding			
Shares issued	**3,842,002,069**	3,835,250,233	6,751,836
of which: issuance of shares related to employee option plans for the year ended	***6,751,836***	*3,128,334*	*3,623,502*
Treasury shares	**73,800,252**	87,879,601	(14,079,349)
Shares outstanding	**3,768,201,817**	3,747,370,632	20,831,185

	As of or for the year ended		% change from
	31.12.13	31.12.12	31.12.12
Earnings per share (CHF)[1]			
Basic	**0.84**	(0.66)	
Diluted	**0.83**	(0.66)	
Shareholders' equity (CHF million)			
Equity attributable to UBS shareholders	**48,002**	45,949	4
Less: goodwill and intangible assets	**6,293**	6,461	(3)
Tangible shareholders' equity	**41,709**	39,488	6
Book value per share (CHF)			
Total book value per share	**12.74**	12.26	4
Tangible book value per share	**11.07**	10.54	5
Market capitalization and share price			
Share price (CHF)	**16.92**	14.27	19
Market capitalization (CHF million)[2]	**65,007**	54,729	19

1 Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of this report for more information. 2 Market capitalization is calculated based on the total UBS shares issued multiplied by the UBS share price at period end.

2012: 145 million shares) in conditional share capital (out of 150 million approved in 2006) were available to satisfy the delivery obligation related to options and stock appreciation rights. Treasury shares held or newly issued shares are delivered to employees at exercise or vesting.

The table below outlines the market purchases of UBS shares by Group Treasury and does not include the activities of the Investment Bank.

Treasury share activities

	Treasury shares purchased for employee share and option participation plans and acquisitions[1]		Total number of shares	
Month of purchase	Number of shares	Average price in CHF	Number of shares (Cumulative)	Average price in CHF
January 2013	0	0.00	0	0.00
February 2013	0	0.00	0	0.00
March 2013	14,000,000	14.85	14,000,000	14.85
April 2013	0	0.00	14,000,000	14.85
May 2013	0	0.00	14,000,000	14.85
June 2013	0	0.00	14,000,000	14.85
July 2013	0	0.00	14,000,000	14.85
August 2013	0	0.00	14,000,000	14.85
September 2013	0	0.00	14,000,000	14.85
October 2013	0	0.00	14,000,000	14.85
November 2013	0	0.00	14,000,000	14.85
December 2013	0	0.00	14,000,000	14.85

1 This table excludes purchases by UBS for the purpose of hedging derivatives linked to UBS shares and for market making in UBS shares. The table also excludes UBS shares purchased by investment funds managed by UBS for clients in accordance with specified investment strategies that are established by each fund manager acting independently of UBS and also excludes UBS shares purchased by pension and retirement benefit funds for UBS employees, which are managed by a board of UBS management and employee representatives in accordance with Swiss law guidelines. UBS's pension and other post-employment benefit funds purchased 1,459,076 UBS shares during the year and held 18,090,651 UBS shares as of 31 December 2013.

Trading volumes

	For the year ended		
1,000 shares	**31.12.13**	31.12.12	31.12.11
SIX Swiss Exchange total	**2,763,179**	3,046,539	3,974,639
SIX Swiss Exchange daily average	**11,053**	12,186	15,648
NYSE total	**98,382**	156,152	239,713
NYSE daily average	**390**	625	951

Source: Reuters

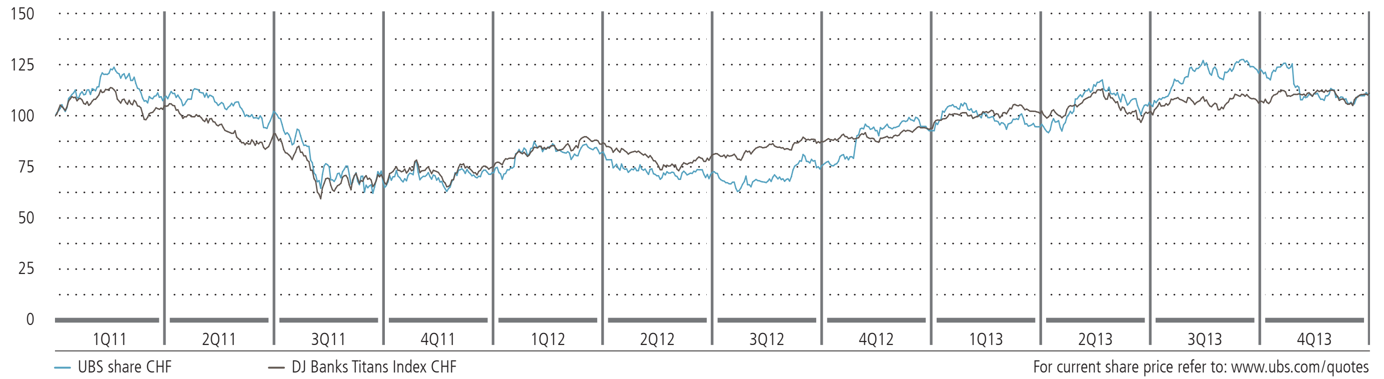
Listing of UBS shares

UBS shares are listed on the SIX Swiss Exchange (SIX) and the New York Stock Exchange (NYSE). During 2013, the average daily volume of UBS shares traded on the SIX was 11.1 million shares and 0.4 million shares on the NYSE. The SIX is expected to remain the main venue for determining the movement in our share price due to the high volume traded on this exchange.

During the hours in which both the SIX and NYSE are simultaneously open for trading (generally 3:30 p.m. to 5:30 p.m. Central European Time), price differences between these exchanges are likely to be arbitraged away by professional market-makers. Accordingly, the share price will typically be similar between the two exchanges when considering the prevailing US dollar / Swiss franc exchange rate. When the SIX is closed for trading, globally traded volumes will typically be lower. However, the specialist firm making a market in UBS shares on the NYSE is required to facilitate sufficient liquidity and maintain an orderly market in UBS shares throughout normal NYSE trading hours.

UBS share price chart vs DJ Banks Titans Index

in % *1 January 2011 – 31 December 2013*



Ticker symbols

Trading exchange	Bloomberg	Reuters
SIX Swiss Exchange	UBSN VX	UBSN.VX
New York Stock Exchange	UBS UN	UBS.N

Security identification codes

ISIN	**CH0024899483**
Valoren	**2 489 948**
Cusip	**CINS H89231 33 8**

Stock exchange prices

	SIX Swiss Exchange			New York Stock Exchange		
	High (CHF)	Low (CHF)	Period end (CHF)	High (USD)	Low (USD)	Period end (USD)
2013	**19.60**	**14.09**	**16.92**	**21.61**	**15.09**	**19.25**
Fourth quarter 2013	**19.30**	**16.12**	**16.92**	**21.61**	**17.94**	**19.25**
December	17.41	16.12	16.92	19.34	18.21	19.25
November	17.69	16.34	17.28	19.29	17.94	19.00
October	19.30	17.34	17.56	21.61	19.30	19.36
Third quarter 2013	**19.60**	**15.62**	**18.50**	**21.48**	**16.54**	**20.52**
September	19.60	18.16	18.50	21.48	19.60	20.52
August	19.47	17.77	18.02	20.87	19.25	19.30
July	18.35	15.62	18.23	19.84	16.54	19.67
Second quarter 2013	**18.02**	**14.09**	**16.08**	**18.70**	**15.09**	**16.95**
June	17.15	15.43	16.08	18.21	16.49	16.95
May	18.02	16.35	17.01	18.70	17.52	17.53
April	16.90	14.09	16.60	18.00	15.09	17.79
First quarter 2013	**16.39**	**14.23**	**14.55**	**17.65**	**15.11**	**15.39**
March	15.50	14.23	14.55	16.49	15.11	15.39
February	16.10	14.35	14.83	17.65	15.40	15.81
January	16.39	14.59	15.78	17.62	15.80	17.37
2012	**15.62**	**9.69**	**14.27**	**16.99**	**9.78**	**15.74**
Fourth quarter 2012	15.62	11.39	14.27	16.99	12.32	15.74
Third quarter 2012	12.60	9.69	11.45	13.57	9.78	12.18
Second quarter 2012	12.79	10.55	11.05	14.15	10.96	11.71
First quarter 2012	13.60	10.64	12.65	14.77	11.17	14.02
2011	**19.13**	**9.34**	**11.18**	**20.08**	**10.42**	**11.83**
Fourth quarter 2011	12.23	9.80	11.18	14.21	10.47	11.83
Third quarter 2011	15.75	9.34	10.54	18.63	10.42	11.43
Second quarter 2011	17.60	14.37	15.33	20.03	17.20	18.26
First quarter 2011	19.13	15.43	16.48	20.08	16.11	18.05
2010	**18.60**	**13.31**	**15.35**	**18.48**	**12.26**	**16.47**
Fourth quarter 2010	17.83	14.92	15.35	18.48	14.99	16.47
Third quarter 2010	18.53	13.94	16.68	18.47	13.04	17.03
Second quarter 2010	18.60	14.15	14.46	17.75	12.26	13.22
First quarter 2010	17.50	13.31	17.14	16.84	12.40	16.28
2009	**19.65**	**8.20**	**16.05**	**19.31**	**7.06**	**15.51**
Fourth quarter 2009	19.34	14.76	16.05	19.18	15.03	15.51
Third quarter 2009	19.65	12.50	18.97	19.31	11.25	18.31
Second quarter 2009	17.51	10.56	13.29	15.82	9.40	12.21
First quarter 2009	17.00	8.20	10.70	15.31	7.06	9.43

Corporate governance, responsibility and compensation

Audited information according to the Swiss Code of Obligations and applicable regulatory requirements and guidance

Disclosures provided in line with the requirements of articles 663b^{bis}, 663c para. 1 and 663c para. 3 of the Swiss Code of Obligations (supplementary disclosures for companies whose shares are listed on a stock exchange: compensation and participations) are also included in the audited financial statements of UBS AG (Parent Bank) in the "Financial information" section of this report. Information that has been subject to audit is indicated by a bar stating "audited" within this section of the report.

Information assured according to the Global Reporting Initiative (GRI)

Content of the sections "Corporate responsibility" and "Our employees" has been reviewed by Ernst & Young Ltd (EY) against the GRI Sustainability Reporting Guidelines. This content has been prepared in accordance with the comprehensive option of GRI G4 as evidenced in the EY assurance report at *www.ubs.com/global/en/about_ubs/corporate_responsibility/commitment_strategy/reporting_assurance.html*. The assurance by EY also covered other relevant text and data in the Annual Report 2013 and on the website of UBS which is referenced in the GRI Content Index (*www.ubs.com/gri*).

Corporate governance

Our corporate governance principles are designed to support our objective of sustainable profitability, as well as to create value and protect the interests of our shareholders and other stakeholders. We use the term "corporate governance" when referring to the organizational structure of UBS and operational practices of our management.

We are subject to, and act in compliance with, all relevant Swiss legal and regulatory requirements regarding corporate governance, including the SIX Swiss Exchange's (SIX) Directive on Information Relating to Corporate Governance, as well as the standards established in the Swiss Code of Best Practice for Corporate Governance, including the appendix on executive compensation.

In addition, as a foreign company with shares listed on the New York Stock Exchange (NYSE), we are in compliance with all relevant corporate governance standards applicable to foreign listed companies.

Based on article 716b of the Swiss Code of Obligations and articles 24 and 26 of the Articles of Association of UBS AG (Articles of Association), the Board of Directors (BoD) adopted the Organization Regulations of UBS AG (Organization Regulations), which constitute our primary corporate governance guidelines. The currently applicable Organization Regulations date from 1 January 2013. The BoD also adopted the currently applicable UBS Code of Business Conduct and Ethics (Code) in September 2012.

➔ Refer to the Articles of Association, the Organization Regulations and the Code at www.ubs.com/governance for more information

In a referendum in March 2013, the Swiss cantons and voters accepted an initiative to give shareholders of Swiss listed companies more influence over board and management compensation (Minder Initiative). In November 2013, the Swiss Federal Council issued the final transitional ordinance implementing the constitutional amendments of this initiative, which came into force on 1 January 2014. UBS is currently in the process of implementing these requirements. The BoD intends to propose amended Articles of Association to be voted upon by shareholders at the Annual General Meeting of Shareholders (AGM) on 7 May 2014.

➔ Refer to the "Regulatory and legal developments" section of this report for more information

Differences from corporate governance standards relevant to US-listed companies

According to the NYSE listing standards on corporate governance, foreign private issuers are required to disclose any significant ways in which their corporate governance practices differ from those to be followed by domestic companies.

Responsibility of the Audit Committee for appointment, compensation, retention and oversight of the independent auditors

The Audit Committee has been assigned all the abovementioned responsibilities, except for appointment of the independent audi-

tors, who are elected by the shareholders as per Swiss company law. The Audit Committee assesses the performance and qualification of the external auditors and submits its proposal for appointment, reappointment or removal to the full BoD, which brings its proposal to the shareholders for vote at the AGM.

Discussion of risk assessment and risk management policies by the Risk Committee

In accordance with our Organization Regulations, the Risk Committee has the authority to define our risk principles and risk capacity. The Risk Committee is responsible for monitoring our adherence to those risk principles and for monitoring whether business divisions and control units maintain appropriate systems for risk management and control.

Supervision of the internal audit function

The Chairman of the BoD (Chairman), the Risk Committee and the Audit Committee share responsibility for and authority to supervise the internal audit function.

Responsibility of the Human Resources and Compensation Committee for performance evaluations of senior management

Performance evaluations of our senior management, comprising the Group Chief Executive Officer (Group CEO) and the other Group Executive Board members, are completed by the Chairman and the Human Resources and Compensation Committee, and are reported to the full BoD.

Responsibility of the Governance and Nominating Committee for the evaluation of the Board of Directors

The BoD has direct responsibility and authority to evaluate its own performance, with preparation by the Governance and Nominating Committee. All BoD committees perform a self-assessment of their activities and report back to the full BoD.

Proxy statement reports of the Audit Committee and Human Resources and Compensation Committee

NYSE listing standards would require the abovementioned committees to directly submit their reports to shareholders. Under Swiss company law, all reports addressed to shareholders by UBS, including those from the abovementioned committees, are provided and signed by the full BoD, which has ultimate responsibility vis-à-vis shareholders.

Shareholders' votes on equity compensation plans

Swiss company law authorizes the BoD to approve compensation plans. Though Swiss law does not allocate such authority to shareholders, it requires that Swiss companies determine the nature and components of capital in their articles of association, and each increase in capital is required to be submitted for shareholder approval. This means that, if equity-based compensation plans result in a need for an increase in capital, shareholder approval is mandatory. If, however, shares for such plans are purchased in the market, shareholders do not have approval authority.

➔ **Refer to "Board of Directors" in this section for more information on the Board of Directors' committees**

➔ **Refer to "Capital structure" in this section for more information on capital**

Group structure and shareholders

UBS Group legal entity structure

Under Swiss company law, UBS AG is organized as an Aktiengesellschaft (AG), a corporation that has issued shares of common stock to investors. UBS AG is the parent bank (Parent Bank or UBS) of the UBS Group (Group).

Our legal entity structure is designed to support our businesses with an efficient legal, tax and funding framework considering regulatory restrictions in the countries where we operate. Neither our business divisions nor the Corporate Center are separate legal entities. They primarily operate out of the Parent Bank, through its branches worldwide. This structure is designed to capitalize on the increased business opportunities and cost efficiencies offered by the use of a single legal platform, and to enable the flexible and efficient use of capital. Where it is neither possible nor efficient to operate out of the Parent Bank, businesses operate through local subsidiaries. This can be the case when required for legal, tax or regulatory purposes, or when legal entities join the Group through acquisition.

As previously announced, we continue to assess the need for and feasibility of changes to our legal entity structure in light of regulatory trends and requirements. Among these are regulatory requirements addressing the "too-big-to-fail" issue, which will cause financial institutions to modify their legal entity structures to facilitate resolution in the event of a failure. In view of these factors, we intend to establish a new banking subsidiary of UBS AG in Switzerland. The scope of this potential future subsidiary's business is still being determined, but we would currently expect it to include the Retail & Corporate business division and likely the Swiss-booked business within our Wealth Management business division. We expect to implement this change in a phased approach starting in mid-2015. This structural change is being discussed on an ongoing basis with FINMA, and remains subject to a number of uncertainties that may affect its feasibility, scope or timing.

In February 2014, the US Federal Reserve Board issued final rules for foreign banking organizations (FBO) operating in the US that include a requirement for FBO with more than USD 50 billion of US non-branch assets to establish an intermediate holding company (IHC) to hold all US subsidiary operations. The IHC will be subject to US capital and other regulatory requirements. We will have until 1 July 2016 to establish an IHC and meet many of the new requirements. We must submit an implementation plan by 1 January 2015 and the IHC will not need to comply with the US leverage ratio until 1 January 2018.

Operational Group structure

On 31 December 2013, the operational structure of the Group comprised five business divisions: Wealth Management, Wealth Management Americas, Retail & Corporate, Global Asset Management and the Investment Bank, as well as the Corporate Center with its components, Core Functions and Non-core and Legacy Portfolio.

➔ **Refer to the "Financial and operating performance" section and "Note 2 Segment reporting" in the "Financial information" section of this report for more information**

Listed and non-listed companies belonging to the Group

The Group includes a number of consolidated entities, none of which, however, has shares listed on any stock exchange, other than UBS AG.

➔ **Refer to "Note 30a Interests in subsidiaries" in the "Financial information" section of this report for more information on the significant subsidiaries of the Group**

Significant shareholders

Under the Federal Act on Stock Exchanges and Securities Trading of 24 March 1995 as amended, (the Swiss Stock Exchange Act), anyone holding shares in a company listed in Switzerland, or holding derivative rights related to shares of such a company, must notify the company and the SIX Swiss Exchange (SIX) if the holding attains, falls below or exceeds one of the following threshold percentages: 3, 5, 10, 15, 20, 25, 33⅓, 50, or 66⅔% of voting rights, whether or not such rights may be exercised. The detailed disclosure requirements and the methodology for calculating the thresholds are defined in the Swiss Financial Market Supervisory Authority (FINMA) Ordinance on Stock Exchanges and Securities Trading (SESTO-FINMA). In particular, the SESTO-FINMA sets forth that all future potential share obligations irrespective of their possible contingent nature must be taken into account, and prohibits the netting of acquisition positions (in particular shares, conversion rights and acquisition rights or obligations) with disposal positions (i.e., rights or obligations to sell). It also requires that each such position be calculated separately and reported as soon as it reaches one of the abovementioned thresholds. Nominee companies which cannot autonomously decide how voting rights are exercised are not obligated to notify UBS and SIX if they reach, exceed or fall below the threshold percentages.

In addition, pursuant to the Swiss Code of Obligations, UBS must disclose in the notes to its financial statements the identity of any shareholder with a holding of more than 5% of the total share capital of UBS AG.

According to disclosure notifications filed with UBS AG and the SIX under the Swiss Stock Exchange Act, on 18 September 2013, Government of Singapore Investment Corp., Singapore, disclosed the change of its corporate name to GIC Private Limited, effective from 22 July 2013, with a holding of 6.40% of the total share capital of UBS AG. The beneficial owner of this holding is the Government of Singapore. On 30 September 2011, Norges Bank, Oslo, the Central Bank of Norway, disclosed a holding of 3.04%. On 17 December 2009, BlackRock Inc., New York, disclosed a holding of 3.45%. In accordance with the Swiss Stock Exchange Act, the percentages indicated above were calculated in relation to the total UBS share capital reflected in the Articles of Association at the time of the respective disclosure notification. Information on disclosures under the Swiss Stock Exchange Act can be found on the following website of the SIX: *www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html*.

According to our share register, the shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) listed in the table below were registered with 3% or more of the total share capital as of 31 December 2013, 2012 and 2011.

Cross-shareholdings

We have no cross-shareholdings in excess of a reciprocal 5% of capital or voting rights with any other company.

Audited

Shareholders registered in the UBS share register with 3% or more of total share capital

% of share capital	31.12.13	31.12.12	31.12.11
Chase Nominees Ltd., London	11.73	11.94	10.95
GIC Private Limited, Singapore	6.39	6.40	6.41
DTC (Cede & Co.), New York[1]	5.89	5.28	7.07
Nortrust Nominees Ltd., London	3.75	3.84	4.20

1 DTC (Cede & Co.), New York, "The Depository Trust Company," is a US securities clearing organization.

Capital structure

Issued share capital

Under Swiss company law, shareholders must approve, in a shareholders' meeting, any increase in the total number of shares, which may arise from an ordinary share capital increase or the creation of conditional or authorized capital. During 2013, no such increase was approved by UBS AG shareholders.

At year-end 2013, 3,842,002,069 shares were issued with a par value of CHF 0.10 each, leading to a share capital of CHF 384,200,206.90.

Changes of shareholders' equity and shares

According to International Financial Reporting Standards (IFRS), Group equity attributable to UBS shareholders amounted to CHF 48.0 billion as of 31 December 2013 (2012: CHF 45.9 billion, 2011: CHF 48.5 billion). UBS Group shareholders' equity was represented by 3,842,002,069 issued shares as of 31 December 2013 (2012: 3,835,250,233 shares, 2011: 3,832,121,899 shares).

➔ **Refer to the "Statement of changes in equity" in the "Financial information" section of this report for more information on changes in shareholders' equity over the last three years**

Issued share capital

	Share capital in CHF	Number of shares	Par value in CHF
As of 31 December 2011	**383,212,190**	**3,832,121,899**	0.10
Issue of shares out of conditional capital due to employee options exercised in 2012	312,833	3,128,334	0.10
As of 31 December 2012	**383,525,023**	**3,835,250,233**	0.10
Issue of shares out of conditional capital due to employee options exercised in 2013	675,184	6,751,836	0.10
As of 31 December 2013	**384,200,207**	**3,842,002,069**	**0.10**

Distribution of UBS shares

As of 31 December 2013	**Shareholders registered**		**Shares registered**	
Number of shares registered	Number	%	Number	% of shares issued
1–100	34,367	11.6	1,967,157	0.1
101–1,000	162,176	54.5	75,191,894	2.0
1,001–10,000	91,263	30.7	254,540,908	6.6
10,001–100,000	9,043	3.0	220,165,057	5.7
100,001–1,000,000	690	0.2	185,036,289	4.8
1,000,001–5,000,000	95	0.0	211,905,582	5.5
5,000,001–38,420,020 (1%)	25	0.0	251,431,040	6.5
1–2%	1	0.0	41,946,308	1.1
2–3%	2	0.0	164,602,980	4.3
3–4%	1	0.0	143,960,557	3.8
4–5%	0	0.0	0	0.0
Over 5%	3[1]	0.0	922,249,147	24.0
Total registered	297,666	100.0	2,472,996,919[2]	64.4
Unregistered[3]			1,369,005,150	35.6
Total shares issued			**3,842,002,069**	**100.0**

1 As of 31 December 2013, Chase Nominees Ltd., London, entered as a trustee/nominee, was registered with 11.73% of all UBS shares issued. However, according to the provisions of UBS, voting rights of trustees/nominees are limited to a maximum of 5% of all UBS shares issued. The US securities clearing organization DTC (Cede & Co.), New York, was registered with 5.89% of all UBS shares issued and is not subject to this 5% voting limit as securities clearing organization. The same applies to the GIC Private Limited, Singapore, which was registered as beneficial owner with 6.39% of all UBS shares issued. 2 Of the total shares registered, 409,992,696 shares did not carry voting rights. 3 Shares not entered in the share register as of 31 December 2013.

Ownership

Ownership of UBS shares is widely spread. The tables in this section provide information about the distribution of our shareholders by category and geographical location. This information relates only to registered shareholders and cannot be assumed to be representative of our entire investor base nor the actual beneficial ownership. Only shareholders registered in the share register as "shareholders with voting rights" are entitled to exercise voting rights.

➔ **Refer to "Shareholders' participation rights" in this section for more information**

As of 31 December 2013, 2,063,004,223 shares carried voting rights, 409,992,696 shares were entered in the share register without voting rights and 1,369,005,150 shares were not registered. All shares were fully paid up and eligible for dividends. There are no preferential rights for shareholders, and no other classes of shares are issued by the Parent Bank.

At year-end 2013, we owned 73,800,252 UBS registered shares corresponding to 1.9% of the total share capital of UBS AG. At the same time, we had disposal positions relating to 284,975,843 voting rights of UBS AG, corresponding to 7.4% of the total voting rights of UBS AG. 7.0% of this consisted of voting rights on shares deliverable in respect of employee awards. The calculation methodology for the disposal position is based on the SESTO-FINMA, which sets forth that all future potential share delivery obligations irrespective of the contingent nature of the delivery must be taken into account.

Conditional share capital

At year-end 2013, the following conditional share capital was available to the Board of Directors (BoD):

- At the Annual General Meeting of Shareholders (AGM) held in 2006, the shareholders approved the creation of conditional capital in the maximum amount of 150,000,000 fully paid registered shares, with a nominal value of CHF 0.10 each, to be used for employee option grants. Options are exercisable at any time between their vesting and expiration dates. Shareholders have no pre-emptive rights. In 2013, options on 6,751,836 shares were exercised under the option plans with a total of 138,759,156 conditional capital shares being available at the end of 2013 to satisfy further exercises of options.
- At the AGM held in 2010, the shareholders approved the creation of conditional capital in the amount of up to 380,000,000 fully paid registered shares, with a nominal value of CHF 0.10 each, for the exercise of conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments by UBS or one of its group companies. Shareholders have no pre-emptive rights. The owners of conversion rights and/or warrants would be entitled to subscribe to the new shares. At year-end 2013, the BoD had not made use of the allowance to issue bonds or warrants with conversion rights covered by conditional share capital.

In 2013, the Articles of Association were amended and the allowance to issue 100,000,000 fully paid registered shares to the Swiss National Bank (SNB), which had been approved by the AGM held in 2009, was removed. These shares could have been issued in the event of the exercise of warrants granted to the SNB in connection with the loan that the SNB provided to the SNB StabFund, to which UBS transferred certain illiquid securities and other positions in 2008 and 2009. As the loan was paid back in full in 2013, the warrants were terminated and the BoD approved the reduction of the conditional capital in the amount of CHF 10,000,000.

Authorized share capital

The BoD had no authorized share capital available as of 31 December 2013, 2012 and 2011.

Conditional capital

	Maximum number of shares to be issued	Year approved by shareholder general meeting	% of shares issued
	31.12.13		31.12.13
Employee equity participation plans of UBS AG	138,759,156	2006	3.61%
Conversion rights / warrants granted in connection with bonds	380,000,000	2010	9.89%
Total	**518,759,156**		**13.50%**

Shareholders, legal entities and nominees: type and geographical distribution

	Shareholders registered	
As of 31 December 2013	Number	%
Individual shareholders	291,066	97.8
Legal entities	6,191	2.1
Nominees, fiduciaries	409	0.1
Total registered shares		
Unregistered shares		
Total	**297,666**	**100.0**

	Individual shareholders		Legal entities		Nominees		Total	
	Number	%	Number	%	Number	%	Number	%
Americas	**9,129**	**3.1**	**248**	**0.1**	**221**	**0.1**	**9,598**	**3.2**
of which: USA	*8,120*	*2.7*	*92*	*0.0*	*201*	*0.1*	*8,413*	*2.8*
Asia Pacific	**6,390**	**2.2**	**126**	**0.0**	**24**	**0.0**	**6,540**	**2.2**
Europe, Middle East and Africa	**15,871**	**5.3**	**361**	**0.1**	**91**	**0.0**	**16,323**	**5.5**
of which: Germany	*5,063*	*1.7*	*34*	*0.0*	*8*	*0.0*	*5,105*	*1.7*
of which: UK	*5,637*	*1.9*	*20*	*0.0*	*11*	*0.0*	*5,668*	*1.9*
of which: Rest of Europe	*4,877*	*1.6*	*283*	*0.1*	*71*	*0.0*	*5,231*	*1.8*
of which: Middle East and Africa	*294*	*0.1*	*24*	*0.0*	*1*	*0.0*	*319*	*0.1*
Switzerland	**259,676**	**87.2**	**5,456**	**1.9**	**73**	**0.0**	**265,205**	**89.1**
Total registered shares								
Unregistered shares								
Total	**291,066**	**97.8**	**6,191**	**2.1**	**409**	**0.1**	**297,666**	**100.0**

Shares and participation certificates

We have only one unified class of shares issued. Our shares are issued in registered form, and are traded and settled as global registered shares. Each registered share has a par value of CHF 0.10 and carries one vote subject to the restrictions set out under "Transferability, voting rights and nominee registration." Global registered shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange on which they are traded. We have no participation certificates outstanding.

➔ Refer to "UBS shares" in the "Capital management" section of this report for more information

Distributions to shareholders

The decision whether to pay a dividend, and the amount of the dividend, are dependent on our profits and cash flow generation and on our progress towards achieving our targeted capital ratios. For financial year 2013, the BoD intends to propose a dividend payment of CHF 0.25 per share against reserves from capital contribution to be voted upon by shareholders at the AGM on 7 May 2014. This is a 67% increase from last year.

Transferability, voting rights and nominee registration

We do not apply any restrictions or limitations on the transferability of shares. Voting rights may be exercised without any restrictions by shareholders entered into the share register, if they expressly render a declaration of beneficial ownership according to the provisions of the Articles of Association.

We have special provisions for the registration of fiduciaries and nominees. Fiduciaries and nominees are entered in the share register with voting rights up to a total of 5% of all issued UBS shares if they agree to disclose, upon our request, beneficial owners holding 0.3% or more of all issued UBS shares. An exception to the 5% voting limit rule exists for securities clearing organizations, such as The Depository Trust Company in New York.

➔ Refer to "Shareholders' participation rights" in this section for more information

	Shares registered	
	Number	%
	570,304,936	14.9
	756,640,328	19.7
	1,146,051,655	29.8
	2,472,996,919	64.4
	1,369,005,150	35.6
	3,842,002,069	100.0

	Individual shareholders		Legal entities		Nominees		Total	
	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%
	54,451,944	**1.4**	**48,726,206**	**1.3**	**317,367,853**	**8.3**	**420,546,003**	**10.9**
	52,106,225	*1.4*	*45,854,289*	*1.2*	*316,933,276*	*8.2*	*414,893,790*	*10.8*
	45,535,758	**1.2**	**319,831,829**	**8.3**	**11,933,493**	**0.3**	**377,301,080**	**9.9**
	73,625,900	**1.9**	**52,128,052**	**1.4**	**800,539,237**	**20.8**	**926,293,189**	**24.1**
	14,587,032	*0.4*	*5,725,348*	*0.1*	*9,001,954*	*0.2*	*29,314,334*	*0.8*
	46,191,178	*1.2*	*2,266,556*	*0.1*	*667,026,546*	*17.4*	*715,484,280*	*18.6*
	12,071,095	*0.3*	*43,597,770*	*1.2*	*124,505,737*	*3.2*	*180,174,602*	*4.7*
	776,595	*0.0*	*538,378*	*0.0*	*5,000*	*0.0*	*1,319,973*	*0.0*
	396,691,334	**10.4**	**335,954,241**	**8.7**	**16,211,072**	**0.4**	**748,856,647**	**19.5**
	570,304,936	14.9	756,640,328	19.7	1,146,051,655	29.8	2,472,996,919	64.4
	0		0		0		1,369,005,150	35.6
	570,304,936	14.9	756,640,328	19.7	1,146,051,655	29.8	3,842,002,069	100.0

Convertible bonds and options

As of 31 December 2013, there were no contingent capital securities or convertible bonds outstanding requiring the issuance of new shares.

➔ **Refer to the "Capital management" section of this report for more information on our outstanding capital instruments**

As of 31 December 2013, there were 154,636,901 employee options outstanding, including stock appreciation rights. Options and stock appreciation rights equivalent to 37,019,120 shares were in-the-money and exercisable. We source our option-based compensation plans either by purchasing UBS shares in the market, or through the issuance of new shares out of conditional capital. As mentioned above, as of 31 December 2013, 138,759,156 unissued shares in conditional share capital were available for this purpose.

Shareholders' participation rights

We are committed to shareholder participation in our decision-making process. Around 300,000 shareholders are directly registered, some 110,000 US shareholders via nominee companies. Shareholders are regularly informed about our activities and performance, as well as being personally invited to the general meetings of shareholders.

➔ **Refer to "Information policy" in this section for more information**

Since March 2013, our shareholder portal *(www.ubs.com/shareholderportal)* has allowed our registered shareholders to access personalized services and important information year-round regarding share register entries and our shareholder meetings. The shareholder portal enables registered shareholders to enter their voting instructions electronically ahead of our shareholder meetings. Shareholders can verify their voting instructions before and after the general meetings using an encryption method (cryptography). This method of encryption ensures that the voting instructions remain secret throughout the entire voting process. In addition, shareholders can order admission cards and register changes to their address details. It also enables them to manage their subscriptions to shareholder-related publications and to communicate directly with UBS Shareholder Services via a secure channel. The shareholder portal is fully integrated into our internet platform.

Relationships with shareholders

We fully subscribe to the principle of equal treatment of all shareholders, who range from large institutions to individual investors, and regularly inform them about Group developments.

The AGM offers shareholders the opportunity to raise any questions to the Board of Directors (BoD) and Group Executive Board (GEB), as well as our internal and external auditors.

Voting rights, restrictions and representation

We place no restrictions on share ownership and voting rights. However, nominee companies and trustees, who normally represent a large number of individual shareholders and may hold an unlimited number of shares, have voting rights limited to a maximum of 5% of all issued UBS shares in order to avoid the risk of unknown shareholders with large stakes being entered in the share register. Securities clearing organizations, such as The Depository Trust Company in New York, are not subject to this 5% voting limit.

In order to be recorded in the share register with voting rights, shareholders must confirm that they acquired UBS shares in their own name and for their own account. Nominee companies and trustees are required to sign an agreement confirming their willingness to disclose, upon our request, individual beneficial owners holding more than 0.3% of all issued UBS shares.

All shareholders registered with voting rights are entitled to participate in shareholder meetings. If they do not wish to attend in person, they can issue instructions to accept, reject or abstain on each individual item on the meeting agenda, either by giving instructions to an independent proxy designated by UBS or by appointing another bank or another registered shareholder of their choice to vote on their behalf. Alternatively, registered shareholders can electronically issue their voting instructions to the independent proxy using our shareholder portal. Nominee companies normally submit the proxy material to the beneficial owners and transmit the collected votes to the independent proxy.

Statutory quorums

Motions, including the election and re-election of BoD members and the appointment of the auditors, are decided at a general meeting of shareholders by an absolute majority of the votes cast, excluding blank and invalid ballots. Swiss company law requires that, for certain specific issues, a majority of two-thirds of the votes represented at a general meeting of shareholders, and the absolute majority of the par value of shares represented at the meeting, must vote in favor of the motion for it to be approved. These issues include the creation of shares with privileged voting rights, the introduction of restrictions on the transferability of registered shares, conditional and authorized capital increases, and restrictions or exclusions of shareholders' pre-emptive rights.

The Articles of Association also require a two-thirds majority of votes represented for approval of any change to their provisions regarding the number of BoD members, and any decision to remove a quarter or more of the BoD members.

Votes and elections are normally conducted electronically to ascertain the exact number of votes cast. Voting by a show of hands remains possible if a clear majority is predictable. Shareholders representing at least 3% of the votes represented may request that a vote or election takes place electronically or by written ballot. In order to allow shareholders to clearly express their views on all individual topics, each item on the agenda is put to a vote separately and BoD elections are made on a person-by-person basis.

Convocation of general meetings of shareholders

The AGM must occur within six months of the close of the financial year and normally takes place in late April or early May. A personal invitation including a detailed agenda and explanation of each motion is sent to every registered shareholder at least

20 days ahead of the scheduled AGM. The meeting agenda is also published in the Swiss Official Gazette of Commerce and in selected Swiss newspapers, as well as on the internet at *www.ubs.com/agm*.

Extraordinary General Meetings may be convened whenever the BoD or the auditors consider it necessary. Shareholders individually or jointly representing at least 10% of the share capital may at any time ask in writing for an Extraordinary General Meeting to be convened to address a specific issue put forward by them. Such a request may also be brought forward during the AGM.

Placing of items on the agenda

Pursuant to our Articles of Association, shareholders individually or jointly representing shares with an aggregate par value of CHF 62,500 may submit proposals for matters to be placed on the agenda for consideration at the next shareholders' meeting.

We publish the deadline for submitting such proposals in the Swiss Official Gazette of Commerce and on our website at *www.ubs.com/agm.* Requests for items to be placed on the agenda must include the actual motions to be put forward, together with a short explanation, if necessary. The BoD formulates opinions on the proposals, which are published together with the motions.

Registrations in the share register

The general rules for entry with voting rights into our Swiss share register also apply before shareholder meetings. The same rules apply for our US transfer agent that operates the US share register for all UBS shares in a custodian account in the US. There is no closing of the share register in the days before the shareholder meeting. Registrations, including the transfer of voting rights, are processed for as long as technically possible, normally until two days before the shareholder meeting.

Board of Directors

The Board of Directors (BoD), under the leadership of the Chairman, decides on the strategy of the Group upon recommendation of the Group Chief Executive Officer (Group CEO), exercises ultimate supervision over senior management, and appoints all Group Executive Board (GEB) members. The BoD also approves all financial statements for issue. Shareholders elect each member of the BoD, which in turn appoints its Chairman, Vice Chairmen, Senior Independent Director, members of BoD committees, their respective Chairpersons and the Company Secretary.

Members of the Board of Directors

On 12 March 2013, the BoD announced that Reto Francioni, CEO of Deutsche Börse AG since 2005, would be nominated for election to the BoD at the 2013 AGM, and Wolfgang Mayrhuber would not stand for re-election on that date. At the AGM held on 2 May 2013, Axel A. Weber, Michel Demaré, David Sidwell, Rainer-Marc Frey, Ann F. Godbehere, Axel P. Lehmann, Helmut Panke, William G. Parrett, Isabelle Romy, Beatrice Weder di Mauro and Joseph Yam were re-elected as their terms of office expired. Reto Francioni was elected to his first term of office. Following their election, the BoD appointed Axel A. Weber as Chairman, Michel Demaré as Vice Chairman and David Sidwell as Senior Independent Director.

The following biographies provide information on the BoD members and the Company Secretary.

Axel A. Weber
German, born 8 March 1957
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
Chairman of the Board of Directors / Chairperson of the Corporate Responsibility Committee / Chairperson of the Governance and Nominating Committee

Year of initial appointment: 2012

Professional history and education
Axel A. Weber was elected to the Board of Directors (BoD) at the 2012 AGM and was thereafter appointed Chairman of the BoD. He has chaired the Governance and Nominating Committee since 2012 and became Chairperson of the Corporate Responsibility Committee in 2013. Mr. Weber was president of the German Bundesbank between 2004 and 2011, during which time he also served as a member of the Governing Council of the European Central Bank, a member of the Board of Directors of the Bank for International Settlements, German governor of the International Monetary Fund, and as a member of the G7 and G20 Ministers and Governors. He was a member of the steering committees of the European Systemic Risk Board in 2011 and the Financial Stability Board from 2010 to 2011. On leave from the University of Cologne from 2004 to 2012, he was a visiting professor at the University of Chicago Booth School of Business from 2011 to 2012. From 2002 to 2004, Mr. Weber served as a member of the German Council of Economic Experts. He was a professor of international economics and Director of the Center for Financial Research at the University of Cologne from 2001 to 2004, and a professor of monetary economics and Director of the Center for Financial Studies at the Goethe University in Frankfurt / Main from 1998 to 2001. From 1994 to 1998, he was a professor of economic theory at the University of Bonn. Mr. Weber holds a PhD in economics from the University of Siegen, where he also received his habilitation. He graduated with a master's degree in economics at the University of Constance and holds honorary doctorates from the universities of Duisburg-Essen and Constance.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Weber is a board member of the Institute of International Finance and the International Monetary Conference. He is a member of the European Banking Group, the European Financial Services Roundtable and the Group of Thirty, Washington, DC. He is a research fellow at the Center for Economic Policy Research in London and at the Center for Financial Research in Cologne. He is a senior research fellow at the Center for Financial Studies in Frankfurt / Main and a member of the Monetary Economics and International Economics Councils of the leading association of German-speaking economists, the Verein für Socialpolitik. He is a member of the Advisory Board of the German Market Economy Foundation and a member of the Advisory Board of the Department of Economics at the University of Zurich. He is also a member of the IMD Foundation Board in Lausanne and a member of the International Advisory Panel of the Monetary Authority of Singapore.

Michel Demaré

Belgian, born 31 August 1956
Syngenta International AG, Schwarzwaldallee 215, CH-4058 Basel

Functions in UBS
Independent Vice Chairman / member of the Audit Committee / member of the Governance and Nominating Committee / member of the Human Resources and Compensation Committee

Year of initial appointment: 2009

Professional history and education
Michel Demaré was elected to the BoD at the 2009 AGM, and in April 2010, was appointed independent Vice Chairman. He has been a member of the Audit Committee since 2009 and the Governance and Nominating Committee since 2010. He became a member of the Human Resources and Compensation Committee in 2013. Mr. Demaré joined ABB in 2005 as Chief Financial Officer (CFO) and as a member of the Group Executive Committee. He stepped down from his function in ABB in January 2013. Between February and August 2008, he acted as the interim CEO of ABB. From September 2008 to March 2011, he combined his role as CFO with that of President of Global Markets. Mr. Demaré joined ABB from Baxter International Inc., where he was CFO Europe from 2002 to 2005. Prior to this, he spent 18 years at the Dow Chemical Company, holding various treasury and risk management positions in Belgium, France, the US and Switzerland. Between 1997 and 2002, Mr. Demaré was CFO of the Global Polyolefins and Elastomers division. He began his career as an officer in the multinational banking division of Continental Illinois National Bank of Chicago, and was based in Antwerp. Mr. Demaré graduated with an MBA from the Katholieke Universiteit Leuven, Belgium, and holds a degree in applied economics from the Université Catholique de Louvain, Belgium.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Demaré is Chairman of the Board of Syngenta. He is a member of the IMD Supervisory Board in Lausanne and Chairman of SwissHoldings in Berne. He is Chairman of the Syngenta Foundation for Sustainable Agriculture and a member of the Advisory Board of the Department of Banking and Finance at the University of Zurich.

David Sidwell
American (US) and British, born 28 March 1953
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
Senior Independent Director / Chairperson of the Risk Committee / member of the Governance and Nominating Committee

Year of initial appointment: 2008

Professional history and education
David Sidwell was elected to the BoD at the 2008 AGM. In April 2010, he was appointed Senior Independent Director. He has chaired the Risk Committee since 2008 and has been a member of the Governance and Nominating Committee since 2011. Mr. Sidwell was Executive Vice President and CFO of Morgan Stanley between 2004 and 2007. Before joining Morgan Stanley he worked for JPMorgan Chase & Co., where, in his 20 years of service, he held a number of different positions, including controller and, from 2000 to 2004, CFO of the Investment Bank. Prior to this, he was with Price Waterhouse in both London and New York. Mr. Sidwell graduated from Cambridge University and qualified as a chartered accountant with the Institute of Chartered Accountants in England and Wales.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Sidwell is a director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington, DC, and is a senior advisor at Oliver Wyman, New York. He is Chairman of the Board of Village Care, New York, and is a director of the National Council on Aging, Washington, DC.

Reto Francioni

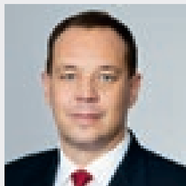
Swiss, born 18 August 1955
Deutsche Börse AG, D-60485 Frankfurt am Main

Function in UBS
Member of the Corporate Responsibility Committee

Year of initial appointment: 2013

Professional history and education
Reto Francioni was elected to the BoD at the 2013 AGM and became a member of the Corporate Responsibility Committee. He has been CEO of Deutsche Börse AG since 2005. Since 2006, he has been a professor of applied capital markets theory at the University of Basel. From 2002 to 2005, he was Chairman of the Supervisory Board and President of the SWX Group, Zurich. Mr. Francioni was co-CEO and Spokesman for the Board of Directors of Consors AG, Nuremberg, from 2000 to 2002. Between 1993 and 2000, he held various management positions at Deutsche Börse AG, including that of Deputy CEO from 1999 to 2000. From 1992 to 1993, he served in the corporate finance division of Hoffmann-La Roche, Basel. Prior to this, he worked for several years for Association Tripartite Bourses and, from 1985 to 1988, for the former Credit Suisse, holding positions in the equity sales and legal departments. He started his professional career in 1981 in the commerce division of Union Bank of Switzerland. Mr. Francioni completed his studies in law in 1981 and his PhD in 1987 at the University of Zurich.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Francioni is a member of the Shanghai International Financial Advisory Committee and of the Advisory Board of Moscow International Financial Center. He also serves as a member of the International Advisory Board of the Instituto de Empresa and of the Board of Trustees of Goethe Business School. Mr. Francioni is a member of the Steering Committee of the Project "Role of Financial Services in Society," World Economic Forum, and a member of the Franco-German Roundtable. He is a member of the Strategic Advisory Group of VHV Insurance. Mr. Francioni holds various mandates on the boards of Deutsche Börse Group subsidiaries.



Rainer-Marc Frey
Swiss, born 10 January 1963
Office of Rainer-Marc Frey, Seeweg 39,
CH-8807 Freienbach

Functions in UBS
Member of the Human Resources and Compensation Committee / member of the Risk Committee

Year of initial appointment: 2008

Professional history and education
Rainer-Marc Frey was elected to the BoD at the October 2008 Extraordinary General Meeting and has been a member of the Human Resources and Compensation Committee since 2012 and of the Risk Committee since 2008. Mr. Frey is the founder of the investment management company Horizon21 AG. He is Chairman of Horizon21 AG as well as its holding company and related entities and subsidiaries. In 2013, he led the buy-out of Lonrho plc on the London Stock Exchange and became the majority shareholder of this now privately held company. In 1992, he founded and was appointed CEO of RMF Investment Group. RMF was acquired by Man Group plc in 2002. Between 2002 and 2004, he held a number of senior roles within Man Group. From 1989 to 1992, Mr. Frey served as a director at Salomon Brothers in Zurich, Frankfurt and London, where he was primarily involved with equity derivatives. Between 1987 and 1989, he worked for Merrill Lynch covering equity, fixed income and swaps markets. Mr. Frey holds a degree in economics from the University of St. Gallen.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Frey is a member of the board of DKSH Group, Zurich, as well as of the Frey Charitable Foundation, Freienbach. He is Chairman of Lonrho Holdings Ltd. and Vice Chairman of its operating company.

Ann F. Godbehere
Canadian and British, born 14 April 1955
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
Chairperson of the Human Resources and Compensation Committee / member of the Audit Committee

Year of initial appointment: 2009

Professional history and education
Ann F. Godbehere was elected to the BoD at the 2009 AGM. She has chaired the Human Resources and Compensation Committee since 2011 and has been a member of the Audit Committee since 2009. Ms. Godbehere was appointed CFO and Executive Director of Northern Rock in February 2008, serving in these roles during the initial phase of the business's public ownership until the end of January 2009. Prior to this role, she served as CFO of Swiss Re Group from 2003 to 2007. Ms. Godbehere was CFO of its Property & Casualty division in Zurich for two years. Prior to this, she served as CFO of the Life & Health division in London for three years. From 1997 to 1998, she was CEO of Swiss Re Life & Health in Canada. Between 1996 and 1997, she was CFO of Swiss Re Life & Health North America. Ms. Godbehere is a certified general accountant and, in 2003, was made a fellow of the Certified General Accountants Association of Canada.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Ms. Godbehere is a board member and Chairperson of the audit committees of Prudential plc, Rio Tinto plc and Rio Tinto Limited in London. She is on the board of Atrium Underwriters Ltd. and Atrium Underwriting Group Ltd., London, and chairs the audit committee. She is also a member of the boards of Arden Holdings Ltd., Bermuda, and of British American Tobacco plc.

Axel P. Lehmann
Swiss, born 23 March 1959
Zurich Insurance Group, Mythenquai 2,
CH-8002 Zurich

Function in UBS
Member of the Risk Committee

Year of initial appointment: 2009

Professional history and education
Axel P. Lehmann was elected to the BoD at the 2009 AGM and has been a member of the Risk Committee since 2009. He is a member of the Group Executive Committee of Zurich Insurance Group (Zurich) and has been Group Chief Risk Officer since January 2008 and Regional Chairman Europe since October 2011. In July 2011, he was appointed Chairman of the Board of Farmers Group, Inc., and was responsible for Group IT from 2008 to 2010. In September 2004, Mr. Lehmann was appointed CEO of Zurich American Insurance Company and the North America Commercial business division in Schaumburg, Illinois. He became a member of Zurich's Group Executive Committee and CEO of its Continental Europe business division in 2002 and, in 2004, was responsible for integrating it with UK, Ireland and South Africa. In 2001, he took over responsibility for Northern, Central and Eastern Europe and was appointed CEO of Zurich Group Germany. In 2000, Mr. Lehmann became a member of the Group Management Board with responsibility for group-wide business development functions. Mr. Lehmann holds a PhD and a master's degree in business administration and economics from the University of St. Gallen. He is also a graduate of the Wharton Advanced Management Program and an honorary professor of business administration and service management at the University of St. Gallen.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Lehmann is Chairman of the Board of the Institute of Insurance Economics at the University of St. Gallen, and is a former Chairman and member of the Chief Risk Officer Forum and a board member of Economiesuisse.

Helmut Panke
German, born 31 August 1946
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
Member of the Human Resources and Compensation Committee / member of the Risk Committee

Year of initial appointment: 2004

Professional history and education
Helmut Panke was elected to the BoD at the 2004 AGM. He has been a member of the Human Resources and Compensation Committee and the Risk Committee since 2008. Between 2002 and 2006, Mr. Panke was Chairman of the Board of Management of BMW Group after becoming a member of BMW's Board of Management in 1996. Between 1993 and 1996, he was Chairman and CEO of BMW Holding Corporation in the US. Subsequent to joining BMW as Head of Planning and Controlling, Research and Development in 1982, he assumed management functions in corporate planning, organization and corporate strategy. Prior to this, he worked as a consultant at McKinsey & Company in both Düsseldorf and Munich. Mr. Panke graduated from the University of Munich with a PhD in physics, and undertook research work at both the University of Munich and the Swiss Institute for Nuclear Research.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Panke is a member of the boards of Microsoft Corporation (Chairperson of the Regulatory and Public Policy Committee) and Singapore Airlines Ltd. (Chairperson of the Safety & Risk Committee). He is a member of the supervisory board of Bayer AG.

William G. Parrett
American (US), born 4 June 1945
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
Chairperson of the Audit Committee / member of the Corporate Responsibility Committee

Year of initial appointment: 2008

Professional history and education
William G. Parrett was elected to the BoD at the October 2008 Extraordinary General Meeting. He has chaired the Audit Committee since 2009 and has been a member of the Corporate Responsibility Committee since 2012. Mr. Parrett served his entire career with Deloitte Touche Tohmatsu. He was CEO from 2003 until his retirement in 2007. Between 1999 and 2003, he was a Managing Partner of Deloitte & Touche USA LLP and served on Deloitte's Global Executive Committee between 1999 and 2007. Mr. Parrett founded Deloitte's US National Financial Services Industry Group in 1995 and its Global Financial Services Industry Group in 1997, both of which he led as Chairman. In his 40 years of experience in professional services, Mr. Parrett served public, private, governmental, and state-owned clients worldwide. Mr. Parrett has a bachelor's degree in accounting from St. Francis College, New York, and is a certified public accountant.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Parrett is on the boards of the Eastman Kodak Company, the Blackstone Group LP, and Thermo Fisher Scientific Inc., and chairs each company's audit committee. He is also on the board of iGATE. He is Past Chairman of the Board of the United States Council for International Business and United Way Worldwide, and a Carnegie Hall Board of Trustees member.

Isabelle Romy
Swiss, born 4 January 1965
Froriep, Bellerivestrasse 201, CH-8034 Zurich

Functions in UBS
Member of the Audit Committee / member of the Governance and Nominating Committee

Year of initial appointment: 2012

Professional history and education
Isabelle Romy was elected to the BoD at the 2012 AGM. She has been a member of the Audit Committee and the Governance and Nominating Committee since 2012. Ms. Romy is a partner at Froriep, a large Swiss business law firm. From 1995 to 2012, she worked for another major Swiss law firm based in Zurich, where she was a partner from 2003 to 2012. Her legal practice includes litigation and arbitration in cross-border cases. Ms. Romy has been an associate professor at the University of Fribourg and at the Federal Institute of Technology in Lausanne (EPFL) since 1996. Between 2003 and 2008, she served as a deputy judge at the Swiss Federal Supreme Court. From 1999 to 2006, she was a member of the Ethics Commission at the EPFL. Ms. Romy completed her PhD (Dr. iur.) at the University of Lausanne in 1990 and has been a qualified attorney-at-law admitted to the bar since 1991. From 1992 to 1994, she was a visiting scholar at Boalt Hall School of Law, University of California, Berkeley, and completed her professorial thesis at the University of Fribourg in 1996.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Ms. Romy has been a member of the sanction commission of SIX Swiss Exchange since 2002, serving as Vice Chairman since 2008.

Beatrice Weder di Mauro

Italian and Swiss, born 3 August 1965
Johannes Gutenberg University Mainz,
Jakob Welder-Weg 4, D-55099 Mainz

Functions in UBS
Member of the Audit Committee / member of the Risk Committee

Year of initial appointment: 2012

Professional history and education
Beatrice Weder di Mauro was elected to the BoD at the 2012 AGM. She has been a member of the Audit Committee since 2012 and became a member of the Risk Committee in 2013. She has been a professor of economics, economic policy and international macroeconomics at the Johannes Gutenberg University of Mainz since 2001. Ms. Weder di Mauro was a member of the German Council of Economic Experts from 2004 to 2012. In 2010, she was a resident scholar at the International Monetary Fund (IMF) in Washington, DC, and, in 2006, a visiting scholar at the National Bureau of Economic Research, Cambridge, MA. Since 2003, Ms. Weder di Mauro has been a research fellow of the Center for Economic Policy Research in London. She was an associate professor of economics at the University of Basel between 1998 and 2001 and a research fellow at the United Nations University in Tokyo from 1997 to 1998. Prior to this, she worked as an economist for the World Bank and the IMF in Washington, DC. Ms. Weder di Mauro completed her PhD in economics at the University of Basel in 1993 and received her habilitation there in 1999.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Ms. Weder di Mauro is on the boards of Roche Holding Ltd., Basel, and Robert Bosch GmbH, Stuttgart. She is a member of the Corporate Governance Commission of the German Government and the Expert Group of European Commission on Debt Redemption Fund and Eurobills.

Joseph Yam

Chinese and Hong Kong citizen,
born 9 September 1948
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
Member of the Corporate Responsibility Committee / member of the Risk Committee

Year of initial appointment: 2011

Professional history and education
Joseph Yam was elected to the BoD at the 2011 AGM. He has been a member of the Corporate Responsibility Committee and the Risk Committee since 2011. He is Executive Vice President of the China Society for Finance and Banking and in that capacity has served as an advisor to the People's Bank of China since 2009. Mr. Yam was instrumental in the establishment of the Hong Kong Monetary Authority and served as Chief Executive from 1993 until his retirement in 2009. He began his career in Hong Kong as a statistician in 1971 and served the public for over 38 years. During his service, he occupied several positions such as Director of the Office of the Exchange Fund from 1991, Deputy Secretary for Monetary Affairs from 1985 and Principal Assistant Secretary for Monetary Affairs from 1982. Mr. Yam graduated from the University of Hong Kong in 1970 with first class honors in social sciences. He holds honorary doctorate degrees and professorships from a number of universities in Hong Kong and overseas. Mr. Yam is a Distinguished Research Fellow of the Institute of Global Economics and Finance at the Chinese University of Hong Kong.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Yam sits on the international advisory councils of a number of government and academic institutions. He is on the boards of Johnson Electric Holdings Limited and UnionPay International Co., Ltd.

Company Secretary

Luzius Cameron

Australian and Swiss, born 11 September 1955
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Function in UBS
Company Secretary since 2005

Professional history and education
Luzius Cameron was appointed Company Secretary by the BoD for the first time in 2005. He is a Group Managing Director and was appointed to the former Group Managing Board in 2002. From 2002 to 2005, Mr. Cameron was the Director of Strategic Planning and New Business Development, Wealth Management USA. Prior to this role, he was Head of Group Strategic Analysis, and before that, Head of Corporate Business Analysis. Mr. Cameron joined Swiss Bank Corporation in 1989, where he started out in Corporate Controlling before assuming a number of senior roles at Warburg Dillon Read, including Chief of Staff to the Chief Operating Officer in London and Business Manager of the Global Rates Business in Zurich. From 1984 to 1989, he was a lecturer in astrophysics at the University of Basel. Between 1980 and 1989, he was a research analyst at the Institute of Astronomy at the University of Basel and European Southern Observatory. Mr. Cameron holds a PhD in astrophysics from the University of Basel.

Elections and terms of office

In accordance with article 19 para. 1 of the Articles of Association, all BoD members are to be elected on an individual basis for a one-year term of office. As a result, shareholders must confirm the entire membership of the BoD on a yearly basis at the AGM, which will next take place on 7 May 2014.

BoD members are normally expected to serve for a minimum of three years. No BoD member can serve for more than 10 consecutive terms of office or continue to serve beyond the AGM held in the calendar year following their 70th birthday. In exceptional circumstances the BoD can extend both these limits.

Organizational principles and structure

Following each AGM, the BoD meets to appoint its Chairman, Vice Chairmen, Senior Independent Director, BoD committee members and their respective Chairpersons. At the same meeting, the BoD appoints a Company Secretary, who acts as secretary to the BoD and its committees.

According to the Articles of Association, the BoD meets as often as business requires, but must meet at least six times a year. In 2013, a total of 22 meetings were held, eight times with the presence of GEB members and 14 times for meetings and calls without GEB participation. On average, 95% of BoD members were present at BoD meetings without GEB participation, and 97% at meetings with GEB participation. The average duration of these meetings and calls was 165 minutes. In addition, the BoD met for a one-day seminar.

At every BoD meeting, each committee chairperson provides the BoD with updates on current activities of his or her committee as well as important committee issues.

At least once per year, the BoD reviews its own performance as well as the performance of each of its committees. This review is based on an assessment of the BoD under the auspices of the Governance and Nominating Committee, as well as a self-assessment of the BoD committees, and seeks to determine whether the BoD and its committees are functioning effectively and efficiently. The last BoD committees' assessment was conducted by a third party and was completed in spring 2013. It concluded that the BoD is operating effectively. The next assessment will be conducted again as a self-assessment and will be completed in spring 2014.

The committees listed below assist the BoD in the performance of its responsibilities. These committees and their charters are described in the Organization Regulations, published at *www.ubs.com/governance*.

Audit Committee

The Audit Committee is comprised of five BoD members, with all members having been determined by the BoD to be fully independent and financially literate. On 31 December 2013, William G. Parrett chaired the Audit Committee with Michel Demaré, Ann F. Godbehere, Isabelle Romy and Beatrice Weder di Mauro as additional members. All members have accounting or related financial management expertise and the majority qualify as a "financial expert" under the rules established pursuant to the US Sarbanes-Oxley Act of 2002.

The Audit Committee itself does not perform audits, but monitors the work of the external auditors, Ernst & Young Ltd (EY), who in turn are responsible for auditing UBS AG's and UBS Group's annual financial statements and for reviewing the quarterly financial statements.

The function of the Audit Committee is to serve as an independent and objective body with oversight of the following: (i) UBS AG's and UBS Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) UBS AG's and UBS Group's compliance with financial reporting requirements, (iv) the senior management's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance and (v) the performance of Group Internal Audit in conjunction with the Chairman and the Risk Committee. For these purposes, the Audit Committee has the authority to meet with regulators and external bodies in consultation with the Group CEO. Senior management is responsible for the preparation, presentation and integrity of the financial statements.

The Audit Committee reviews the annual and quarterly financial statements of UBS AG and UBS Group, as proposed by management, with the external auditors and Group Internal Audit in order to recommend their approval (including any adjustments the Audit Committee considers appropriate) to the BoD.

Periodically, and at least annually, the Audit Committee assesses the qualifications, expertise, effectiveness, independence and performance of the external auditors and their lead audit partner, in order to support the BoD in reaching a decision in relation to the appointment or dismissal of the external auditors and the rotation of the lead audit partner. The BoD then submits these proposals for approval at the AGM.

During 2013, the Audit Committee held a total of eight meetings and 10 telephone conferences. The meetings had an average duration of four hours and the telephone conferences lasted approximately one hour each. Participation was 97%. Also present at the meetings were the Chairman, the Group CEO, the Group Chief Financial Officer (Group CFO), the Head of Group Internal Audit, the Group Finance Chief Operating Officer, the Group Controller as well as EY (for the agenda items appropriate to them). The conference calls were conducted in the presence of the Audit Committee members, the Group CFO and selected management members. In 2013, eight joint Audit Committee/Risk Committee sessions were held. The Audit Committee held a session with FINMA in early 2014.

The Audit Committee reports to the BoD about its discussions with our external auditors. Once per year, the lead representatives of our external auditors present their long-form report to the BoD, as required by FINMA.

The NYSE listing standards on corporate governance set more stringent independence requirements for members of audit com-

mittees than for the other members of the BoD. Each of the five members of our Audit Committee is an external BoD member who, in addition to satisfying our independence criteria, does not receive, directly or indirectly, any consulting, advisory or other compensatory fees from UBS other than in his or her capacity as a BoD member, does not hold, directly or indirectly, UBS shares in excess of 5% of the outstanding capital and (except as noted below) does not serve on the audit committees of more than two other public companies. The NYSE listing standards on corporate governance allow for an exemption for audit committee members to serve on more than three audit committees of public companies, provided that all BoD members determine that the candidate has the time and the availability to fulfill his or her obligations. Considering the credentials of William G. Parrett and Ann F. Godbehere, the BoD has granted this exemption in their cases.

Corporate Responsibility Committee

The Corporate Responsibility Committee supports the BoD in fulfilling its duty to safeguard and advance the Group's reputation for responsible corporate conduct. It reviews and assesses stakeholder concerns and expectations for responsible corporate conduct and their possible consequences for UBS, and recommends appropriate actions to the BoD. The majority of the Corporate Responsibility Committee's members must be independent. On 31 December 2013, the Corporate Responsibility Committee was chaired by Axel A. Weber, with independent BoD members Reto Francioni, William G. Parrett and Joseph Yam as additional members. The Corporate Responsibility Committee is advised and supported by a number of senior business representatives. It met three times for 75 minutes on average in 2013, and 100% of the Corporate Responsibility Committee members were present.

➔ **Refer to the "Corporate responsibility" section of this report for more information**

Governance and Nominating Committee

The Governance and Nominating Committee supports the BoD in fulfilling its duty to establish best practices in corporate governance across the Group, to conduct a BoD annual self-assessment, to establish and maintain a process for appointing new BoD and GEB members (in the latter case, upon proposal by the Group CEO), and to manage the succession planning of all GEB members. The Governance and Nominating Committee comprises three independent BoD members and, on 31 December 2013, was chaired by Axel A. Weber, with Michel Demaré, Isabelle Romy and David Sidwell as additional members. In 2013, eight meetings and one telephone conference were held, with a 100% participation rate and a duration averaging one hour. One meeting was held with external advisors.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee is responsible for the following functions: (i) supporting the BoD in its duties to set guidelines on compensation and benefits, (ii) approving the total compensation for the Chairman and the non-independent BoD members, (iii) evaluating, in consultation with the Chairman, the performance of the Group CEO and other GEB members in meeting agreed goals and objectives as well as informing the Governance and Nominating Committee of the outcome of the performance evaluation of the Group CEO, (iv) proposing, together with the Chairman, total individual compensation for the independent BoD members and Group CEO for approval by the BoD and (v) proposing to the BoD for approval, upon recommendation of the Group CEO, the total individual compensation for GEB members. The Human Resources and Compensation Committee also reviews the compensation disclosure included in this report.

The Human Resources and Compensation Committee comprises four independent BoD members and, on 31 December 2013, Ann F. Godbehere chaired it with Michel Demaré, Rainer-Marc Frey and Helmut Panke as additional members. In 2013, seven meetings and five telephone conferences were held with an average duration of 100 minutes and a participation rate of 94%. All meetings were conducted with the presence of external advisors, the Chairman and Group CEO.

➔ **Refer to "Our Total Reward Principles and compensation governance" in the "Compensation" section of this report for more information on the Human Resources and Compensation Committee's decision-making procedures**

Risk Committee

The Risk Committee is responsible for overseeing and supporting the BoD in fulfilling its duty to supervise and set appropriate risk management and control principles in the following areas: (i) risk management and control, including credit, market, country, legal and operational risks, (ii) treasury and capital management, including funding, liquidity and equity attribution and (iii) balance sheet management. The Risk Committee considers the potential effects of the aforementioned risks on the Group's reputation. For these purposes, the Risk Committee receives all relevant information from the GEB and has the authority to meet with regulators and external bodies in consultation with the Group CEO. On 31 December 2013, the Risk Committee comprised six independent BoD members. David Sidwell chaired the Risk Committee with Rainer-Marc Frey, Axel P. Lehmann, Helmut Panke, Beatrice Weder di Mauro and Joseph Yam as additional members. During 2013, the Risk Committee held a total of eight meetings and three calls, with an average member participation rate of 95%. The average meeting duration was six hours and the calls lasted approximately two hours on average.

The Audit Committee Chairperson regularly attended part or all of the Risk Committee meetings. In 2013, the Chairman, the Group CEO, the Group CFO, the Group Chief Risk Officer, the Group General Counsel, the CEO of the Investment Bank, the Group Treasurer, the Head Group Internal Audit and EY were also regularly present. In addition, the Risk Committee and Human Resources and Compensation Committee met to jointly discuss topics on which they have shared responsibility. Annually, one session is held with the Governing Board of the SNB and one

with FINMA. One meeting was held with the Federal Reserve Bank of New York and the Connecticut Department of Banking. In addition, the Risk Committee Chairperson meets at least once a year with the UK Prudential Regulation Authority and Financial Conduct Authority.

Ad-hoc Strategy Committee

In 2013, the ad-hoc committee on strategy (the Strategy Committee) focused on the agreed upon UBS strategy and the ongoing resolution and recovery program. On 31 December 2013, the Strategy Committee comprised five BoD members. Axel A. Weber chaired the Strategy Committee with Michel Demaré, Reto Francioni, Rainer-Marc Frey and David Sidwell as additional members. One telephone conference and two meetings were held with an average duration of 40 minutes and a participation rate of 100%. All these events were attended by the Group CEO and Group CFO.

Ad-hoc Special Committee

In 2013, the BoD created an ad-hoc Special Committee, composed of three independent BoD members, focusing on certain specific litigation and regulatory matters. On 31 December 2013, David Sidwell chaired the Special Committee with Isabelle Romy and Joseph Yam as additional members. The Special Committee held two meetings and five telephone conferences in 2013, which were attended by all the Special Committee members. The meetings and calls lasted on average 100 minutes.

Roles and responsibilities of the Chairman of the Board of Directors

Axel A. Weber, the Chairman of the BoD, has entered into a full-time employment contract with UBS in connection with his service on the BoD.

The Chairman coordinates tasks within the BoD, calls BoD meetings and sets their agendas. Under the leadership of the Chairman, the BoD decides on the strategy of the Group upon the recommendation of the Group CEO, exercises ultimate supervision over management and appoints all GEB members.

The Chairman presides over all general meetings of shareholders, and works with the committee chairpersons to coordinate the work of all BoD committees. Together with the Group CEO, the Chairman is responsible for ensuring effective communication with shareholders and other stakeholders, including government officials, regulators and public organizations. This is in addition to establishing and maintaining a close working relationship with the Group CEO and other GEB members, and providing advice and support when appropriate.

Roles and responsibilities of the Vice Chairmen and the Senior Independent Director

The BoD appoints one or more Vice Chairmen and a Senior Independent Director. If the BoD appoints more than one Vice Chairman, one of them must be independent. Michel Demaré has been appointed as Vice Chairman and David Sidwell has been appointed as Senior Independent Director. A Vice Chairman is required to lead the BoD in the absence of the Chairman and to provide support and advice to the Chairman. At least twice a year, the Senior Independent Director organizes and leads a meeting of the independent BoD members in the absence of the Chairman. In 2013, two independent BoD meetings were held with an average duration of 75 minutes. The Senior Independent Director relays any issues or concerns of independent BoD members to the Chairman and acts as a contact point for shareholders and stakeholders wishing to engage in discussions with an independent BoD member.

Important business connections of independent members of the Board of Directors with UBS

As a global financial services provider and a major bank in Switzerland, we have business relationships with many large companies, including those in which our BoD members assume management or independent board responsibilities. The Governance and Nominating Committee determines whether the nature of the relationships between us and the companies whose chair, chief executive or other officer is a member of our BoD compromises or not his or her capacity for independent judgment.

Our Organization Regulations require three-quarters of the BoD members to be independent. As a general rule, for a BoD member to be considered independent, he or she may not have a material relationship with UBS or one of its subsidiaries, either directly or as a partner, controlling shareholder or executive officer of a company that has a relationship with us. In addition, in order to be considered independent, our BoD members have to fulfill the additional criteria our BoD has established based on the requirements set forth in the NYSE listing standards on corporate governance, the FINMA Circular 08/24 on the supervision and internal controls at banks, and the standards established in the Swiss Code of Best Practice for Corporate Governance. These criteria, together with a definition of what constitutes a material relationship, are published on our website at *www.ubs.com/governance.*

In 2013, our BoD met the standards of the Organization Regulations for the percentage of directors that are considered independent under the criteria described above. Due to our Chairman's full-time employment by UBS, he is not considered independent.

All relationships and transactions with UBS's independent BoD members are conducted in the ordinary course of business, and are on the same terms as those prevailing at the time for comparable transactions with non-affiliated persons. All relationships and transactions with BoD members' associated companies are conducted at arm's length.

➔ **Refer to "Note 34 Related parties" in the "Financial information" section of this report for more information**

Checks and balances: Board of Directors and Group Executive Board

We operate under a strict dual board structure, as mandated by Swiss banking law. The separation of responsibilities between the BoD and the GEB is clearly defined in the Organization Regulations. The BoD decides on the strategy of the Group upon the recommendation of the Group CEO, and supervises and monitors the business, whereas the GEB, headed by the Group CEO, has executive management responsibility. The functions of Chairman of the BoD and Group CEO are assigned to two different people, ensuring a separation of power. This structure establishes checks and balances and preserves the institutional independence of the BoD from the day-to-day management of the Group, for which responsibility is delegated to the GEB under the leadership of the Group CEO. No member of one board may be a member of the other.

Supervision and control of the GEB remains with the BoD. The authorities and responsibilities of the two bodies are governed by the Articles of Association and the Organization Regulations, including the latter document's "Annex B – Responsibilities and authorities."

➔ **Refer to www.ubs.com/governance for more information on checks and balances for the Board of Directors and Group Executive Board**

Information and control instruments vis-à-vis the Group Executive Board

The BoD is kept informed of the activities of the GEB in various ways, including minutes of GEB meetings being made available to the BoD. The Group CEO and other GEB members also regularly update the BoD on important issues at BoD meetings.

At BoD meetings, BoD members may request from BoD or GEB members any information about matters concerning UBS that they require to fulfill their duties. Outside meetings, BoD members may request information from other BoD and GEB members, in which case such requests must be approved by the Chairman.

Group Internal Audit independently, objectively and systematically assesses the adherence to our strategy, the effectiveness of governance, risk management and control processes at Group, divisional and regional levels, and monitors compliance with legal, regulatory and statutory requirements, as well as with internal policies and contracts. This internal audit organization has a functional reporting line to the Risk Committee and the Audit Committee in line with their responsibilities as set forth in our Organization Regulations. The Risk Committee and the Audit Committee together approve the appropriateness of Group Internal Audit's annual audit plan and annual audit objectives and must be in regular contact with the Head Group Internal Audit. Both committees and the Chairman are provided with written reports from Group Internal Audit including an annual report summarizing the function's activities and significant audit results.

Our compliance function provided an annual compliance report to the BoD in March 2013. This report is required by section 112 of the FINMA Circular 08/24 on the supervision and internal controls at banks.

➔ **Refer to the "Risk management and control" section of this report for more information**

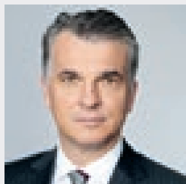
Group Executive Board

UBS operates under a strict dual board structure, as required by Swiss banking law. The management of the business is delegated by the BoD to the Group Executive Board (GEB).

Members of the Group Executive Board and changes in 2013

In spring 2013, the GEB decided that the role of the Corporate Center Chief Executive Officer would be eliminated and all responsibilities and authorities pertaining to that role would be assumed by the Group Chief Operating Officer (Group COO). On 5 December 2013, changes to the GEB and Corporate Center structure were announced. John Fraser, Chairman and CEO Global Asset Management since 2001, retired from his CEO role on 31 December 2013. Ulrich Körner assumed the role of CEO Global Asset Management and Tom Naratil, currently Group Chief Financial Officer (CFO), was also appointed Group COO, effective on 1 January 2014.

The following biographies provide information on the GEB members.



Sergio P. Ermotti
Swiss, born 11 May 1960
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Function in UBS
Group Chief Executive Officer

Year of initial appointment: 2011

Professional history and education
Sergio P. Ermotti was appointed Group Chief Executive Officer in November 2011, having held the position of Group Chief Executive Officer on an interim basis since September 2011. Mr. Ermotti became a member of the GEB in April 2011 and was Chairman and CEO of UBS Group Europe, Middle East and Africa from April to November 2011. From 2007 to 2010, he was Group Deputy Chief Executive Officer at UniCredit, Milan, and was responsible for the strategic business areas of Corporate and Investment Banking, and Private Banking. He joined UniCredit in 2005 as Head of Markets & Investment Banking Division. Between 2001 and 2003, he worked at Merrill Lynch, serving as co-Head of Global Equity Markets and as a member of the Executive Management Committee for Global Markets & Investment Banking. He began his career with Merrill Lynch in 1987, and held various positions within equity derivatives and capital markets. Mr. Ermotti is a Swiss-certified banking expert and is a graduate of the Advanced Management Program at Oxford University.

Markus U. Diethelm
Swiss, born 22 October 1957
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Function in UBS
Group General Counsel

Year of initial appointment: 2008

Professional history and education
Markus U. Diethelm was appointed Group General Counsel of UBS and became a member of the GEB in September 2008. From 1998 to 2008, he served as Group Chief Legal Officer at Swiss Re, and was appointed to its Group Executive Board in 2007. Prior to this, he was at the Los Angeles-based law firm Gibson, Dunn & Crutcher, and focused on corporate matters, securities transactions, litigation and regulatory investigations while working out of the firm's Brussels and Paris offices. From 1989 to 1992, he practiced at Shearman & Sterling in New York, specializing in mergers and acquisitions. In 1988, he worked at Paul, Weiss, Rifkind, Wharton & Garrison in New York, after starting his career in 1983 with Bär & Karrer. Mr. Diethelm holds a law degree from the University of Zurich and a master's degree and PhD from Stanford Law School. Mr. Diethelm is a qualified attorney-at-law admitted to the bar in Zurich and in New York State.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Diethelm is Chairman of the Swiss-American Chamber of Commerce's legal committee. He is a member of the Committee on Capital Markets Regulation, the Swiss Advisory Council of the American Swiss Foundation, the UBS Foundation of Economics in Society and the Conseil de Fondation du Musée International de la Croix-Rouge et du Croissant-Rouge.

John A. Fraser
Australian and British, born 8 August 1951
UBS AG, 21 Lombard Street, London EC3V 9AH, UK

Functions in UBS
Chairman and CEO Global Asset Management until 31 December 2013, retiring from CEO role and GEB on that date.

Year of initial appointment: 2002

Professional history and education
John A. Fraser was appointed Chairman and CEO of Global Asset Management in December 2001, and was a member of the GEB from 2002 to 2013. He retired from his CEO role on 31 December 2013 and is currently Chairman of UBS Global Asset Management. Since 2008, he has been Chairman of UBS Saudi Arabia. From 1998 to 2001, he was President and Chief Operating Officer of UBS Asset Management and Head of Asia Pacific. From 1994 to 1998, he was the Executive Chairman and CEO of the Australia funds management business. Before joining UBS, Mr. Fraser spent over 20 years in various positions at the Australian Treasury, including two international postings in Washington, DC, first, at the International Monetary Fund and, subsequently, as the Economic Minister at the Australian Embassy in Washington, DC. He was the Deputy Secretary (Economic) of the Australian Treasury from 1990 to 1993. Mr. Fraser graduated from Monash University, Melbourne, in 1972 with a first-class honors degree in economics and, in 2013, was awarded an honorary Doctorate of Laws by this same University.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Fraser is Chairman of the Victorian Funds Management Corporation in Melbourne, a member of the Advisory Council of AccountAbility and a member of the MSCI Advisory Board.

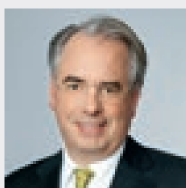
Lukas Gähwiler
Swiss, born 4 May 1965
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
CEO UBS Switzerland and CEO Retail & Corporate

Year of initial appointment: 2010

Professional history and education
Lukas Gähwiler became a member of the GEB and was appointed CEO of UBS Switzerland in April 2010. In his role as CEO of UBS Switzerland, he is responsible for all businesses – retail, wealth management, corporate and institutional, investment banking and asset management – in UBS's home market. Since January 2012, he has also been CEO of Retail & Corporate. Between April 2010 and January 2012, he combined the position of CEO of UBS Switzerland with the role of co-CEO of UBS Wealth Management & Swiss Bank. From 2003 to 2010, he was Chief Credit Officer at Credit Suisse and was accountable for the worldwide credit business of Private Banking, including Commercial Banking in Switzerland. In 1998, Mr. Gähwiler was appointed Chief of Staff to the CEO of Credit Suisse's Private and Corporate business unit and, prior to this, held various front-office positions in Switzerland and North America. He earned a bachelor's degree in business administration from the University of Applied Sciences in St. Gallen. Mr. Gähwiler completed an MBA program in corporate finance at the International Bankers School in New York, as well as the Advanced Management Program at Harvard Business School.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Gähwiler is a member of the boards of the Zürcher Volkswirtschaftliche Gesellschaft, Opernhaus Zürich AG and Economiesuisse. He is Vice Chairman of the Zurich Chamber of Commerce and of the Swiss Finance Institute, as well as a member of the Foundation Board of the UBS pension fund and of the UBS Foundation of Economics in Society.



Ulrich Körner
German and Swiss, born 25 October 1962
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
CEO Global Asset Management since 1 January 2014 and CEO UBS Group Europe, Middle East and Africa
Group Chief Operating Officer until 31 December 2013

Year of initial appointment: 2009

Professional history and education
Ulrich Körner became CEO Global Asset Management in January 2014. Additionally, he has been CEO of UBS Group Europe, Middle East and Africa since December 2011. He became a member of the GEB in April 2009 and was Group Chief Operating Officer from 2009 to 2013. In 1998, Mr. Körner joined Credit Suisse. He served as a member of the Credit Suisse Group Executive Board from 2003 to 2008, holding various management positions, including CFO and Chief Operating Officer. From 2006 to 2008, he was responsible for the entire Swiss client business as CEO Credit Suisse Switzerland. Mr. Körner received a PhD in business administration from the University of St. Gallen, and for several years was an auditor at Price Waterhouse and a management consultant at McKinsey & Company.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Körner is Vice Chairman of the Committee of the Governing Board of the Swiss Bankers Association, Chairman of the Widder Hotel in Zurich and Vice President of the Board of Lyceum Alpinum Zuoz. He is Deputy Chairman of the Supervisory Board of UBS Deutschland AG, Chairman of the Foundation Board of the UBS pension fund, a member of the Financial Service Chapter Board of the Swiss-American Chamber of Commerce, a member of the Advisory Board of the Department of Banking and Finance at the University of Zurich and a member of the business advisory council of the Laureus Foundation Switzerland.

Philip J. Lofts
British, born 9 April 1962
UBS AG, 677 Washington Boulevard, Stamford, CT 06901 USA

Function in UBS
Group Chief Risk Officer

Year of initial appointment: 2008

Professional history and education
Philip J. Lofts became a GEB member in 2008, and was re-appointed as Group Chief Risk Officer in December 2011 after serving in the same role from 2008 to 2010. He was CEO of UBS Group Americas from January to November 2011. Mr. Lofts, who began his career with UBS over 25 years ago, became Group Risk Chief Operating Officer in 2008 after three years serving as Group Chief Credit Officer. Prior to this, Mr. Lofts worked for the Investment Bank in a number of business and risk control positions in Europe, Asia Pacific and the US. Mr. Lofts joined Union Bank of Switzerland in 1984 as a credit analyst and was appointed Head of Structured Finance in Japan in 1998. Mr. Lofts successfully completed his A-levels at Cranbrook School. From 1981 to 1984, he was a trainee at Charterhouse Japhet plc, a merchant bank, which was acquired by the Royal Bank of Scotland in 1985.

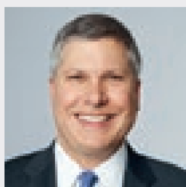
Robert J. McCann
American (US) and Irish, born 15 March 1958
UBS AG, 1200 Harbor Boulevard, Weehawken, NJ 07086 USA

Functions in UBS
CEO Wealth Management Americas and
CEO UBS Group Americas

Year of initial appointment: 2009

Professional history and education
Robert J. McCann was appointed CEO of Wealth Management Americas and became a member of the GEB in October 2009. In addition, he has been CEO of UBS Group Americas since December 2011. From 2003 to 2009, he worked for Merrill Lynch as Vice Chairman and President of the Global Wealth Management Group. In 2003, he served as Vice Chairman of Distribution and Marketing for AXA Financial. He began his career with Merrill Lynch in 1982, working in various positions in capital markets and research. From 2001 to 2003, he was Head of Global Securities Research and Economics. In 2000, he was appointed Chief Operating Officer of Global Markets and Investment Banking. From 1998 to 2000, he was Global Head of Global Institutional Debt and Equity Sales. Mr. McCann graduated with a bachelor's degree in economics from Bethany College, West Virginia, and holds an MBA from Texas Christian University.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. McCann is a board member of the American Ireland Fund, and is Vice Chairman of the Bethany College Board of Trustees. He is a member of the Clearing House Advisory Board, a member of the Presidents Circle of No Greater Sacrifice in Washington, DC, a member of the Committee Encouraging Corporate Philanthropy and a member of the board of the Catholic Charities of the Archdiocese of New York.

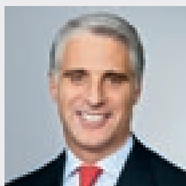


Tom Naratil
American (US), born 1 December 1961
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Functions in UBS
Group CFO and, since 1 January 2014, Group Chief Operating Officer

Year of initial appointment: 2011

Professional history and education
Tom Naratil was appointed Group CFO and became a member of the GEB in June 2011. In addition to this role, he was appointed Group Chief Operating Officer in January 2014. He served as CFO and Chief Risk Officer of Wealth Management Americas from 2009 until his appointment as Group CFO. Before 2009, he held various senior management positions within UBS, including heading the Auction Rate Securities Solutions Group during the financial crisis in 2008. He was named Global Head of Marketing, Segment & Client Development in 2007, Global Head of Market Strategy & Development in 2005, and Director of Banking and Transactional Solutions, Wealth Management USA, in 2002. During this time, he was a member of the Group Managing Board. He joined Paine Webber Incorporated in 1983, and after the merger with UBS became Director of the Investment Products Group. Mr. Naratil holds an MBA in economics from New York University and a bachelor of arts degree in history from Yale University.



Andrea Orcel
Italian, born 14 May 1963
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Function in UBS
CEO Investment Bank

Year of initial appointment: 2012

Professional history and education
Andrea Orcel was appointed CEO of the Investment Bank in November 2012. He had been appointed co-CEO of the Investment Bank and a member of the GEB in July 2012. He joined UBS from Bank of America Merrill Lynch, where he had been Executive Chairman since 2009, President of Emerging Markets (ex Asia) since 2010 and CEO of European Card Services since 2011. Prior to Merrill Lynch's acquisition by Bank of America, Mr. Orcel was a member of Merrill Lynch's global management committee and Head of Global Origination, which combined Investment Banking and Capital Markets. He held a number of other leadership positions, including President of Global Markets & Investment Banking for Europe, Middle East and Africa (EMEA) and Head of EMEA Origination beginning in 2004. Between 2003 and 2007, he led the Global Financial Institutions Group, of which he had been part since joining Merrill Lynch in 1992. Prior to this, he worked at Goldman Sachs and the Boston Consulting Group. Mr. Orcel holds an MBA from INSEAD and a degree in economics and commerce, summa cum laude, from the University of Rome.

Chi-Won Yoon
Korean, born 2 June 1959
UBS AG, 2 International Finance Centre
52/F, 8 Finance Street, Central, Hong Kong

Function in UBS
CEO UBS Group Asia Pacific

Year of initial appointment: 2009

Professional history and education
Chi-Won Yoon was appointed CEO of UBS Group Asia Pacific in April 2012 and has been a member of the GEB since June 2009. He held the position of co-Chairman and co-CEO of UBS Group Asia Pacific from November 2010 to March 2012. From June 2009 to November 2010, he served as sole Chairman and CEO of UBS AG, Asia Pacific. Prior to his current role, Mr. Yoon served as Head of UBS's securities business in Asia Pacific: Asia Equities, which he oversaw from 2004, and Asia Pacific Fixed Income, Currencies and Commodities, which he led from 2009. When he first joined the firm in 1997, he served as Head of Equity Derivatives. Mr. Yoon began his career in financial services in 1986, working first at Merrill Lynch in New York and then at Lehman Brothers in New York and Hong Kong. Before embarking on a Wall Street career, he worked as an electrical engineer in satellite communications. In 1982, Mr. Yoon earned a bachelor's degree in electrical engineering from MIT, and in 1986, a master's degree in management from MIT's Sloan School of Management.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Yoon is on the board of UBS Securities Co. Ltd. and a member of the Asian Executive Board of MIT's Sloan School of Management.

Jürg Zeltner
Swiss, born 4 May 1967
UBS AG, Bahnhofstrasse 45, CH-8001 Zurich

Function in UBS
CEO UBS Wealth Management

Year of initial appointment: 2009

Professional history and education
Jürg Zeltner became a member of the GEB in February 2009 and is CEO of UBS Wealth Management. Between February 2009 and January 2012, he served as co-CEO of UBS Wealth Management & Swiss Bank. In November 2007, he was appointed as Head of Wealth Management North, East & Central Europe. From 2005 to 2007, he was CEO of UBS Deutschland, Frankfurt, and, prior to this, he held various management positions in the former Wealth Management division of UBS. Between 1987 and 1998, he was with Swiss Bank Corporation in various roles within the Private and Corporate Client division in Berne, New York and Zurich. Mr. Zeltner holds a diploma in business administration from the College of Higher Vocational Education in Berne and is a graduate of the Advanced Management Program at Harvard Business School.

Other activities and functions
Mandates on boards of corporations, organizations and foundations or interest groups include:
Mr. Zeltner is a board member of the German-Swiss Chamber of Commerce and Chairman of the UBS Optimus Foundation Board.

Responsibilities, authorities and organizational principles of the Group Executive Board

Under the leadership of the Group Chief Executive Officer (Group CEO), the GEB has executive management responsibility for the Group and its business. It assumes overall responsibility for the development of the Group and business division strategies and the implementation of approved strategies. The GEB constitutes itself as the risk council of the Group. In this function, the GEB has overall responsibility for the following: establishing and supervising the implementation of risk management and control principles, approving major risk policies as proposed primarily by the Group Chief Risk Officer and controlling the risk profile of the Group as a whole, as determined by the BoD and the Risk Committee. In 2013, the GEB held a total of 20 meetings, not including two GEB offsite meetings and seven ad-hoc conference calls.

➔ **Refer to the Organization Regulations at www.ubs.com/governance for more information on the authorities of the Group Executive Board**

Responsibilities and authorities of the Group Asset and Liability Management Committee

The Group Asset and Liability Management Committee (Group ALCO), established by the GEB, is responsible for setting strategies to maximize the financial performance of the Group, and is subject to the guidelines, constraints and risk tolerances set by the BoD. The Group ALCO is also responsible for managing the balance sheet of the business divisions through allocation and monitoring of limits, as well as managing capital, liquidity and funding and promoting a one-firm financial management culture. The Organization Regulations additionally specify which powers of the GEB are delegated to the Group ALCO. In 2013, the Group ALCO held 10 meetings.

Management contracts

We have not entered into management contracts with any third parties.

Change of control and defense measures

We refrain from restrictions regarding change of control and defense measures that would hinder developments initiated in, or supported by, the financial markets. We also do not have any specific defenses in place to prevent hostile takeovers.

Duty to make an offer

An investor who acquired more than 33⅓% of all voting rights of UBS AG, (directly, indirectly or in concert with third parties), whether they are exercisable or not, would be required to submit a takeover offer for all shares outstanding, according to the Swiss Stock Exchange Act. We have not elected to change or opt out of this rule.

Clauses on change of control

Neither the employment agreement with the Chairman of the BoD, nor the employment contracts with the Group Executive Board (GEB) members and employees holding key functions within the company (Group Managing Directors), contain change of control clauses.

All employment contracts with GEB members contain a notice period of six months, except for one which contains a 12-month notice period. During the notice period, GEB members are entitled to their salary and the continuation of existing employment benefits.

In case of a change of control, UBS may, at its discretion, accelerate the vesting of and/or relax applicable forfeiture provisions of employees' awards, and defer lapse date of options or stock appreciation rights.

Auditors

Audit is an integral part of corporate governance. While safeguarding their independence, the external auditors closely coordinate their work with Group Internal Audit. The Audit Committee, and ultimately the Board of Directors (BoD), supervises the effectiveness of audit work.

➔ **Refer to "Board of Directors" in this section for more information on the Audit Committee**

External independent auditors

At the 2013 Annual General Meeting of Shareholders (AGM), Ernst & Young Ltd (EY) were re-elected as auditors for the Group for a further one-year term of office. EY assume virtually all auditing functions according to laws, regulatory requests and the Articles of Association. The EY lead partner in charge of the UBS financial audit has been Jonathan Bourne since 2010 and his incumbency is limited to five years. The co-signing partner for the financial statement audit is Troy J. Butner, who has been on the audit since 2011. His incumbency is limited to seven years. The Lead Auditor to FINMA is Rolf Walker. He has been in charge of auditing UBS since 2013 and his incumbency is limited to two years due to prior audit service to UBS in another role. The co-signing partner for the FINMA audit has been Marc Ryser since 2012, with an incumbency of seven years.

Special auditor for capital increase

At the 2012 AGM, BDO AG was appointed as special auditor for a three-year term of office. The special auditors provide audit opinions independently from the auditors in connection with capital increases.

Fees paid to external independent auditors

The fees (including expenses) paid to our auditors EY are set forth in the table below. In addition, EY received CHF 34,445,000 in 2013 (CHF 33,327,000 in 2012) for services performed on behalf of our investment funds, many of which have independent fund boards or trustees.

Audit work includes all services necessary to perform the audit in accordance with applicable laws and generally accepted auditing standards, as well as other assurance services that conventionally only the auditor can provide. These include statutory and regulatory audits, attest services, and the review of documents to be filed with regulatory bodies. The additional services classified as audit in 2013 included several engagements for which EY were mandated at the request of FINMA to review new or remediated processes, whether in response to regulatory changes, such as Basel III, or as a result of control deficiency remediation, for example, in connection with the 2011 unauthorized trading incident.

Audit-related work comprises assurance and related services that traditionally are performed by the auditor, such as attest services related to financial reporting, internal control reviews, performance standard reviews, and consultation concerning financial accounting and reporting standards.

Tax work involves services performed by professional staff in EY's tax division, and includes tax compliance and tax consultation with respect to our own affairs.

Fees paid to external independent auditors

UBS paid the following fees (including expenses) to its external independent auditors.

CHF thousand	**31.12.13**	31.12.12
Audit		
Global audit fees	**49,522**	53,900
Additional services classified as audit (services required by law or statute, including work of a non-recurring nature mandated by regulators)	**17,604**	23,648
Total audit	**67,126**	77,548
Non-audit		
Audit-related fees	**11,708**	8,401
of which: assurance and attest services	***6,922***	*3,427*
of which: control and performance reports	***4,386***	*4,134*
of which: consultation concerning financial accounting and reporting standards	***400***	*840*
Tax services	**950**	817
Other	**1,601**	1,990
Total non-audit	**14,258**	11,208

"Other" services are permitted services which include on-call advisory services and assessments of regulatory and internal control frameworks. In addition, 2013 and 2012 included non-recurring expenses.

Pre-approval procedures

To ensure EY's independence, all services provided by them have to be pre-approved by the Audit Committee. A pre-approval may be granted either for a specific mandate, or in the form of a blanket pre-approval authorizing a limited and well-defined type and amount of services.

The Audit Committee has delegated pre-approval authority to its Chairperson, and the Group Chief Financial Officer (Group CFO) submits all proposals for services by EY to the Chairperson of the Audit Committee for approval, unless there is a blanket pre-approval in place. At each quarterly meeting, the Audit Committee is informed of the approvals granted by its Chairperson and of services authorized under blanket pre-approvals.

Group Internal Audit

With 352 personnel worldwide as of 31 December 2013, Group Internal Audit (GIA) performs the internal auditing function for the entire Group. It is an independent and objective function that supports both the Group, in achieving its defined strategic, operational, financial and compliance objectives, and the BoD, supported by its committees, in discharging their governance responsibilities. GIA provides assurance by assessing the reliability of financial and operational information, as well as compliance with legal, regulatory and statutory requirements. All reports with key issues are provided to the Group CEO, GEB members responsible for the business divisions and other responsible management. In addition, the Chairman, the Risk Committee and the Audit Committee are regularly informed about important issues. GIA further assures the closure and successful remediation of issues, irrespective of the function which identified them, including those which are self-identified by management (first line of defense) or are raised by control functions (second line of defense), GIA (third line of defense), external auditors and regulators. GIA closely cooperates with internal and external legal advisors and risk control units on investigations into major control issues.

To maximize its independence from management, the Head of GIA, James P. Oates, reports directly to the Chairman of the BoD as well as to the Risk Committee and the Audit Committee. In their assessment, GIA is quantitatively and qualitatively well resourced, with 390 personnel budgeted worldwide to perform its function. The role, position, responsibilities and accountability of GIA are set out in our Organization Regulations, published at *www.ubs.com/governance.* GIA has unrestricted access to all accounts, books, records, systems, property and personnel, and must be provided with all information and data needed to fulfill its auditing duties. The Risk Committee and the Audit Committee may order special audits to be conducted. Other BoD members, committees or the Group CEO may request such audits with the approval of the Audit Committee or the Risk Committee.

Coordination and close cooperation with the external auditors enhance the efficiency of GIA's work.

Information policy

We provide regular information to our shareholders and to the financial community.

Financial reports will be published as follows

First quarter 2014	6 May 2014
Second quarter 2014	29 July 2014
Third quarter 2014	28 October 2014

The Annual General Meeting of Shareholders will take place as follows

2014	7 May 2014
2015	7 May 2015

➔ Refer to the corporate calendar at www.ubs.com/investors for future financial report publication and other key dates

We meet with institutional investors worldwide throughout the year and regularly hold results presentations, attend and present at investor conferences and, from time to time, host investor days. Investor meetings always include members of our Investor Relations team and, where possible, senior management. We make use of diverse technologies such as webcasting, audio links and cross-location video-conferencing to widen our audience and maintain contact with shareholders around the world.

Registered shareholders may opt to receive our annual report or review booklet, which reflects on specific 2013 initiatives and achievements of the Group and provides an overview of our activities during the year as well as some key financial information. Each quarter, shareholders have the option to receive a brief mailed update on our quarterly financial performance. Shareholders can also request our complete financial reports, produced on a quarterly and annual basis.

We make our publications available to all shareholders simultaneously to ensure they have equal access to our financial information.

Shareholders can help us to achieve our environmental ambitions by opting to read our financial publications electronically through our Investor Relations website instead of taking delivery of printed copies. We have reviewed and shortened our distribution lists to internal and external stakeholders and reduced stocks, yielding significant annual savings. In addition, shareholders can change their subscription preferences at any time using our shareholder portal (*www.ubs.com/shareholderportal*).

➔ Refer to www.ubs.com/investors for a complete set of published reporting documents and a selection of senior management industry conference presentations

➔ Refer to the "Information sources" section of this report for more information

Financial disclosure principles

We fully support the notion of transparency and consistent and informative disclosure. We aim to communicate our strategy and results in a manner that allows stakeholders to gain a good understanding of how our Group works, what our growth prospects are and what risks our businesses and our strategy entail. We continually assess feedback from analysts and investors and, where appropriate, reflect this in our disclosures. To continue achieving these goals, we apply the following principles in our financial reporting and disclosure:

- *Transparency* that enhances understanding of the economic drivers and builds trust and credibility
- *Consistency* within each reporting period and between reporting periods
- *Simplicity* that allows readers to gain a good understanding of the performance of our businesses
- *Relevance* that prevents information overload by focusing on what is required by regulation or statute and what is relevant to our stakeholders
- *Best practice* that leads to improved standards

We endorse the work of the Enhanced Disclosure Task Force (EDTF) and our financial reports contain disclosures aligned with the recommendations issued by the EDTF on 29 October 2012 in its report "Enhancing the Risk Disclosures of Banks." Certain disclosures in our Annual Report 2012 were cited by the EDTF in its July 2013 "Progress Report on Implementation of Disclosure Recommendations" as "leading practice" and by Deloitte in its report, "Responding to the EDTF recommendations – A review of 2012 year end reporting," as "good practice." For our Annual Report 2013, we have made significant further enhancements to our disclosures in light of these recommendations. Further information on our implementation of each of the EDTF recommendations can be found at the start of the "Risk, treasury and capital management" section of this report, in which most of the new and enhanced disclosures are presented. Consistent with our financial reporting and disclosure principles, we regard the enhancement of disclosures as an ongoing commitment and we expect to make further refinements to our disclosures in 2014 and beyond.

➔ Refer to the "Significant accounting and financial reporting changes" section of this report for more information on enhancing our disclosures

➔ Refer to the "Risk, treasury and capital management" section of this report for more information on our implementation of the EDTF recommendations

Financial reporting policies

We report our results after the end of every quarter, including a breakdown of results by business division and disclosures relating to risk management and control, capital, liquidity and funding management.

Our consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

➔ Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report for more information on the basis of UBS's accounting

We are committed to maintaining the transparency of our reported results and to ensuring that analysts and investors can make meaningful comparisons with prior periods. If there is a major reorganization of our business divisions, or if changes to accounting standards or interpretations lead to a material change in the Group's reported results, our results are restated for previous periods, when required by applicable accounting standards. These restatements show how results would have been reported according to the new basis and provide clear explanations of all relevant changes.

US regulatory disclosure requirements

As a "foreign private issuer," we must file reports and other information, including certain financial reports, with the US Securities and Exchange Commission (SEC) under the US federal securities laws. We file an annual report on Form 20-F, and submit our quarterly financial reports and other material information under cover of Form 6-K to the SEC. These reports are all available at *www.ubs.com/investors* and also on the SEC's website at *www.sec.gov*.

An evaluation was carried out under the supervision of management, including the Group CEO and Group CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a–15e) under the US Securities Exchange Act of 1934. Based upon that evaluation, the Group CEO and Group CFO concluded that our disclosure controls and procedures were effective as of 31 December 2013. No significant changes have been made to our internal controls or to other factors that could significantly affect these controls subsequent to the date of their evaluation.

In accordance with section 404 of the US Sarbanes-Oxley Act of 2002, our management is responsible for establishing and maintaining adequate internal control over financial reporting. The "Financial information" section of this report contains management's assessment of the effectiveness of internal control over financial reporting as of 31 December 2013. The external auditors' report on this assessment is also included in this report.

➔ Refer to the "Financial information" section of this report for more information

Corporate responsibility

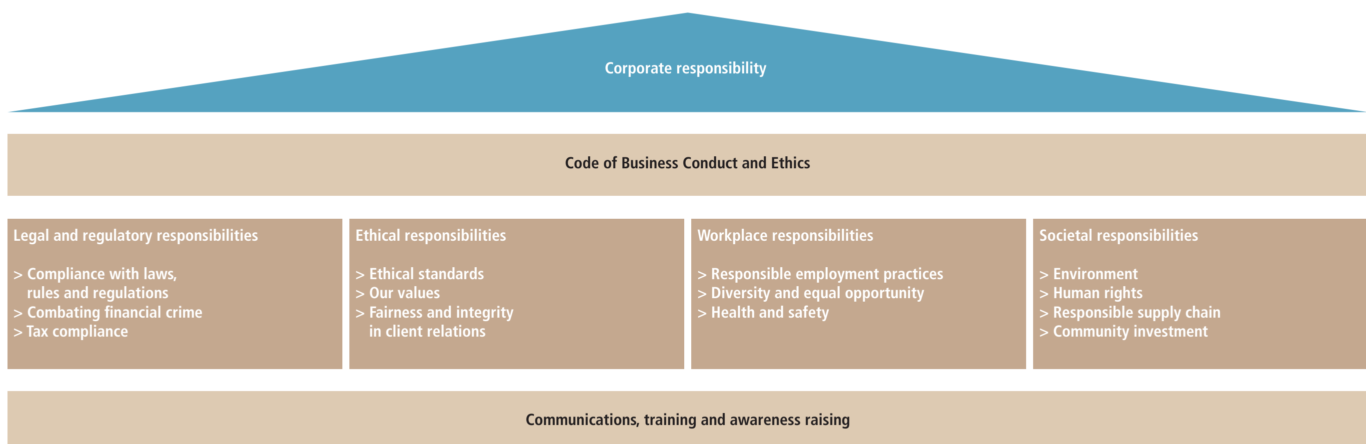
At UBS, corporate responsibility means "doing the right thing" – both now and in the future. Our commitment to this is incorporated in the principles and standards set out in our Code of Business Conduct and Ethics (Code). These apply to all aspects of our business and the ways in which we engage with our stakeholders, from the products and services we offer our clients, our management of environmental and social risks, to the way we protect the well-being of our employees. Corporate responsibility is embedded at every level of the firm, helping us to adopt a responsible and sustainable approach to doing business while underlining our desire to contribute to the communities in which we operate.

The successful delivery of our corporate responsibility commitments and activities relies on the firm conviction that, above all, we must conduct our business in a sustainable way. We have made good on this belief over the course of our over 150-year history and have demonstrated resilience in the face of the many political, economic and regulatory changes and challenges that have come to pass during this period.

We understand that to be taken seriously as a responsible corporate citizen takes time, and that a solid and proven track record counts for more than a series of quick wins. We have such a track record, as described in the following section. The guiding principles and standards set out in the Code shape our business activities and all our dealings with our stakeholders including clients, colleagues, shareholders, regulators and business partners. Proper implementation of the Code contributes to the wider societal goal of sustainable development. Policies and guidelines, as well as associated objectives related to this aspiration, are guided and supervised at the highest level of the firm. We demonstrate accountability for our corporate responsibility commitments and activities at both Board of Directors (BoD) and Group Executive Board (GEB) levels.

➔ **Refer to www.ubs.com/responsibility for more information**

Corporate responsibility at UBS



Working with our clients towards a better society

Our clients care deeply about societal issues and want to use their resources for the benefit and advancement of individuals, communities and societies around the globe. They are increasingly focused on issues such as the maintenance of functioning infrastructures, the impact of climate change, the strains imposed by demographic shifts, the growth in inequalities, and the provision of education, jobs and healthcare for all.

As a global firm, and the world's largest wealth manager, we are in a unique position to help our clients address their societal concerns. As their trusted financial advisor, we recognize this responsibility and take it seriously. For a long time, we have been helping them to invest according to sustainable and responsible criteria. Building on this capability, in 2013 we made a significant commitment to maximize these efforts through a dedicated, industry-leading platform. This will deliver comprehensive research, advisory and product capabilities in sustainable investments and philanthropy, and is currently under development. While we have always provided such offerings, it is our objective to do this holistically, channeling a growing percentage of assets, through innovative financial mechanisms, to address societal challenges and make societal performance part of every client conversation.

To date, 24% of our assets are already invested according to sustainable and socially responsible investment criteria, as illustrated in the "SRI invested assets" table in "Investment products" in this section. We want this to increase, in particular through developing innovative solutions. In 2013, a key example included our ground-breaking Impact Investing Private Equity fund for small and medium-sized enterprises (SMEs) in emerging and frontier markets. This provides our clients with yet more opportunities to direct their investments and address social and environmental challenges. Client focus is also a crucial component of our climate change strategy. In 2013, we made progress in several areas, including through the environmental optimization of our Global Real Estate investment portfolios, by offering the "Energy check-up for SMEs" to Swiss SMEs, and through our innovative UBS Clean Energy Infrastructure Switzerland fund for our institutional clients, enabling them to invest in renewable energy infrastructures.

We also continue to provide thought leadership in this area through our leading research capabilities and our active involvement in discussions on key societal topics. In 2013, an important example was the collaboration of environmental, social and governance (ESG) research experts in Wealth Management, Global Asset Management and the Investment Bank on one of our flagship publications, the "UBS Research Focus." Recognizing growing client interest in sustainable investing, this publication explored sustainability issues and demonstrated how a well-considered sustainability approach can add real value to a client's portfolio. As a second major example, we co-launched the Thun Group of Banks' discussion paper on banking and human rights, which examines the ways in which our industry can effectively implement the UN's Guiding Principles on Business and Human Rights.

Our own efforts towards the sustainable development of societies and communities, including our community investment and employee volunteering activities focused on education and entrepreneurship, complement our client-focused platform. Our response to the devastation in the Philippines caused by Typhoon Haiyan demonstrates our unique and integrated approach. UBS Community Affairs and the UBS Optimus Foundation joined forces, including both clients and employees in our firm's matched-giving schemes. This resulted in a combined (client and UBS) commitment of more than CHF 3 million in financial contributions. While the UBS Optimus Foundation established a Rapid Response Emergency Fund to provide immediate essential supplies to children and families in the hardest hit and most remote areas, contributions will also be used for the longer-term reconstruction and development efforts that must follow.

We aim to work with, and for, our clients towards a better society. The spirit and ambition of our client-focused approach is aimed at helping our clients express their values and achieve both financial and societal benefits. We will continue to expand our capabilities in order to provide our clients with an industry-leading and integrated range of sustainability and impact investment products and services, which will enable them to continue to invest with societal goals in mind.

Our approach

Corporate responsibility governance

The BoD is responsible for setting our firm's values and standards and ensuring that we meet our obligations to our stakeholders. Both the Chairman of the BoD and the Group Chief Executive Officer (Group CEO) play a key role in safeguarding our reputation and ensuring that we communicate effectively with all our stakeholders.

All BoD committees are focused on achieving our goal of creating sustainable value. Of the BoD committees, the Corporate Responsibility Committee shoulders the main undertaking for corporate responsibility. As set out in the committee's charter, it actively reviews and assesses how we meet the existing and evolving corporate responsibility expectations of our stakeholders. It also monitors and reviews our corporate responsibility policies and regulations, the implementation of our activities and commitments, as well as regularly reviewing the Code.

➔ **Refer to the UBS Code of Business Conduct and Ethics at www.ubs.com/code for more information**

➔ **Refer to the Organization Regulations of UBS at www.ubs.com/governance for the charter of the Corporate Responsibility Committee**

In 2013, Wolfgang Mayrhuber, Chairman of the Corporate Responsibility Committee, announced his intention to leave the BoD at the 2013 Annual General Meeting of Shareholders. The Committee is newly chaired by Axel A. Weber, Chairman of the BoD, has three additional members and is advised by a panel of GEB members, consisting of the Group CEO and all regional chief executive officers.

The GEB is responsible for the development and implementation of our Group and business division strategies, including those pertaining to corporate responsibility. At or directly below GEB level, there are various committees and boards responsible for tasks and activities relating to particular aspects of corporate responsibility, including the Global Environmental & Social Risk Committee, chaired by the Group Chief Risk Officer, which shapes UBS's position on controversial activities and related policies. Additionally, our Environmental & Human Rights Committee oversees the operational execution of UBS's Environmental and Human Rights Policy, which was revised in 2014 to incorporate recent commitments made in the areas of climate change and human rights.

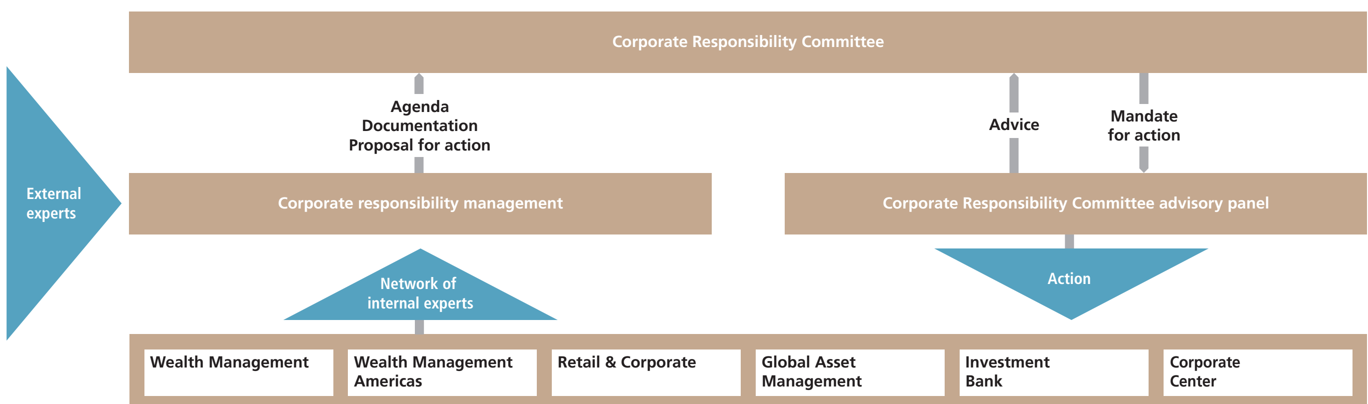
➔ **Refer to www.ubs.com/environment for more information on our environmental and human rights governance**

The GEB monitors our efforts to combat money laundering, corruption and terrorist financing. These efforts are led by the Head of Global Anti-Money Laundering (AML) Compliance and supported by a network of compliance experts. The GEB also monitors the implementation of our diversity and inclusion-related strategies and plans for each business division. Our global diversity and inclusion team supports senior management and human resources business partners in developing these plans.

➔ **Refer to the "Our employees" section of this report for more information on labor standards and diversity programs**

The Global Community Affairs Steering Committee is chaired by the Group CEO and composed of several members of our senior management. This GEB-level committee sets the overall strategic direction and goals of our community affairs. In addition, it

Our corporate responsibility governance process



is ultimately responsible for determining our response to worldwide disasters. In 2014, this committee will be integrated in the Corporate Responsibility Committee, and its advisory panel, to ensure further alignment.

➔ **Refer to "Our communities" in this section for more information on our charitable and related activities**

Our commitment to responsible banking requires us to undertake regular and critical assessments of our policies and practices. This, in turn, requires the careful consideration and assessment of societal issues of potential relevance to UBS. With committees focused on corporate responsibility topics and issues at both BoD and GEB level, we demonstrate that we have firmly established responsibility for, and supervision of, this important and complex task at the highest levels of the firm.

External commitments and initiatives

We are committed to engaging in external corporate responsibility initiatives. These support us in our efforts to advance in areas that are already mandated by government and regulators, as well as in areas that, while still largely voluntary, are nonetheless of significance in strengthening our corporate responsibility agenda.

In October 2013, we co-launched the Thun Group of Banks' discussion paper on banking and human rights. The Thun Group is an informal group of representatives from seven banks, with the name derived from the location (the UBS conference center in the Swiss city of Thun) where the group met to share experiences and ideas regarding the implementation of the UN's Guiding Principles on Business and Human Rights. The paper is the result of these discussions. It aims to support banks in mapping and analyzing their potentially adverse impacts on human rights, and also looks at related risks, including reputational, legal, operational and financial risks. The work of the Thun Group is reflected in our environmental and human rights policy framework.

External ratings, assurance and awards

Our performance and success in the area of sustainability is reflected in the key external ratings and rankings we have achieved. In 2013, we re-entered the Dow Jones Sustainability Indices (DJSI) from which we had been removed in 2012, as our score was just below the raised benchmark. This followed continuous inclusion in the DJSI since their launch in 1999. At the time, the DJSI were the first global indices to track the financial performance of the leading sustainability-driven companies worldwide. The DJSI follow a best-in-class approach and include companies from across all industries that outperform their peers in numerous sustainability metrics.

We have been a member of the FTSE4Good index series since its inception, and have also been awarded corporate responsibility prime status by oekom research, one of the world's leading sustainability rating agencies. According to oekom's corporate rating system, prime status is awarded to companies that are among the leaders in their industry and that meet industry-specific minimum requirements. We were also ranked among the top 20 financial institutions in the CDP Global 500 Climate Change Report 2013.

We received several honors in the 11th annual Thomson Reuters Extel/UKSIF Socially Responsible Investing (SRI) & Sustainability Survey of over 500 investment professionals from 27 countries. The UBS Investment Bank ESG & Sustainability Team was ranked third overall for ESG and SRI, including second for Corporate Governance and for Renewable Energy, fourth for Climate Change and for Thematic Research, and fifth for SRI Research.

Stakeholder dialogue

We regularly engage with our stakeholders on a wide range of topics which gives us important information about their expectations and concerns. This leads to a more in-depth understanding of issues relevant to our firm and their management. Our relationship with stakeholders is multi-faceted and includes interactions with large groups, regular communications with representatives from a particular group, as well as meetings with individuals (for example, clients and investors). In 2013, we also undertook an analysis of the issues deemed relevant to our stakeholders. The results of this analysis are reflected in a materiality matrix as defined by the Global Reporting Initiative (GRI). The matrix distils the views of the stakeholders with which our firm interacts and covers 20 topics including financial stability, risk behavior and culture, operational efficiency and resilience, environmental protection and climate change, and society and community.

In 2013, we engaged with experts and stakeholders on a range of topics. These included discussions with clients on values-based investing, including those taking place at the 2013 UBS Global Philanthropy Forum. Over 100 clients from around the world spent two days discussing how they can help to narrow the gender gap and ensure equal educational and employment opportunities for girls and women.

Discussions with employees covered various sustainability topics, including energy. A key annual campaign, the UBS Environmental Month in April, again raised awareness among employees and external stakeholders about our efforts towards reducing the environmental impact of our operations and banking activities. Working together with investors and rating agencies, we also considered key environmental, social and governance topics such as climate change. Discussions with non-governmental organizations focused on the subjects of reputational risks, controversial weapons, food "speculation" as well as climate change, particularly in relation to coal. In addition, we sought input from our employees regarding our corporate responsibility strategy and associated activities. An internal, cross-divisional and cross-regional network of experts continues to play an important role, with its members providing critical input on stakeholder expectations and concerns. These contributions are relayed back to the Corporate Responsibility Committee and provide a very valuable addition to information gathered through other monitoring channels.

We believe it is crucial that we keep our stakeholders informed about our sustainability commitments and activities. To this end, we include sections in our Annual Report 2013 that are dedicated to "Corporate responsibility" and "Our employees." The content

of these sections, other relevant annual report text and data and information on our website are reviewed by EY, according to the Global Reporting Initiative's Sustainability Reporting Guidelines.

➔ **Refer to www.ubs.com/gri for more information**

➔ **Refer to www.ubs.com/materiality for the GRI materiality matrix**

Training and raising awareness

We actively engage in internal and external education and awareness-raising training on corporate responsibility topics and issues. Through induction, education and broader awareness-raising activities, we ensure that our employees understand their responsibilities in complying with our policies and the importance of our societal commitments. General information is published on our intranet and on our corporate responsibility website. In 2013, training and awareness-raising activities for employees continued to embrace the Code, notably through induction events for all new employees. Employees were also made aware of the firm's corporate responsibility strategy and activities through other training and awareness-raising activities. Some 9,271 employees received training on environmental issues, of which 7,136 received general training on our environmental policy and programs and 2,135 participated in specialist training targeted within their area of expertise and influence. Employee speaker sessions, exhibitions and lunchtime training sessions were delivered in all regions alongside specific technical training for the regional environmental teams. Community Affairs engagement forms part of our key internal leadership programs, while skills-based employee volunteering further contributes towards staff development. Employees are also required to undergo regular refresher training sessions in AML-related issues. This includes online training, awareness campaigns and seminars.

➔ **Refer to "Education and development" in the "Our employees" section of this report for more information**

Our clients

We are focused on gaining and retaining the trust of our stakeholders, as well as achieving our goal of generating sustainable earnings and creating long-term shareholder value. In addition, we are constantly striving to ensure that our products and services are suited to the needs and requirements of our clients. Through our corporate responsibility efforts, we demonstrate that we are not only listening to our stakeholders, but also aiming to be in an industry-leading position and meet their expectations.

Combating financial crime

We continue to further strengthen our efforts to prevent and combat financial crime. Our commitment to assisting in the fight against money laundering, corruption and terrorist financing is illustrated by the way we take responsibility in our own operations, aiming to help preserve the integrity of the financial system. We employ a rigorous risk-based approach to ensure our policies and procedures are able to detect risks and effectively manage those risks, including, for example, managing relationships which are classified as higher risk with increased scrutiny. We adhere to strict know-your-client regulations without undermining our clients' legitimate right to privacy. Ongoing due diligence and monitoring, including the use of advanced technology to help identify transaction patterns or unusual dealings, assists in the identification of suspicious activities. If suspicious activities are discovered, they are promptly escalated to management or control functions and externally, as required.

During 2013, Global AML Compliance worked closely with the Environmental and Social Risk group to further develop effective ways of screening potential business partners, vendors and clients with regards to potential issues relating to environmental and social risk, building on the work already carried out during previous years.

In 2011, all business divisions were required to perform a legal and compliance risk assessment. This comprehensive process, which included an assessment of corruption, sanction and AML risks, was forward-looking and included follow-up actions to highlight the priorities and objectives for each business division. This risk assessment did not identify any significant incidents of non-compliance with our AML, sanctions or anti-corruption policies. Additional risk assessments that have taken place since then have confirmed this view. Nonetheless, a number of initiatives we have in place continue to strengthen our defenses against UBS being used for criminal purposes. In addition, over the course of 2014 we will continue to revise our risk assessment framework in a manner that further focuses on key risks and controls.

As part of our extensive and ongoing efforts to prevent money laundering, corruption and terrorist financing, our internal global AML policies were reviewed in 2011 and enhancements to address more specific risks in relation to corruption, sanctions and money laundering were implemented globally. In 2012, we also reviewed and amended our approach to controversial weapons in order to comply with the Swiss law that came into effect on 1 February 2013. This law implements the international bans on the use, stockpiling, production and transfer of cluster munitions and anti-personnel mines.

Our environmental and human rights policy

We are a founding member of the Wolfsberg Group, an association of 11 global banks established in 2000, which aims to develop financial services industry standards and related products for know-your-client, AML and counter-terrorist financing policies. Alongside the other members of this group, we continue to work closely with the Financial Action Task Force, an intergovernmental body that develops and promotes national and international policies to combat money laundering and terrorist financing through consultation within the private sector.

We will act decisively to prevent potentially irresponsible or harmful actions by individuals. First and foremost, this means that our employees must uphold the law, adhere to relevant regulations, and behave in a responsible and principled manner. To this effect, our business processes and control mechanisms are constantly under review in order to enhance our prevention capabilities.

Managing environmental and social risks

We apply a risk framework to all of our transactions, products, services and activities in order to identify and manage potential adverse impacts to the environment and to human rights, as well as the associated environmental and social risks to which our clients' and our own assets are exposed. Environmental and social (including human rights) risks are broadly defined as the possibility of UBS suffering reputational or financial harm from transactions, products, services or activities such as lending, capital raising, advisory services or investments that involve a party associated with environmentally or socially sensitive activities. For products, services and activities identified as potentially posing significant environmental and social risks, procedures and tools for the identification, assessment, escalation and monitoring of such risks are applied and integrated into standard risk, compliance and operations processes:

- Client on-boarding or conflict clearance: new corporate clients are assessed for environmental and social risks associated with their business activities.
- Transaction due diligence: before proceeding with a transaction, environmental and social risks are identified and analyzed as part of standard transaction due diligence processes.
- Product development: new financial products and services are reviewed before their launch in order to assess their compatibility and consistency with UBS's environmental and human rights principles.
- Supply chain management: prior to any new or renewed contract being awarded, standardized checks are completed to assess supplier- and commodity-specific environmental, labor and human rights risks.
- Own operations: our operational activities and employees, or contractors working on UBS premises, are assessed for compliance with relevant environmental, health and safety and labor rights regulations.

Business or control functions are responsible for identifying and assessing environmental and social risks as part of the client, supplier or transaction due diligence processes. Where these functions determine the existence of potential material risks, they refer the client, supplier or transaction to a specialized environmental and social risk unit for enhanced due diligence. To support the consistent identification and assessment of such risks, our internal industry sector guidelines provide an overview of key environmental and human rights issues that arise in the various life cycles of the sector, and summarize industry standards in dealing with them. These guidelines currently cover six sectors: chemicals, forestry products and biofuels, infrastructure, metals and mining, oil and gas, and utilities. If identified risks are believed to pose potentially significant environmental or social risks, they are escalated for approval to senior management, at divisional, regional, or group level, depending on their significance. We have defined controversial activities in which we will not engage, such as providing financial services to extractive industries, heavy infrastruc-

Environmental and social risk assessments

		For the year ended			% change from
	GRI[1]	**31.12.13**	31.12.12	31.12.11	31.12.12
Cases referred for assessment[2]	FS2	**1,716**	1,039	416	65
by region					
Americas	FS2	**367**	288	111	27
Asia Pacific	FS2	**296**	222	136	33
Europe, Middle East and Africa	FS2	**373**	225	119	66
Switzerland	FS2	**680**	304	50	124
by business division					
Wealth Management	FS2	**298**	157	59	90
Wealth Management Americas	FS2	**46**	5	5	820
Retail & Corporate	FS2	**598**	223	22	168
Global Asset Management	FS2	**14**	12		17
Investment Bank	FS2	**657**	533	330	23
Corporate Center[3]	FS2	**103**	109		(6)

1 Global Reporting Initiative (see also www.globalreporting.org). FS stands for the Performance Indicators defined in the GRI Financial Services Sector Supplement. 2 Transactions and onboarding requests referred to and assessed by environmental and social risk functions. 3 Relates to procurement / sourcing of products and services.

ture, forestry and plantation operations that risk severe environmental damage to endangered species, high-conservation value forests and world heritage sites. They also include all commercial activities that engage in child or forced labor, or threaten indigenous peoples' rights.

An enhanced due diligence and approval process is triggered for areas in which we will only provide financial services under stringent, pre-established guidelines. Such areas include palm oil production, mountaintop removal as a coal extraction method, hydraulic fracturing as an exploration or extraction method for oil and gas, and exploration and development of oil sands. Enhanced due diligence includes an assessment of the company's regulatory compliance, past and present environmental performance records, as well as concerns from stakeholder groups.

➔ **Refer to www.ubs.com/responsibility for the complete "UBS position on relationships with clients and suppliers associated with controversial activities"**

Clients, transactions or suppliers potentially in breach of UBS's position, or otherwise subject to significant environmental and human rights controversies, are identified as part of UBS's know-your-client compliance processes. Advanced data analytics on companies associated with such risks are integrated into the web-based compliance tool used by our staff before they enter into a client or supplier relationship, or a transaction. The systematic nature of this tool significantly enhances our ability to identify potential reputational risk as is evidenced by the high number of cases referred for assessment to our environmental and social risk units since 2012.

➔ **Refer to the table "Environmental and social risk assessments" in this section for more information**

Sustainable products and services

By integrating environmental and social considerations into our advisory, research, investment, finance and ownership processes across all of our businesses, we provide financial products and services which help our clients benefit from environmentally and socially related business opportunities. This is particularly the case in relation to climate change, where our activities focus on our client-centric activities of risk management, investment, financing and research.

➔ **Refer to "Our climate change commitment" in this section for more information on related business initiatives**

Investment advisory

We offer investment advisory services for wealth management and institutional clients, helping them to consider the potential social and environmental impacts, as well as the potential financial returns, of their investments. Our philanthropy and sustainable investing teams have continued to develop the holistic service offered within our wealth management businesses. These teams provide thought leadership, advice, products and solutions to existing and prospective private clients who wish to make investments in accordance with their own personal values. These services also extend to aiding philanthropic or investment decisions intended to drive positive change. Our services also include sustainable portfolio management, such as mandate solutions and separately managed accounts for private clients and institutions with a strong focus on sustainability across all asset classes. In the US, we also offer managed accounts with environmental, social and governance criteria (sourced from third-party data provider MSCI) embedded into private clients' fundamental investment process, enabling them to identify and exclude securities based on issue-oriented screens.

For institutional clients, Global Asset Management offers customized portfolios in the form of segregated mandates and institutional accounts that allow clients to define and exclude certain controversial stocks or sectors due to their perceived social or environmental impact.

Research

We produce award-winning research on the impact of environmental, social and governance issues on various sectors and companies. Our specialized teams have regularly published research on topics that will shape our future, including climate change, energy efficiency, resource scarcity and demographics. Our experience and sector knowledge help us to determine what is material by raising questions about the effect environmental, social and governance issues are having on the competitive landscape for the global sectors we cover, as well as about how companies are affected in relative terms. Increasing client demand for integrating sustainability issues into fundamental investment analysis is reflected in our publications and client conferences:

– In 2013, one of the flagship publications of UBS Wealth Management, "UBS Research Focus,"was produced in collaboration with research teams in Global Asset Management and the Investment Bank. Entitled "Sustainable investing," it discussed how sustainability considerations are increasingly incorporated into investment decisions.
– Our UBS Q-Series® reports focus on thought-provoking discussions on pivotal investment questions, and on making clear investment conclusions, leading to a Group-wide drive for more thoughtful, proprietary and valuable research. Examples of Q-Series® reports published in 2013 include "Human capital – Corporate culture: Relevant to investors?" and "Global energy markets: How much oil in the US transport sector can be displaced by cheap US natural gas?" Other publications focused on nutrition ("Nutrition: Access and traceability") and on sustainable innovation ("Integration – global sustainability and cultural change").
– Our newly established publication, "ESG Keys," addresses the what, how and why of ESG issues and sustainability investment styles. Reports in 2013 addressed corporate governance, human capital, and energy and climate change.
– The UBS European Conference hosted a number of panels on sustainability issues, featuring experts and UBS research analysts, such as "The great sustainability debate," "Human capital – driving returns" and "Energy: prospects and challenges for fracking."

– Our outreach and dialogue programs included a three-year partnership with the Smith School of Enterprise and the Environment at the University of Oxford, with which UBS hosted a series of events between 2011 and 2013, open to both UBS clients and employees, and featuring thought leaders from around the globe.

Investment products

Global Asset Management is committed to environmental, social and governance integration and has been a signatory to the United Nations-supported Principles for Responsible Investment (PRI) since 2009. These provide a voluntary framework according to which all investors can take into account environmental, social and governance issues in their decision-making and ownership practices and align their objectives with the broader objectives of society.

Global Asset Management offers a range of sustainable investment funds that integrate material sustainability factors with a rigorous fundamental investment process. We apply the concept of shared value, according to which companies that pursue sustainability practices (for example, conserving resources, maintaining a high-quality workforce and a strong supply chain) not only create value for the shareholder but also for a wider range of stakeholders. Our investment themes include energy efficiency, environment, social and healthcare, and demographics. We also manage four exchange-traded funds which track MSCI's Socially Responsible Indices and are listed on the Deutsche Börse (Xetra), the SIX Swiss Exchange and the London and Milan Stock Exchanges.

Through our open architecture, we also offer our wealth management clients the opportunity to invest in socially responsible investment bonds, equity and microfinance products from leading third-party providers. As of 31 December 2013, invested assets held in socially responsible investments (SRI) totaled CHF 576 billion, representing 24% of our total invested assets. Throughout 2013, invested assets in all of our SRI classes increased. In particular assets that are subject to UBS's policy pertaining to controversial weapons increased substantially, largely due to the global expansion of the policy.

➔ Refer to the table "Socially responsible investments invested assets" in this section for more information

Our climate change commitment

Climate change is one of the most significant challenges of our time. The world's key environmental and social challenges – such as population growth, energy security, loss of biodiversity and access to drinking water and food – are all closely intertwined with climate change. This makes the transition to a low-carbon economy vital.

We recognize that financial institutions are increasingly expected to play a key role in the transition to a low-carbon economy, and we are determined to support our clients in preparing for success in an increasingly carbon-constrained world. We are one of the leading wealth management firms worldwide, and the leading universal bank in Switzerland, backed by a top asset management business and a client-centered investment bank. Therefore, our climate change strategy focuses on the areas of risk management, investments, financing, research and in-house operations. It is in these areas that we believe we can make the greatest contribution to the transition towards a low-carbon economy. Our contribution to these areas in 2013 included:

Risk management: seeking to protect our clients', and our own, assets from climate change risks, within our sphere of influence.

We committed to participating in international efforts led by the Greenhouse Gas Protocol and the United Nations (UN) Environment Programme Finance Initiative to develop a greenhouse gas accounting and reporting guidance for financial intermediaries.

We helped our clients manage their exposure to the emissions markets and offered execution and full service clearing for contracts on, for example, EU Emissions Trading System allowances and UN Certified Emissions Reductions in Europe and North America.

Investments: helping to mobilize private and institutional capital towards investments facilitating climate change mitigation and adaptation.

We launched an Impact Investing Private Equity fund for SMEs in emerging and frontier markets. With a volume slightly in excess of CHF 50 million at closure, it is one of the largest impact funds in the sector funded by clients and private capital. The fund represents a unique investment opportunity for wealthy clients and is expected to generate significant social and environmental impact.

Our UBS Portfolio Screening Services helped Wealth Management clients align their portfolios to their values by assessing portfolios using specific sustainability criteria (including environmental topics). Based on increased interest among our clients, we screened CHF 4.2 billion of client assets in 2013.

The UBS Clean Energy Infrastructure Switzerland offers institutional investors unprecedented access to a diversified portfolio of Swiss infrastructure facilities and companies in the field of renewable energies and energy efficiency. Capital commitments had reached approximately CHF 350 million on 31 December 2013.

Six of Global Asset Management's real estate funds, with CHF 20 billion gross assets under management, obtained the top ranking ("green star"), and two of

Socially responsible investments invested assets[1]

		For the year ended			% change from
CHF billion, except where indicated	GRI[2]	**31.12.13**	31.12.12	31.12.11	31.12.12
UBS total invested assets		**2,390**	2,230	2,167	7
UBS SRI products and mandates					
positive criteria	FS11	**2.18**	1.60	1.84	37
positive criteria / RPI[3]	FS11	**39.00**	32.15	28.19	21
exclusion criteria[4]	FS11	**56.09**	35.68	27.46	57
policy based restrictions[5]	FS11	**475.14**	181.64	180.85	162
Third-party[6]	FS11	**3.70**	2.66	2.58	39
Total SRI invested assets	FS11	**576.12**	253.73	240.92	127
Proportion of total invested assets (%)[7]		**24.11%**	11.38%	11.12%	

1 All figures are based on the level of knowledge as of January 2014. 2 FS stands for the Performance Indicators defined in the Global Reporting Initiative Financial Services Sector Supplement. 3 UBS Global Asset Management Responsible Property Investment strategy. 4 Includes customized screening services (single or multiple exclusion criteria). 5 Assets subject to restrictions under UBS policy on the prohibition of investments in companies related to anti-personnel mines and cluster munitions (includes all invested assets held in Global Asset Management actively managed discretionary segregated mandates and all actively managed funds (retail and institutional) held by Global Asset Management, Wealth Management and Retail & Corporate). In 2013, the scope of this policy became global. 6 SRI products from third-party providers apply either positive and exclusion criteria or a combination thereof. 7 Total SRI / UBS's invested assets.

Socially responsible investments (SRI) are products that consider environmental, social or ethical criteria alongside financial returns. SRI can take various forms, including positive screening, exclusion or engagement.

Positive criteria apply to the active selection of companies, focusing on how a company's strategies, processes and products impact its financial success, the environment and society. This includes best-in-class or thematic investments.

Exclusion criteria whereby one or several sectors are excluded based on environmental, social or ethical criteria, for example, companies involved in weapons, tobacco, gambling, or companies with high negative environmental impacts. This also includes faith-based investing consistent with principles and values of a particular religion.

them were awarded "sector leader" status, by the 2013 Global Real Estate Sustainability Benchmark, thus recognizing our efforts in defining and implementing a sustainable and responsible property investment strategy (RPI). All six funds rank within the first and second quartiles of their respective peer set (among more than 540 real estate portfolios).

Financing: supporting this transition as corporate advisor, and / or with our lending capacity.
We supported Swiss SMEs in saving energy, as promoted by the Swiss Energy Agency's SMEs Model. Clients benefited from the agency's "energy check-up for SMEs" at reduced costs and were granted cash premiums for committing to an energy reduction plan within this scheme. By the end of 2013, 116 companies signed up.

By supporting Swiss private clients when renovating their private homes sustainably, we redistributed CHF 2.9 million in cash benefit, funded by proceeds from the Swiss CO_2 levy refund. Swiss private clients could also benefit from the UBS "eco" mortgage when building energy-efficient homes.

Expressing our commitment to being a financial partner in the energy transition in Switzerland, we are sponsors of the Swiss Energy and Climate Summit 2013 and 2014 as a Premium Partner.

In 2013, the Investment Bank supported 190 clients that provide a positive contribution to climate change mitigation and adaptation, either in equity or debt capital market transactions (total deal value CHF 28.5 billion) or as financial advisor (total deal value CHF 49.4 billion).

Research: offering world-class research capacity to our clients on climate change issues.
We continued to provide clients with award-winning research on climate change related topics. Examples include "ESG Outcomes for a 'New Global Economy,'" "Postcards from the US … on energy & climate," "Global utilities: Can utilities survive in their current form?" and "China integrated natural gas: Will a coal-to-gas boom eventually go bust?" Our thought leadership in this area was recognized by the annual Thomson Reuters Extel / UKSIF Socially Responsible Investing (SRI) & Sustainability Survey where UBS ranked fourth for Climate Change and second for Renewable Energy.

Our Chief Investment Office (CIO) Wealth Management research provided regular research updates on renewables, agribusiness, energy efficiency and water. The latter was the sustainable investment theme promoted in the 2013 UBS CIO House View.

In-house operations: reducing our own greenhouse gas emissions.
We further reduced our emissions 15% year on year, achieving a 49% reduction from baseline year 2004. This brings us very close to reaching our target of a 50% reduction by 2016. We continued to invest in sustainable real estate and efficient information technology, and reduced our energy consumption 3% year on year. We are on track to reach our target of a 10% reduction compared with 2012 levels by 2016.

➔ **Refer to www.ubs.com/climate for our complete climate change commitment**

Corporate and private clients financing and advisory

UBS globally provides capital raising and strategic advisory services to companies offering products that provide a positive contribution to climate change mitigation and adaptation, including those in the solar, wind, hydro, energy efficiency, waste and biofuels, and transport sectors. In 2013, we supported transactions that included a USD 50 million equity capital raising for Cool Planet, a US-based renewable energy company which has developed a patented process to convert non-food biomass into gasoline, a USD 300 million three-year bond offering for the China Longyuan Power Group, the largest wind power generation company in Asia, and a CHF 400 million dual-tranche bond for Sika AG, a Swiss specialty chemicals company providing products to the construction and transportation industries that enhance durability and promote the efficient use of energy, water and other resources. In addition, we helped our clients manage their exposure to the emissions markets, while in Switzerland, we helped SMEs to save energy and support retail clients when undertaking energy-efficient renovations.

Voting rights

We believe that voting rights have economic value and should be treated accordingly. Where Global Asset Management has been given the discretion to vote on behalf of our clients, we will exercise our delegated fiduciary responsibility by voting in the manner we believe will be most favorable to the value of their investments. In 2013, we voted on more than 69,000 separate resolutions at 7,075 company meetings. Our approach to corporate governance is an active one and is integral to our investment process. We are an active member of a number of collaborative shareholder bodies.

Since 2010, Global Asset Management in Switzerland has been offering UBS Voice, a free service enabling holders of Swiss institutional funds to express voting preferences ahead of shareholder meetings of major Swiss corporations. This provides additional shareholder input into the voting decisions of the funds' management company. More than 40% of invested assets for which UBS Voice is offered participate in this service.

Our operations

Continuously reducing our greenhouse gas footprint

In 2013, we reduced our greenhouse gas footprint again by decreasing our emissions 15% year on year, achieving a 49% reduction from baseline year 2004. This brings us very close to reaching our target of a 50% reduction by 2016. We also reduced our footprint per full-time employee 12% year on year. Our strong performance is a result of adopting energy efficiency measures to reduce the energy consumption of the buildings we occupy, and of critical facilities such as the data centers we use, while increasing the proportion of renewable energy. Emissions that cannot be reduced by other means (for example, business air travel) are offset.

UBS's Environmental Program was introduced in the 1970s, and since 1999, we have managed the program through an Environmental Management System in accordance with ISO 14001. At the time, we were the first bank to obtain ISO 14001 certification for our Group-wide environmental management system. In addition, our greenhouse gas emissions data is externally verified according to ISO 14064 standards.

Reducing energy consumption and improving energy efficiency

In 2013, we reduced energy consumption 3%, contributing to our target of reducing energy consumption 10% by 2016 compared with 2012 levels. Between 2009 and 2012, we overachieved on our previous targets and reduced our energy consumption 21%. We will continue to invest in energy-efficient infrastructure and implement established energy reduction measures, such as ensuring that heating, air-conditioning and lighting controls of the buildings we occupy are optimized. In addition, we

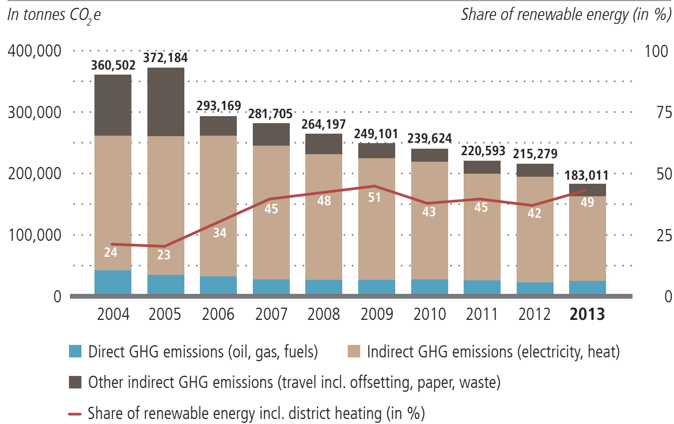
Environmental targets and performance in our operations[1]

	GRI[2]	2013	Target 2016	Baseline	% change from baseline	Progress / Achievement[6]	2012	2011
Total net greenhouse gas emissions (GHG footprint) in t CO_2e[3]	EN15–17	**183,011**	–50%	360,501[4]	–49.2	● (green)	215,279	220,593
Energy consumption in GWh	EN3	**737**	–10%	761[5]	–3.2	● (green)	761	827
Share of renewable energy	EN3	**48.8%**	increase	23.9%[4]	104.2	● (green)	41.6%	44.9%
GHG offsetting (business air travel) in t CO_2e	EN18	**72,612**	100%	0[4]	100	● (green)	73,024	88,867
Paper consumption in kg per FTE[7]	EN1	**121**	–5%	122[5]	–1.1	● (green)	122	122
Share of recycled and FSC paper	EN2	**57.6%**	60%	55.8%[5]	3.1	● (green)	55.8%	44.3%
Waste in kg per FTE[7]	EN23	**213**	–5%	230[5]	–7.8	● (green)	230	242
Waste recycling ratio	EN23	**55.6%**	60%	54.2%[5]	2.5	● (amber)	54.2%	54.2%
Water consumption in m m^3	EN8	**1.77**	–5%	1.95[5]	–9.1	● (green)	1.95	2.00

Legend: CO_2e = CO_2 equivalents, FTE = full-time employee, GWh = gigawatt hour, kWh = kilowatt hour, km = kilometer, kg = kilogram, m m^3 = million cubic meter, t = tonne

1 Detailed environmental indicators are available on the internet www.ubs.com/environment. Reporting period 2013 (1 July 2012 to 30 June 2013). 2 Related to Global Reporting Initiative (see also www.globalreporting.org). EN stands for the environmental performance indicators as defined in the GRI. 3 GHG footprint equals gross GHG emissions minus GHG reductions from renewable energy and GHG offsets (Gross GHG emissions include: direct GHG emissions by UBS, indirect GHG emissions associated with the generation of imported / purchased electricity (grid average emission factor), heat or steam and other indirect GHG emissions associated with business travel, paper consumption and waste disposal). 4 Baseline year 2004. 5 Baseline year 2012. 6 Green: on track / amber: behind schedule. 7 FTEs are calculated on an average basis including contractors.

UBS's greenhouse gas (GHG) footprint



apply externally verified standards to validate building performance.

Information technology consumes up to half of the electricity used by the Group worldwide, and consolidation, virtualization and the Desktop Transformation Program (designed to reduce the number of personal computers whilst ensuring that new computers and monitors are more energy-efficient than the equipment they replace) have contributed to significant energy savings in recent years. In 2013, we reduced the electricity consumption of our data centers more than 6% year on year.

Increasing share of renewable energy

We are reducing our use of carbon-intensive energy by replacing fossil-fuelled heating infrastructure where feasible and by purchasing renewable energy for a high proportion of the energy we use (49% in 2013).

Business travel and offsetting CO_2 emissions

We continuously try to minimize our CO_2 emissions in business travel by encouraging our employees to choose alternatives to air travel, such as high-speed rail, recording a 7% reduction in the number of flights taken, and a 2% increase in employee rail travel in Switzerland in 2013. Our investments in video-conferencing solutions also contributed to the reduction in air travel. Globally, over 400 rooms with video facilities are available and more than 80,000 room bookings were processed in 2013. The marketing and events teams adhere to environmental guidelines for client conferences and consider the impact of delegate travel, hotels, venue facilities and catering as part of their logistics and planning.

We continue to offset all CO_2 emissions resulting from agency-booked business air travel and client events and conferences, thereby supporting renewable energy and other projects reducing CO_2 emissions. Projects we selected meet the requirements of the Gold Standard for voluntary emissions reductions and also provide positive community benefits. Schemes selected include a wind power project in Turkey and community biofuel projects in China and India.

Reducing paper consumption, waste generation and water usage

We are committed to further reducing our environmental footprint and are on track to reach our 2016 targets, which use 2012 performance as the baseline:

– The amount of paper used per employee decreased 1% compared with baseline year 2012. Double-sided printing and copying, now the default setting for printers used by the majority of our employees, combined with an ongoing shift towards the distribution of electronic documents, will enable us to reach our target of reducing paper usage 5%. We increased the percentage of office paper from Forest Stewardship Council (FSC), or recycled sources, to 58% in 2013, contributing towards reaching our 60% target.
– The continued implementation of bin-less offices in many larger locations has reduced the waste per employee 8% since 2012, outperforming our 5% reduction target by 2016. Our waste recycling ratio improved from 54% in 2012 to 56%, a step in the right direction towards reaching our target of 60% by 2016.
– Our water consumption decreased 9% compared with 2012 levels, exceeding our target of 5% by 2016.

➔ **Refer to the table "Environmental targets and performance in our operations" in this section for more information**

Engaging our employees

By educating, increasing awareness among and offering incentives to our employees on environmental matters, we hope to help them behave in a sustainable way both at work and at home. As part of our commitment to reducing CO_2 emissions, we continued to support Earth Hour in March 2013, switching off lights in UBS offices in 73 cities around the world for one hour. This also marked the start of our annual internal and external environmental awareness campaign. The theme in 2013 was "Protecting our future" and focused on our renewed climate change commitment, with activities including environmental fairs, an online environmental quiz, as well as articles and interviews with senior management posted on our internal and external websites.

Responsible supply chain management

Responsible supply chain management (RSCM) principles serve to embed our ethics and values when interacting with our suppliers, contractors and service partners. As part of this commitment, we have implemented an RSCM framework to identify, assess and monitor supplier practices in the areas of human and labor rights, the environment, health and safety and anti-corruption. In 2013, we further strengthened our existing RSCM framework by focusing on suppliers that either have a potentially high environmental or social impact, or suppliers that are active in high-risk countries. We screened relevant suppliers and identified around 40 suppliers for which remediation measures have been defined in order to be in line with UBS's RSCM standards. Due diligence is performed by our experienced procurement and sourcing specialists, and is supported by a centralized team of experts.

Our communities

Within our community investment program, we aim to overcome disadvantage in our local communities by supporting education and entrepreneurship through a combination of targeted funding and the commitment and skills of our employees. Coordinated globally, our initiatives are implemented regionally. Proximity to our partners allows us to better understand the needs and requirements of our communities. Based on this, we can generate a long-term, sustainable and measurable impact on our local communities while offering volunteering opportunities for our employees. As well as direct cash donations and the commitment of our employees, our community investment program also includes matched-giving schemes and disaster relief efforts.

Community Affairs

We actively engage with the communities around the globe of which we are a part. In 2013, UBS and our affiliated foundations made direct cash donations totaling CHF 28.3 million to carefully selected non-profit partner organizations and charities. These donations were primarily aimed at our Community Affairs key themes of education and entrepreneurship. Additionally, spending on the UBS Anniversary Education Initiative amounted to CHF 14.0 million. Our contributions, combined with other significant activities, notably the volunteering activities of employees, have continued to provide substantial benefits to projects and people around the world, as demonstrated by the regional examples provided below.

Contributions were also made to other causes, in particular disaster relief, including a commitment of more than CHF 1.9 million in total financial contributions to both short-term relief and long-term rebuilding efforts in response to the devastation caused by Typhoon Haiyan in the Philippines. Community Affairs and the Optimus Foundation, UBS's independent grant-making foundation, joined forces to offer a unique and integrated approach including both clients' and employees' donations in its matched-

Key examples of UBS's community investment activities across the globe

Switzerland

Developing Switzerland's next generation of business leaders was a priority for us in 2013. One of the projects we supported was the annual company event organized by Young Enterprise Switzerland (YES). As part of this program, which we have been supporting since 2007, students from all over the country establish and manage a real company, thus learning how the business world works. For 12 months, they receive support from business mentors, their teachers and YES. At the end of the year, representatives of the 25 best-performing companies are invited to the grand final in Zurich, where the winner is crowned.

As part of the UBS education initiative, in 2013 we also supported one of the annual awards made by the Social Entrepreneurship Initiative & Foundation (seif). Each year, seif recognizes innovative business ideas that foster responses to social or environmental challenges.

In Switzerland, our community investment efforts are also advanced by the UBS Culture Foundation, the UBS Foundation for Social Issues and Education, and the A Helping Hand from UBS Employees association. In 2013, these organizations made valuable contributions to important social causes, including fostering the humanities and the creative arts, supporting communities in need, and helping disabled and disadvantaged people.

Americas

In 2013, Community Affairs & Corporate Responsibility Americas undertook a strategic re-launch of our programming to help deploy the firm's financial and human capital more effectively. This included a complete overhaul of our employee giving portal, which supports all of our engagement programs across the Americas. Within UBS's global focus areas of education and entrepreneurship, we are providing under-resourced, high-potential individuals with advice and resources to help develop more enterprising communities.

In our first major initiative following the re-launch, we coordinated UBS's second annual Season of Service, a community impact initiative open to all business divisions in the Americas. Over the course of two months, employees completed 92 different volunteer activities and logged more than 2,500 volunteer hours.

Within our flagship Elevating Entrepreneurs program, we continued to expand our lending offerings in Chicago and Los Angeles. In coordination with our partners in the UBS Bank USA Community Development Group and the Valley Economic Development Center, we committed USD 35 million in capital to qualified small businesses in Chicago, Los Angeles, New York, New Jersey, Connecticut, Salt Lake City and Las Vegas. During 2013, 29 small businesses received loans ranging from USD 50,000 to USD 250,000 totaling USD 6.4 million. Combined, these companies have created 451 new jobs.

Asia Pacific

In 2013, the UBS Finance Academy program in Sydney marked its 11th anniversary, and over the years has provided more than 550 public school students with first-hand insight into the world of finance and exposure to UBS. Over the course of the program, students

giving programs. This combined (client and UBS) commitment raised the total financial contributions to the rebuilding efforts in the Philippines to more than CHF 3 million.

Across all business regions, our employees continue to play a very active role in our community investment efforts, in particular through their volunteering activities. In 2013, 10,648 employees spent 91,370 hours volunteering. We support their commitment by offering up to two working days a year for volunteering efforts. For the second year in a row, employees who have demonstrated outstanding volunteering commitment were rewarded with the UBS Global Employee Volunteer Awards.

Furthermore, we strengthened the measurement of the impact of our Community Affairs activities. We measure the impact of projects across all regions using the London Benchmarking Group model. Understanding where we make an impact provides vital data that helps us evaluate and focus our program. Therefore, we plan to further expand measurements of our strategic programs across all regions in 2014.

Client foundation

The UBS Optimus Foundation is an expert grant-making foundation established by UBS in 1999. The Foundation works to break down barriers that prevent children from reaching their full potential by funding leading organizations to improve the health, education and protection of children. The UBS Optimus Foundation supports programs in places where children face adversity. Since its establishment, the Foundation has received more than 25,000 donations totaling over CHF 195 million. By the end of 2013, the Foundation supported 107 projects in 48 countries amounting to a total value of CHF 69.8 million. As UBS bears all administrative costs related to the UBS Optimus Foundation, 100% of every donation goes directly towards the projects funded.

were provided with the opportunity to listen to, and interact with, key industry figures. Students also gained practical knowledge of financial markets through "day in the life" presentations, merger and acquisition case studies and a field trip to both UBS's live trading floor and CNBC's filming studio.

Across the region, UBS employees continue to volunteer in a diverse variety of both skill-based and grassroots programs. Clients and family members are also often invited to join in where appropriate. In 2013, during the Regional Volunteer Experience, volunteers from across Asia Pacific traveled to Japan and joined local volunteers to work together on the Team Tohoku program in the remote northeastern community of Kamaishi City, aimed at helping the community get back on its feet following the 2011 tsunami. Led by senior management, including UBS Asia Pacific's Chief Executive Officer, Chi-Won Yoon, these volunteers focused on various projects relating to job and economic regeneration, temporary and long-term recovery housing, strengthening the skills and knowledge needed by local civil societies for further development, as well as risk reduction and future disaster preparedness.

In its second year, Singapore's Diversity in Abilities arts program, targeted at bringing visual and performing arts to children in special education, was awarded Singapore's National Arts Council Patron of the Arts Award 2013. More than 140 children were trained by renowned local and regional artists and the program culminated in a stage production that featured Singapore's Minister of Education in an acting role.

Europe, Middle East and Africa

In Europe, the Middle East and Africa, Community Affairs activities focus on sharing the workplace skills of our employees in order to help people in disadvantaged communities reach their full potential. Last year, in the UK alone, we helped 6,366 students develop employability and entrepreneurial skills through UBS work-related learning programs, which range from employability skills workshops and interview practice to work experience. In the UK, UBS was recognized with a Business in the Community 2013 Responsible Business Award for its volunteering program.

In Turkey, over 1,000 students took part in the BKD-Science Heroes Association challenge, which helps develop their technology, math and entrepreneurial skills. Hakan Habip of UBS Turkey, who co-manages our partnership with BKD, was named one of Turkey's top 100 "Changemakers" by the highly regarded Sabanci Foundation for his involvement in BKD activities. In Italy, a team of UBS managers worked with a group of students from underprivileged backgrounds to raise their aspirations and achievements, and helped them secure places at a prestigious university. In Israel, the successful partnership with Ashoka continues, supporting young social entrepreneurs to develop their projects.

Across Europe, the Middle East and Africa, employees are getting involved in their local communities and sharing their workplace and entrepreneurial skills.

➔ Refer to www.ubs.com/community for more information

Our employees

Our employees' drive, skill, insight and experience are key to meeting our clients' needs and growing our businesses. We are committed to investing in our employees and furthering our reputation as a leading employer. We promote a performance- and development-oriented culture that values integrity and encourages collaboration across the entire firm. Our principles of client focus, excellence and sustainable performance serve as the basis for all of our endeavors, helping us focus on every opportunity to create value for our stakeholders.

Our workforce

In the past two years, we have concentrated on building our capital strength, improving efficiency and effectiveness, and reinforcing risk management. These three pillars underpin our strategy and are the foundation of everything we do. A key part of this effort has been to build a strong corporate culture while ensuring that we hire, develop and retain a global workforce that not only meets today's business challenges, but also enables us to build strength as we plan for our leadership needs in the future.

We made some changes to our workforce in 2013. This was primarily due to our ongoing cost reduction programs that reduced staff numbers across the firm, particularly within the Investment Bank and the Corporate Center. These changes also reflected measures designed to improve our long-term efficiency. For example, in August 2013, we announced the creation of the UBS Nashville Business Solutions Center in the US. The Nashville location is part of our strategy to create regional centers of excellence for our support functions and allows us to increase collaboration and operational effectiveness. It also complements our existing service center in Poland and our other outsourcing and offshoring relationships elsewhere in the world.

As of 31 December 2013, we employed 60,205 people (on a full-time equivalent basis), 2,423 fewer than a year earlier. In 2013, our employees worked in 56 countries, with approximately 36% of our staff employed in Switzerland, 35% in the Ameri-

Personnel by region

	As of			% change from
Full-time equivalents	**31.12.13**	31.12.12	31.12.11	31.12.12
Americas	**21,317**	21,995	22,924	(3)
of which: USA	***20,037***	*20,833*	*21,746*	*(4)*
Asia Pacific	**7,116**	7,426	7,690	(4)
Europe, Middle East and Africa	**10,052**	10,829	11,019	(7)
of which: UK	***5,595***	*6,459*	*6,674*	*(13)*
of which: rest of Europe	***4,303***	*4,202*	*4,182*	*2*
of which: Middle East and Africa	***153***	*167*	*162*	*(8)*
Switzerland	**21,720**	22,378	23,188	(3)
Total	**60,205**	62,628	64,820	(4)

Personnel by business divisions and Corporate Center

	As of			% change from
Full-time equivalents	**31.12.13**	31.12.12	31.12.11	31.12.12
Wealth Management	**16,414**	16,210	15,904	1
Wealth Management Americas	**16,344**	16,094	16,207	2
Retail & Corporate	**9,463**	10,156	11,430	(7)
Global Asset Management	**3,729**	3,781	3,750	(1)
Investment Bank	**11,615**	13,595	14,685	(15)
Corporate Center	**2,640**	2,792	2,845	(5)
of which: Core Functions	***1,055***	*488*	*405*	*116*
of which: Non-core and Legacy Portfolio	***1,585***	*2,304*	*2,440*	*(31)*
Total	**60,205**	62,628	64,820	(4)
of which: Corporate Center personnel (before allocations)[1]	***24,082***	*25,892*	*26,974*	*(7)*

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports (for example due to adjustments following organizational changes).

cas, 17% in Europe, Middle East and Africa and 12% in Asia Pacific.

A mobile workforce enables employees to develop relationships across business divisions, regions and cultures, increases trust and helps us to better leverage our employees' skills. It also helps ensure that we have the right people in the right roles in order to meet our clients' needs. As part of our commitment to business growth and career development, we transferred 1,105 employees between business divisions in 2013, in addition to transferring 405 employees to roles in a different region. Globally, employee turnover, as a percentage of average overall headcount, was 15% in 2013 compared with 12.9% in 2012. Employee-initiated turnover was 8.7%, an increase of 2% from 2012.

Attracting and retaining talent

We strive for excellence in everything we do, and this begins with our employees. It is fundamental to our success to recruit the most talented individuals, help them develop, and effectively leverage their skills to meet our clients' evolving needs. We try to be as forward-looking as possible when planning our talent needs and comparing them with our existing workforce. Regular talent reviews enable us to understand our employees' capabilities, potential and ambition in order to fill any gaps by developing or further recruiting talent at all levels. Our integrated approach to managing talent across the entire employee lifecycle allows us to link our recruitment, diversity, learning, mobility, performance management, talent review, compensation and succession practices in the most meaningful way.

Recruiting new employees

People join UBS from a diverse range of backgrounds. We are committed to building the skills of our existing employees while hiring the best available talent, as required, to sustain and grow our core businesses.

In 2013, we reviewed our comprehensive hiring standards and processes, especially those focused on recruiting at senior levels, to help ensure that we continue to hire people who are demonstrably qualified for their roles and are a good fit for the firm's culture. We recruited highly effective financial and client advisors in 2013 and invested in our future by hiring graduates and interns globally, as well as strengthening our commitment to apprentices in Switzerland. In total, 6,548 external hires were made across the firm in 2013, with Wealth Management recruiting 374 client advisors and Wealth Management Americas hiring 480 financial advisors.

Our own employees helped refer talent to the organization. As a result, 15% of externally sourced roles in 2013 were filled through employee referrals. Employees also expect to be considered for open roles within the firm. Therefore, in 2013, we instituted further measures to support transparent and objective internal hiring processes so that current employees have the same access to available jobs at UBS as external candidates.

Throughout 2013, we ensured a continuous and visible presence at our target universities, with UBS leaders and employees actively supporting our campus recruiting efforts. Global initiatives launched in 2013 included the Emerging Talent Program, a special internship within UBS's Education Initiative that targets students early in their academic careers. The UBS Explore career-consideration program helped increase the number of potential recruits, and our graduate trainees benefited from educational opportunities and business-specific training. In 2013, 476 university graduates were hired into one of UBS's undergraduate or MBA graduate training programs. An additional 876 interns were hired globally.

Our apprenticeship program in Switzerland continued to perform strongly in 2013, hiring 266 business and 39 information technology apprentices. This was the first year that UBS recruited an increased number of apprentices in conjunction with the UBS Education Initiative (an additional 150 apprentices over a five-year period). We also recruited 185 trainees into our All-round Traineeship Program for Swiss high school graduates.

In 2013, we continued to be seen as an attractive employer and were notably ranked in the global top 50 in Universum's 2013 World's Most Attractive Employers list. In Switzerland, UBS ranked third among business students in Universum's 2013 Ideal Employer survey.

➔ Refer to www.ubs.com/awards for more information on UBS's rankings as an employer

Strengthening our diverse workforce and inclusive work environment

Our workforce is truly global. We have 890 offices in 56 countries, and our employees, who together speak more than 137 languages, are citizens of 144 countries. In 2013, the average age of our employees was 41 years and the average length of employment within the firm was 9.2 years. In Switzerland, more than 49% of employees have worked at UBS for more than 10 years. This experience enables our employees to have stronger skills, better understanding and more institutional knowledge about our clients' needs and how to meet them.

We believe that companies with diverse workforces and inclusive work environments excel in understanding and serving clients. In all our businesses, we seek to hire and retain a broad range of talent with diversity in race, gender, business experience, perspective, ethnicity, nationality, religion, age, abilities, education and sexual orientation. As part of this goal, we seek to strengthen and sustain an inclusive work environment that encourages all employees' development and enhances client relationships. We are globally committed to offering equal employment opportunities and believe that having the right people, in the right roles, at the right time is a key factor in delivering excellence and building capability for the future.

Within our continuing effort to strengthen all aspects of diversity, increasing gender diversity remained a key priority in 2013. We again called for divisional diversity planning that includes targeted, forward-looking actions over the next several years that aim to increase the number of women working at UBS, particularly in senior roles.

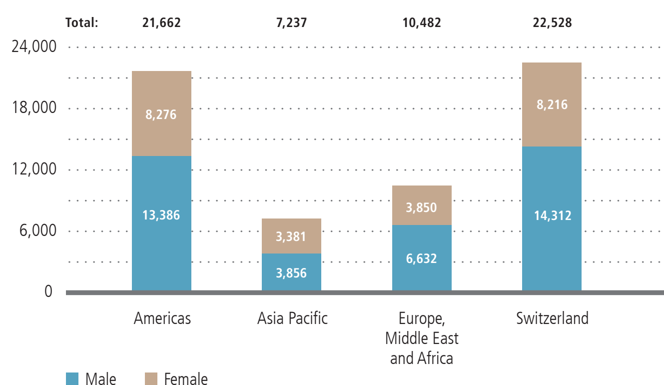
A wide range of regional initiatives complemented our global efforts. For example, we launched an 18-month sponsorship program for high-performing female Directors and Executive Directors in the US. Combining mentoring and advocacy, this program strengthens leadership skills, provides increased access to the firm's senior executives and fosters a "pay-it-forward" culture among women across the organization. We also worked with groups such as the Council of Urban Professionals and the Financial Women's Association to significantly increase the number of diverse recruitment candidates presented to managers. Numerous events for staff in the US, the UK and Asia Pacific strengthened employees' understanding and promoted a sense of personal responsibility towards issues related to culture, gender, sexual orientation and working relationships.

In Switzerland, we worked to enhance skills and representation among several employee groups in 2013. For example, a suite of practical training programs to promote life-long learning was offered to mid-life employees, focusing on career planning and skills development in technology, new media and languages. A mentoring program for 150 mid-career women combined career advice with increased visibility and access to the firm's senior management. Also in 2013, we established a partnership with Advance, an association of Switzerland-based companies that focuses on increasing the percentage of women in Swiss industries through development opportunities, role modeling and targeted events. In Asia Pacific, we sponsored workshops and events during 2013 to help our businesses better leverage their multi-generational workforces. Understanding and appreciating differences in age, behavior, attitude, motivation and working styles builds stronger teams that are better able to serve our clients.

In 2013, over 14,500 employees across UBS were members of more than 20 employee networks. These networks, representing affinities such as gender, culture, life stage and sexual orientation, help build cross-business relationships and an open workplace. Our global network guidelines enable employees to set up or join employee networks in all our operating regions. Additionally, our human resource policies and processes have global coverage and outline our commitment to a non-discriminating, harassment-free workplace, offering equal opportunities. This foundation encourages active and growing participation in our many employee networks.

Gender distribution by geographical region[1]

On 31.12.13



1 Calculated on the basis that a person (working full time or part time) is considered one headcount in this graph only. Looking at subregional data, the Americas consists of the USA at 20,328 and the rest of the Americas at 1,334. EMEA consists of the UK at 5,758, the rest of Europe at 4,564 and Middle East and Africa at 160. This accounts for the total UBS end-2013 employee number of 61,909, which excludes staff from UBS Card Center, Hotel Seepark Thun, Wolfsberg and Widder Hotel.

Managing performance

As a results-driven firm, personal accountability, effective performance management and sound compensation practices are critical for our success. Our performance management framework features regular employee-manager dialogue, consistent assessment processes and clear links between performance, behavior, achievements and compensation. We provide the tools and support employees need to set clear goals, be effective in their jobs and advance their careers.

We further strengthened our year-end evaluation processes in 2013 to more closely align individual performance with the firm's strategy and culture. More than ever, we want to evaluate not only each employee's achievements, but how those results were

Gender distribution by employee category[1]

	Officers (Director and above)		Officers (other officers)		Non-officers		**Total**	
As of 31.12.13	Number	%	Number	%	Number	%	**Number**	**%**
Male	17,995	78.3	12,463	61.4	7,728	41.5	**38,186**	**61.7**
Female	4,996	21.7	7,844	38.6	10,883	58.5	**23,723**	**38.3**
Total	22,991	100.0	20,307	100.0	18,611	100.0	**61,909**	**100.0**

1 Calculated on the basis that a person (working full time or part time) is considered one headcount (in this table only). This accounts for the total UBS end-2013 employee number of 61,909, which excludes staff from UBS Card Center, Hotel Seepark Thun, Wolfsberg and Hotel Widder.

The building blocks of effective people management

achieved. As part of this, specific corporate behaviors were integrated into our performance management processes starting with 2013 year-end evaluations. Employees and managers are expected to use concrete examples to illustrate how these behaviors were exhibited in 2013 and provide feedback on areas for future focus. We also assess employees' competencies and development needs as part of our overall performance management approach.

Appropriate awareness and management of all types of risk continues to be a focus for our businesses. As part of this, measurable and relevant risk objectives were again required for all employees in 2013 and considered in performance and reward decisions.

Performance management for our executives is especially rigorous. Senior leaders, including all Group Executive Board members, are evaluated on key achievements, business performance, risk management, leadership skills and meeting specific financial targets, in addition to acting as role models for our corporate culture. Comprehensive feedback from peers, direct reports and internal clients forms part of this assessment.

Our "key risk takers" also receive additional input and feedback in their performance reviews. These individuals may work in front office, logistics or control functions and, due to their role, are able to materially commit, use or control the firm's resources and exert significant influence over our risk profile. For this reason, in addition to self, manager and other relevant 360-degree reviewers, at least one person in a control function, such as finance or compliance, must attest to the person's attitudes and actions towards managing risk.

Our people management processes are global. In 2013, 99% of the employees eligible to participate in the firm's performance assessment processes received a performance review. We have Group-wide ranks and country-specific salary ranges that are applicable to all employees. We also have a standardized role classification model which is used across the firm. Many human resource processes are based on these global role profiles, and this supports more clearly defined career paths and development plans for all employees.

Education and development

Our Group-wide learning and development course offerings encompass senior leadership development, business education and practical training measures for employees at all levels. Our goal is to provide our employees and leaders with what they need to excel in their roles, progress in their careers and ultimately create value for our stakeholders.

In 2013, we made our education function more agile and flexible. Continuously evolving business and regulatory environments call for specialized training to be delivered to teams more quickly than traditional learning initiatives were in the past. Striking a better balance between highly customized learning activities and external training support has been key to delivering timely, topical training to front office employees in particular.

A primary aim for 2013 was to continue to offer training that helped our businesses achieve their goals. In Wealth Management Americas, for example, our financial advisor education aimed to deepen our advisors' ability to deliver holistic advice that considers clients' planning, borrowing, saving and giving needs, in addition to investing. A new, four-module Wealth Advisor program gives established financial advisors the advanced skills and knowledge to deliver comprehensive counsel to their clients. In November 2013, a national learning forum gathered hundreds of financial advisors, field and home office leaders, and external partners to discuss client trends, wealth management solutions and best practices. Additionally, select new candidates for financial advisor roles are regularly hired into a two-year, salaried Wealth Planning

UBS Wealth Management Master

Launched in late 2012 and aimed at senior client advisors across Wealth Management, the UBS Wealth Management Master is the highest internal certification available to top-performing client-facing staff in Wealth Management. The two-year program combines structured training with on-the-job development, enabling senior professionals to acquire in-depth expertise in client book management, client investment and relationship management. Since inception, 90 client advisors have entered the program.

Analyst program, which enables them to obtain relevant licensing, training and practical experience in a US branch office before joining an existing team as a qualified financial advisor.

We offer client education opportunities through our Financial Markets Education team. Numerous classes and educational events are available to clients in all of our operating regions. These initiatives cover a wide range of financial topics including equities and equity derivatives, fixed income basics, credit risk and commodities.

Role-driven business education is offered through specific learning pathways. These pathways, covering topics such as risk, compliance, sales, advisory and financial markets, help ensure consistent training across similar job roles. For example, Wealth Management expects a high and consistent level of expertise within client advisor roles. In addition to the Wealth Management Diploma and Wealth Management Master Certificate programs that are already available, in 2013 we developed specialized training for client advisors to help them strengthen client relationships, investment strategies and business focus.

All employees can access a broad range of development and training as part of their daily job and through various programs. Our eLearning portfolio consists of more than 5,100 courses on topics such as communication skills, management and leadership, financial markets and information technology. Specialized learning modules on risk, finance and compliance topics help employees develop the skills they need to work effectively in their roles and within evolving business and regulatory environments. Overall, in 2013, our employees participated in about 776,000 development activities, including approximately 512,000 mandatory training sessions focusing on compliance and regulatory topics. This equated to an average of 12.5 training experiences per employee or an average of 2.5 training days.

Compensation

We strive to offer our employees a competitive salary and performance award while maintaining our obligations to our shareholders and regulators. Our approach recognizes the need to compensate individuals for their performance within the context of market conditions, risk considerations, a fast-changing commercial environment and evolving regulatory supervision. Our foremost priority is to encourage and reward behavior that contributes to sustainable profitability and the firm's long-term success.

Our compensation structure is designed to be appropriately balanced between fixed and variable elements. We emphasize the variable component as an incentive to excel and to foster a performance-driven culture, while supporting appropriate and controlled risk-taking. Employee compensation is viewed within a total reward framework that takes into account base salary, discretionary performance awards and benefits.

Our Total Reward Principles are the foundation of our compensation framework, particularly for integrating risk control and managing performance, as well as specifying how we structure our compensation and performance award pool funding. They reflect our long-standing focus on pay for performance, sustained profitability, risk awareness and sound governance.

➔ Refer to "Our deferred variable compensation plans" in the "Compensation" section of this report for more information

Employee share ownership

We believe personal accountability for business actions and decisions can be encouraged through equity-based awards. Our employee share purchase plan, Equity Plus, is a voluntary equity-based program whereby eligible employees can purchase UBS shares at market price and receive one matching share for free for every three shares purchased. These matching shares vest in three years, subject to continued employment at UBS and retention of the purchased shares. We also use UBS shares as a significant component in our performance award deferral programs. As of 31 December 2013, current employees held an estimated 7% of UBS shares outstanding (including approximately 5% in unvested/blocked actual and notional shares from our compensation programs), based on all known shareholdings from employee participation plans, personal holdings and individual retirement plans. At the end of 2013, an estimated 48% of all employees held UBS shares.

➔ Refer to the "Compensation" section of this report for more information

Our identity and our commitment to being a responsible employer

We have a clear vision. We want to be the world's leading wealth manager and the top universal bank in Switzerland. We want to have an investment bank and an asset management business that are leaders in their chosen areas of focus and that add value to the overall franchise. We have made excellent progress in the past 18 months in implementing our strategy and in resolving legacy issues, and we are one of the world's best-capitalized banks. Our continued success depends largely on hard work and on building a strong corporate culture.

Relationships based on respect, trust and mutual understanding are the foundation for all of our business activities. The firm's guiding principles characterize the way we work together and the commitments we make to our clients. Unrivaled client focus is at the heart of our business model and we strive for excellence in everything we do, from the people we employ to the products and services we offer to our clients. We aim to deliver sustainable performance by strengthening our reputation and by delivering consistent returns to our shareholders. These concepts are integrated into our corporate decision-making and people management processes, and they are intended to shape the daily actions of our employees.

We are committed to making our unique culture a winning one. Our principles are brought to life in the actions and personal conduct that each of our employees exhibits in daily interactions with

clients and colleagues. In 2012, we developed some basic expectations for employee behavior with input from over 500 employees throughout all regions and businesses. They were discussed with the firm's 2,500 most senior managers in mid-2013 and then with more than 10,000 staff to ensure that our employees understand and act according to the values and principles that define who we are and what we stand for as an organization. In late 2013, we integrated these expectations into our promotion and performance evaluation processes to ensure that the way we achieve our goals is as important as achieving the goals themselves. We are developing a concrete plan to embed them in everything we do, from leadership skills building and business process simplification to employee engagement and the way we recruit people.

Listening to the voice of our employees

We request feedback from employees throughout the year. In 2012, we instituted a regular "Ask the CEO" event to allow employees to pose questions to our Group Chief Executive Officer Sergio P. Ermotti live in Zurich or via an interactive news and feedback channel called UBS Connections. A broad range of topics are discussed at these sessions, for example strategic direction, corporate restructurings and concepts such as collaboration and integrity.

Since 2008, we have utilized a targeted feedback tool to gauge the efficacy of our strategic communication initiatives, as well as the engagement levels of employees across the firm. This survey is sent several times a year to a representative sample of employees across all regions and business divisions. It assesses employees' familiarity with our senior management, the firm's principles and behaviors, specific measures of employee engagement, and their conviction regarding our strategic direction. We use the results to shape our communication strategies and to develop targeted initiatives that address areas of perceived weakness.

Benefits and well-being

We invest in all of our employees by offering a comprehensive suite of benefits such as insurance, pension, retirement and both paid and unpaid time off. We also offer our employees benefits beyond those required by local law or market practice. These benefits are designed to enhance employees' work experience and help them manage their professional and personal interests.

For example, we support flexible work arrangements in our major locations. In Switzerland, employees can request "Time Flex" options such as teleworking, part-time or job-sharing, or begin partial retirement starting at 58 years old. The UK and US have policies that outline part-time, flexible, job-sharing and home-working opportunities that may be appropriate for employees whose roles are amenable to flexible working conditions.

We also provide employee assistance programs in a number of locations, including the UK, US, Switzerland, Hong Kong, Singapore and Japan. These programs offer specialist support and counseling to help employees resolve issues related to stress, illness, personal conflict, finances, bereavement, mental health, performance, adult care and other work-life challenges. In addition, employees in the UK can utilize an on-site general practitioner, physiotherapist and dentist, as well as occupational health services. Employees in Switzerland have access to a child-care referral service, and employees in Stamford have access to on-site childcare.

We have a longstanding commitment to support the overall health and safety of all our employees, as noted in our Code of Business Conduct and Ethics. Our health and safety guidelines emphasize the importance of providing a good physical infrastructure and a work environment that promotes the health and safety of our employees and contractors. As part of this mandate, we track accident and illness rates. In 2013, 48,389 work days were lost to accident and 319,868 to illness. This amounts to six work days per employee.

Our commitment to being a responsible employer is present in every component of our people management process. This is especially important when necessary actions significantly impact certain employee groups in workforce-reduction exercises such as downsizings or organizational restructurings. Redeployment and outplacement initiatives in every region provide transitional support to affected employees. For example, eligible employees in the US receive career transition support, in addition to severance pay and health benefits. In Switzerland, our COACH program helps affected employees find new roles within UBS, or outside the firm, in the event of a restructuring. Employees below the level of Director participate in a social plan that sets out the terms and conditions for redundancies as well as internal hiring, job transfers and severance.

➔ Refer to www.ubs.com/health-safety for our health and safety statement

Employee representation

As part of our commitment to being a responsible employer, we work with all of our employee representation groups to maintain an active dialogue between employees and management.

The UBS Employee Forum for Europe was established in 2002 and includes representatives from 18 countries across Europe. It facilitates open dialogue on pan-European issues that may affect our regional performance, prospects or operations. Other local forums address topics such as health and safety, changes to workplace conditions, pensions, collective redundancies and business transfers. In Switzerland, for example, the elected members of the Employee Representation Committee partner with senior management for annual salary negotiations and represent employee interests on specific topics. The UK Employee Forum, with elected representatives from our UK businesses and appointed management representatives, focuses on economic, financial and social activities concerning UK employees. Collectively, the UBS Employee Forum, including the Employee Representation Committee and UK Employee Forum, represents approximately 50% of our global workforce.

Compensation

2013 compensation highlights and key changes

Performance achievements and performance award pool

A year ago, we committed to continue adapting our business to better serve clients, reduce risk, deliver more sustainable performance and enhance shareholder returns. In 2013, we made good progress in achieving all these goals and finished the year ahead of the majority of our performance targets.

Our business divisions posted strong results for 2013. Our adjusted Group profit before tax increased 44% year on year to CHF 4.1 billion. Our industry-leading fully applied Basel III common equity tier 1 (CET1) capital ratio increased by 300 bps to 12.8%, surpassing our 2013 target. Fully applied Basel III risk-weighted assets were reduced to CHF 225 billion, mainly due to disposals and other risk reduction in our Non-core and Legacy Portfolio, exceeding our 2013 year-end target and in line with our target for 2015. We significantly deleveraged our balance sheet, reducing total assets by CHF 250 billion. Maintaining cost discipline is critical to our long-term success. In 2013, we achieved our CHF 2 billion gross cost reduction target announced in July 2011.

A year ago, our 2012 performance award pool was significantly affected by the LIBOR matter, negatively impacting awards in the Investment Bank, in some areas of the Corporate Center, as well as the awards to the Group CEO and the other Group Executive Board (GEB) members. Based on the strong performance in 2013, we normalized our performance award levels for those areas most negatively affected last year and reduced gaps to market pay levels, leading to a performance award pool for 2013 of CHF 3.2 billion, which is 28% higher than for 2012. However, reflecting the reduced awards and longer deferrals in recent years which have resulted in decreased charges in 2013 for prior-year deferrals, the cost of performance awards was flat year on year on an accounting basis (IFRS).

While stability and predictability in our compensation framework are important, we have made some refinements to our framework in 2013 in response to the competitive environment and feedback from our shareholders.

Refinements to the GEB compensation framework

We introduced individual caps on performance awards of a maximum of five times the base salary for the Group CEO and a maximum of seven times the base salary for other GEB members. These caps are in addition to the overall GEB pool cap of 2.5% of adjusted Group profit before tax that we introduced last year.

We changed the GEB's performance award deferral mix by increasing the weighting of the equity portion under the Equity Ownership Plan (EOP) to at least 62.5% from 50% of the deferred amount and by decreasing the Deferred Contingent Capital Plan (DCCP) portion to 37.5% from 50%.

We increased the DCCP's phase-in CET1 capital ratio trigger to 10% from 7% for all GEB members including the Group CEO so that, if this capital ratio falls below 10%, the affected deferred performance awards would be written down to zero.

We based all GEB performance awards, including for the Group CEO, on financial and qualitative measures that were clearly defined and quantified in terms of relative weightings.

Refinements to the compensation framework for employees below GEB level

We changed the performance award deferral mix by increasing the weighting of the EOP portion to 60% of the deferred amount from 50% and reducing the DCCP portion to 40% from 50%.

Reflecting market dynamics, we raised the threshold of compensation levels subject to deferrals. We introduced deferral rates ranging from 40% to 75% compared with the previously flat rate of 60%, and better aligned performance award conditions to the firm's targets. In general, this means employees at the lower end of the compensation scale benefited from lower levels of deferral than in previous years, while those at the higher end of the compensation scale were subject to higher levels of deferral.

The combined effect of the changes to deferral rates and threshold for all employees below the GEB level resulted in additional compensation expenses of CHF 0.2 billion for 2013.

Key regulatory developments

The "Ordinance against excessive pay in stock exchange listed companies," issued by the Swiss Federal Council in November 2013 and effective from 1 January 2014, requires Swiss listed companies to submit the compensation of the GEB and Board of Directors (BoD) to shareholders for a binding vote annually. The Human Resources and Compensation Committee and BoD are being provided with regular updates on the impact and proposed implementation of the Ordinance. The first vote on BoD and GEB compensation will be held at the 2015 Annual General Meeting of Shareholders (AGM).

Another key regulatory development is the impact of the European Union's Capital Requirements Directive IV on affected employees and the related implementation of the performance award cap for 2014 for this population. As a result of these requirements, we will submit for approval at the 2014 AGM a proposal concerning the award cap for variable compensation for affected employees.

Details regarding both of these measures will be provided as part of the agenda for the AGM.

➔ **Refer to the "Regulatory and legal developments" section of our Annual Report 2013 for more information**

Dear shareholders,

We are on track with the implementation of our ambitious strategy. To ensure this continues, we further anchored our strategy and a culture of accountability into our compensation framework during 2013.

We have built on the important strides we took in 2012 with the adoption of a revised compensation model founded on incentivizing disciplined capital management and with performance awards based on risk-adjusted profitability. In 2013, the Human Resources and Compensation Committee reviewed the firm's compensation model to ensure it continues to reinforce our employees' focus on medium- and longer-term performance, and in response to the competitive environment and feedback from our shareholders. Consequently, we made two key refinements to our plans during 2013. Firstly, we increased the weighting of the Equity Ownership Plan (EOP) to sharpen employees' focus on future shareholder value creation. The increased weighting of the EOP underlines our commitment to deliver attractive returns to our shareholders and employees alike. Secondly, we raised the forfeiture trigger level of the Deferred Contingent Capital Plan (DCCP) for the Group Executive Board (GEB), thereby significantly increasing the sensitivity of their compensation to a possible common equity tier 1 (CET1) capital ratio reduction.

We aim to foster a true culture of accountability at all levels of the firm. We strive to embed this core value into our daily actions including integrating safeguards on pay with appropriate governance oversight. To this end we made the following amendments to our compensation policies: we introduced a cap on the proportion of fixed to variable compensation for GEB members in addition to the cap of 2.5% of adjusted Group profit before tax for the GEB performance pool implemented a year ago. We now disclose in more detail the parameters we considered and how they were weighted in this year's GEB performance award assessment process.

Below GEB level, we established greater differentiation in the deferral rates of the performance awards at the individual level based on total compensation. While deferral rates have been reduced for some, improving market competitiveness, the marginal deferral rate at the higher end of the scale has been increased, placing more compensation at risk. Furthermore, we continue to take a strong stance on long-term accountability with our performance award plans. The lengths of our vesting periods are demanding compared with the industry, with plan durations of three to five years for the GEB and two to five years for employees below GEB level. These lengthy deferral periods are designed to ensure appropriate risk-taking.

In 2013, we increased profits and shareholder returns. Our business divisions posted strong results and were profitable in every quarter, demonstrating that our business model has the flexibility to deliver in a variety of market conditions. Our employees met the continued challenges affecting our industry with energy, determination and commitment, enabling us to deliver for both our clients and shareholders. While the performance of our businesses improved significantly during 2013 and we finished the year ahead of many of our targets, we remain fully committed to moderation in performance-related pay.

In 2013, adjusted Group profit before tax increased 44%. Reflecting the firm's strong performance, the Board of Directors (BoD) is recommending a 67% increase in the dividend for shareholders. By way of comparison, we took the decision to increase the overall perfor-

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mance award pool 28% to CHF 3.2 billion. The increase compared with 2012 also reflects the fact that a year ago we addressed issues of the past that weighed on our performance. This resulted in pay that was understandably at the lower end of the scale compared with the industry. While the performance award pool increased 28%, the actual recognized performance award expenses remained flat compared to 2012, reflecting the lower awards in recent years and the strong deferral component in our compensation plans.

Looking ahead, we will continue to assess and refine our compensation framework to promote sustainable performance, risk alignment and competitive pay positioning against the backdrop of increasing regulation and a changing business environment. We intend to strike and maintain a balance whereby we reward employees effectively and responsibly. To ensure our continued success, we need to attract and retain the best people to deliver sustainable performance for our shareholders. As part of our endeavors, we will remain responsive to our shareholders and seek out opportunities to engage with them on compensation matters.

As a result of the implementation of the Ordinance against excessive pay issued by the Swiss Federal Council, from 2015 onwards we will not only have an advisory vote on the compensation report, but will also seek shareholder approval on the compensation for the GEB and BoD. Revised Articles of Association, outlining the framework for the binding approval, will be presented at the upcoming Annual General Meeting (AGM). Furthermore, in accordance with the EU Capital Requirements Directive 2013, the BoD will propose, via a shareholder advisory vote, a cap of 2:1 for variable versus fixed compensation for UK-based employees whose professional activities could have a material impact on the firm's risk profile in the UK.

The BoD and I would like to offer our sincere thanks to our shareholders for the time they took to meet with us and share their views on compensation. Over the following pages you will find details of UBS's compensation programs and decisions for 2013, for which we will seek your support at our AGM in May 2014.

Ann F. Godbehere
Chair of the Human Resources
and Compensation Committee of
the Board of Directors

Ann F. Godbehere
Chair of the Human Resources and Compensation Committee of the Board of Directors

2013 performance and compensation funding

Our performance in 2013 demonstrated both the strength of our business model, which is designed to provide sustainable and attractive results with a much lower capital and risk profile, and the focused and disciplined manner in which we continue to implement our strategy. As a result, the performance award pool for 2013 was increased to CHF 3.2 billion, 28% higher than in 2012.

Our performance in 2013

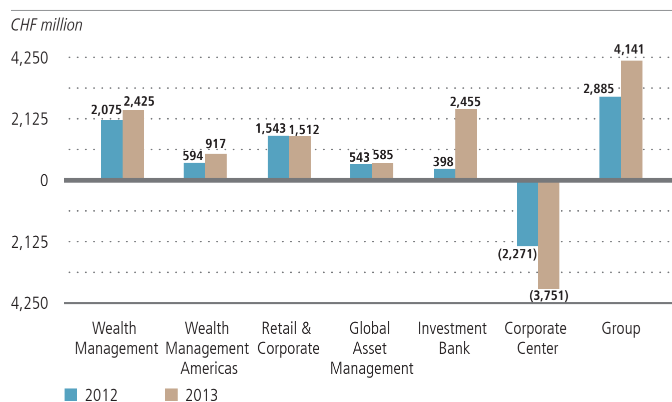
Overall for 2013, we reported an adjusted[1] Group profit before tax of CHF 4.1 billion, a net profit attributable to UBS shareholders of CHF 3.2 billion and diluted earnings per share of CHF 0.83.

In 2013, we further enhanced our position as one of the world's best-capitalized banks, exceeding our year-end capital target. On a fully applied basis our Basel III common equity tier 1 (CET1) capital ratio increased 300 bps to 12.8%, ahead of our 2013 target of 11.5%. We achieved this improvement primarily through reductions in fully applied risk-weighted assets (RWA) of CHF 33 billion to CHF 225 billion at year-end. Our capital strength gives us the flexibility to execute our strategy effectively. Additionally, it reinforces client confidence while allowing us to address the challenges of the past and to absorb unexpected events. We also continued to successfully deleverage our balance sheet, reducing total assets by CHF 250 billion. Our funding, liquidity and leverage ratios remain comfortably above our regulator's current requirements. In line with one of our strategic objectives to improve efficiency, during the year we surpassed our CHF 2 billion gross cost savings target announced in the second half of 2011, although substantial work remains to be done to achieve the gross cost savings targets we announced in 2012. As a result of our improved performance, the Board of Directors (BoD) is recommending a 67% increase in the dividend for shareholders for 2013 to CHF 0.25 per share. This is consistent with our commitment to progressive capital returns to our shareholders.

Summary of financial performance for 2013 and 2012

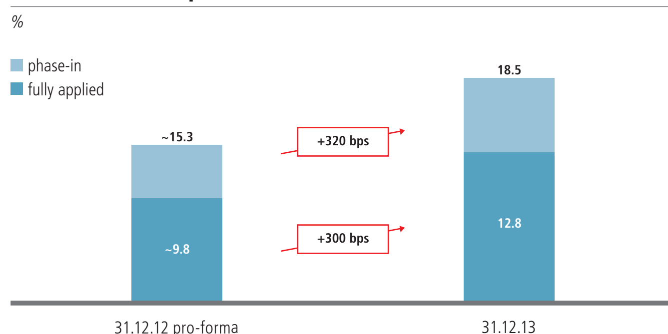
CHF billion	2013	2012
Operating profit / (loss) before tax as reported	**3.3**	(1.8)
Impairment of goodwill and other non-financial assets	0.0	3.1
Own credit	0.3	2.2
Net restructuring charges	0.8	0.4
Other	(0.2)	(1.0)
Operating profit / (loss) before tax (adjusted)[1]	**4.1**	2.9

Operating profit / (loss) before tax (adjusted)[1] for the Group and business divisions

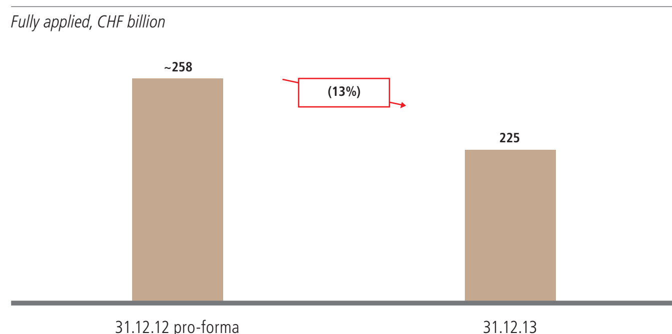


1 For 2013, adjusted operating profit / loss before tax excludes each of the following items, to the extent applicable, on a Group and business division level: an own credit loss of CHF 283 million, gains on sales of real estate of CHF 288 million, net losses of CHF 167 million related to the buyback of debt in public tender offers, net restructuring charges of CHF 772 million, a gain on sale of Global Asset Management's Canadian domestic business of CHF 34 million and a net gain on sale of remaining proprietary trading business of CHF 31 million. For 2012, the items we excluded were an own credit loss of CHF 2,202 million, gains on sales of real estate of CHF 112 million, net restructuring charges of CHF 371 million, a credit related to changes to the Swiss pension plan of CHF 730 million, a credit related to changes to our retiree benefit plans in the US of CHF 116 million and an impairment of goodwill and other non-financial assets of CHF 3,064 million. Refer to the "Group performance" section in our Annual Report 2013 for more information on adjusted results.

Basel III CET1 capital ratio



Basel III RWA



Corporate governance, responsibility and compensation

Our business divisions posted strong results for the year, demonstrating that our model has the flexibility to adapt and perform well in a variety of market conditions. Our success has given our clients even greater confidence in the firm. Net new money inflows into our wealth management businesses totaled CHF 54 billion for the year, an increase of 14% year on year. We were recognized as the largest and fastest growing large-scale wealth manager in the world[1]. Wealth Management Americas achieved new records with invested assets of USD 1 trillion[2], adjusted[3] profit before tax of USD 1 billion[4] and with revenue per financial advisor at over USD 1 million. Our Retail & Corporate business showed sustained profitability despite considerable pressure on net interest margins, and average client deposit volumes increased year on year. Global Asset Management recorded a stable performance in challenging markets with an 8% increase in adjusted[3] profit before tax, although it did experience net new money outflows, excluding money market flows, of almost CHF 5 billion. The Investment Bank delivered significantly higher adjusted[3] profit before tax of CHF 2.5 billion, achieving an adjusted[3] return on attributed equity of 31%, significantly above its target of greater than 15%. This was achieved while operating well within strict RWA and balance sheet targets. All business divisions operated within their cost/income ratio targets and focused on using resources efficiently. In the Corporate Center, profit before tax was negatively affected by continuing elevated charges for provisions for litigation, regulatory and similar matters primarily in Non-core and Legacy Portfolio, by negative treasury income and by restructuring charges. However, reduction of RWA in Non-core and Legacy Portfolio was ahead of our targets and was executed in a manner that protected shareholder value, allowing the Group to exceed its capital ratio target.

Performance award pool funding

Business performance is the basis of our compensation funding framework. We measure our performance in a variety of ways, including profitability, quality of earnings, contribution before performance award and economic contribution before performance award, which is a risk adjusted measure of performance. In addition to the key performance metric of risk-adjusted profitability, we use a number of criteria to assess the performance of each of our business divisions and Corporate Center. Examples include the following:

- In our wealth management businesses, we use criteria such as the level of net new money generated, cost/income ratio and gross margins.
- In Retail & Corporate, we consider factors such as net new business volume growth, net interest margin and cost/income ratio.
- In Global Asset Management, we use criteria such as net new money growth rate, gross margin and cost/income ratio.
- In the Investment Bank, we consider factors such as pre-tax return on attributed equity, cost/income ratio and capital utilization.
- For Corporate Center – Core Functions, we look at factors such as risk and capital management and cost reduction.
- For Corporate Center – Non-core and Legacy Portfolio, we consider RWA reductions and exit costs.

Certain risk-related objectives are common across all business divisions and Corporate Center, while others may vary. Risk-related objectives include, for example, adherence to risk investment guidelines, Group risk policies and value-at-risk limits, and the avoidance of significant operational risk events.

Each business division's performance award pool is accrued as a percentage of the pre-performance award pool profit. This figure is then risk adjusted by factoring in a risk capital charge as well as further considerations of relevant risk metrics. The percentage is further affected by items such as changes in performance during the year, quality of earnings, affordability and market positioning. The percentage increases or decreases as performance declines or improves. If a business division's profits increase, the proportion of profits we allocate to pay performance awards is generally reduced. In good years, this helps to prevent excessive compensation and allows us to return more capital to shareholders. In lean years, it provides us with the flexibility to make adequate provisions to retain key employees. For the purposes of performance award pool funding, business division performance is adjusted for items which do not reflect their underlying performance, such as gains related to divestments or sales of real estate, restructuring charges and gains or losses on own credit.

We assess the performance of the Group using criteria such as risk-adjusted profits, performance relative to the industry and general market competitiveness. We also consider progress against our strategic initiatives, including risk-weighted asset reduction, balance sheet reduction, delivery of cost efficiencies and capital accretion. We look at the firm's risk profile and culture, including the extent to which operational risks and audit issues are identified and resolved and the quality and success of the firm's risk reduction initiatives.

In determining performance award funding at all levels we take the following key risks into account, as applicable: credit, market, liquidity, funding, operational, including legal and compliance, and reputational risk. We consider as well the number of operational risks and audit recommendations that are effectively resolved.

The Human Resources and Compensation Committee (HRCC) monitors the forecasted full-year performance award pool on a regular basis. This includes a regular review of year-to-date accruals to ensure alignment to the overall performance of the firm and taking account of the competitive environment.

At the end of each year, the Group CEO, after consultation with the business division CEOs, develops the final performance award pool recommendation for the year. If the Group CEO believes that a business division's performance award pool does not properly reflect its achievements, the Group CEO can recommend a change to

1 Scorpio Partnership Private Banking Benchmark 2013, based on 2012 data for banks with assets under management of over USD 500 billion. 2 Invested assets of USD 970 billion. 3 Refer to the chart "Operating profit/(loss) before tax (adjusted) for the Group and business divisions" on the previous page for details on adjusted results. 4 Full year adjusted profit before tax of USD 991 million.

the size of the pool. The proposal is then submitted to the HRCC for consideration.

The HRCC considers all recommendations in the context of the firm's overall performance, capital strength and risk profile, market positioning and trends of the businesses and geographies in which we operate. The HRCC ensures recommendations are in line with our strategy and the philosophy and objectives embodied in our Total Reward Principles to create sustainable shareholder value. The HRCC can either accept the Group CEO's proposal, or adjust it either downwards or upwards before submitting it to the BoD for final approval.

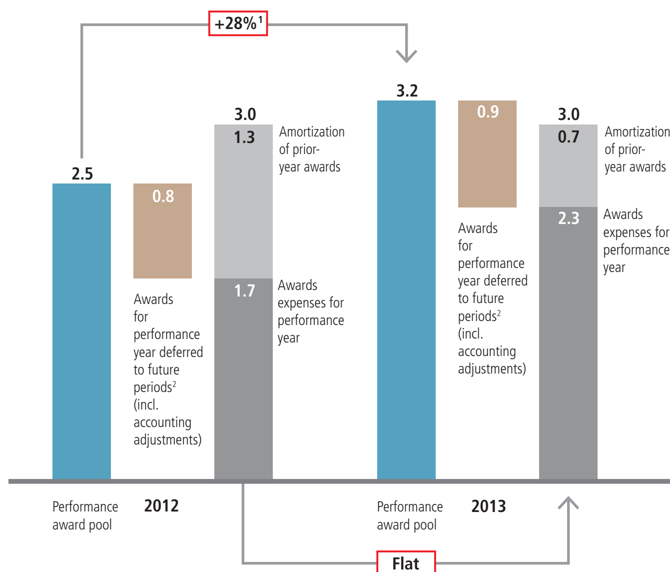
2013 performance award pool and expenses

The performance award pool for 2013 was CHF 3.2 billion, an increase of CHF 0.7 billion, or 28%, compared with 2012. The pool reflects our overall increased profitability, the quality of earnings, and our progress towards achieving our strategic objectives. Our 2012 performance award pool was significantly affected by the LIBOR matter, negatively impacting awards in the Investment Bank, some areas of the Corporate Center as well as the awards to the GEB including the Group CEO. In 2013, we finished the year ahead of many of our strategic and financial targets. We normalized performance award levels in areas negatively affected last year and reduced gaps to market pay levels in light of our absolute and relative achievements. Our achievements in 2013 and the proposed increase in distributions to our shareholders illustrate the continuing shift in the relationship between compensation, capital and dividends. The performance award pool includes all discretionary, performance-based variable awards for 2013.

The "Performance award expenses" chart below compares the performance award pool with the performance award expenses for the financial year 2013. Performance award expenses remained flat at CHF 3.0 billion and included expenses related to 2013 compensation awards and amortized expenses related to awards made in prior years. The 2013 expenses reflected increases for current year performance awards, offset by decreased amortized expenses from prior years' awards.

Performance award expenses

CHF billion



1 Excluding add-ons such as social security. 2 Estimate. The actual amount to be expensed in future periods may vary, for example due to forfeitures.

Corporate governance, responsibility and compensation

2013 compensation for the Group CEO and the other Group Executive Board members

Group Executive Board (GEB) awards are made at the discretion of the Board of Directors (BoD). The BoD takes into account the overall performance of the Group and the available performance award pool funding. For GEB members in office for 2013, performance awards were up 20% year on year, whereas the overall performance award pool for all employees increased 28%.

Key features of our 2013 compensation framework for the Group Chief Executive Officer (Group CEO) and the other members of the GEB

Pay for performance

The Human Resources and Compensation Committee (HRCC) reviews the performance of our Group CEO and other GEB members against the Group's performance targets. The GEB's performance awards are based on financial and non-financial performance measures and consider performance of the individual and the Group overall.

– In 2013, the Group CEO / GEB performance scorecard was introduced. This is based on a set of financial and qualitative measures, and provides a framework for a balanced assessment. Group level, business division, regional, functional and qualitative performance measures are included in combination, depending on the individual GEB member's remit

– Compensation plan forfeiture provisions enable the firm to reduce the unvested deferred portion if the compensation plans' relevant performance conditions are not achieved. This means

  – the vesting of EOP awards depends on both Group and divisional performance

  – DCCP awards only vest in full if the firm delivers an adjusted profit before tax and our phase-in common equity tier 1 (CET1) capital ratio does not fall below 10%. This is a higher threshold than the 7% CET1 capital ratio trigger applicable in 2012. Like last year, annual interest is only paid if UBS achieves an adjusted profit before tax during the vesting period

Safeguards

Our compensation framework contains a number of features designed to ensure that risk is appropriately managed with safeguards to limit inappropriate risk-taking. Our framework has

– a balanced mix of shorter-term and longer-term performance awards with a focus on deferral

– a cap on the total GEB performance award pool of up to 2.5% of adjusted Group profit before tax

– individual caps on the proportion of fixed to variable pay for the Group CEO and other GEB members

– a share ownership policy under which each GEB member must build up and hold a minimum of 350,000 shares. The Group CEO must build up and hold a minimum of 500,000 shares

– an evaluation of the risk control effectiveness and adherence of each GEB member as part of their individual qualitative assessment

– employment contracts that generally include a six-month notice period

– provisions that enable the firm to trigger forfeiture of some, or all, of the unvested deferred performance award if an employee commits certain harmful acts or employment is terminated for cause. Generally, we regard the following as harmful acts:

  – contributing substantially to a significant downward restatement of the Group's or a business division's results, or to the Group incurring significant financial losses

  – engaging in conduct and / or failing to discharge supervisory or managerial responsibilities that results in detriment to UBS, including reputational harm

  – engaging in conduct that materially violates legal and regulatory requirements or internal policies and procedures

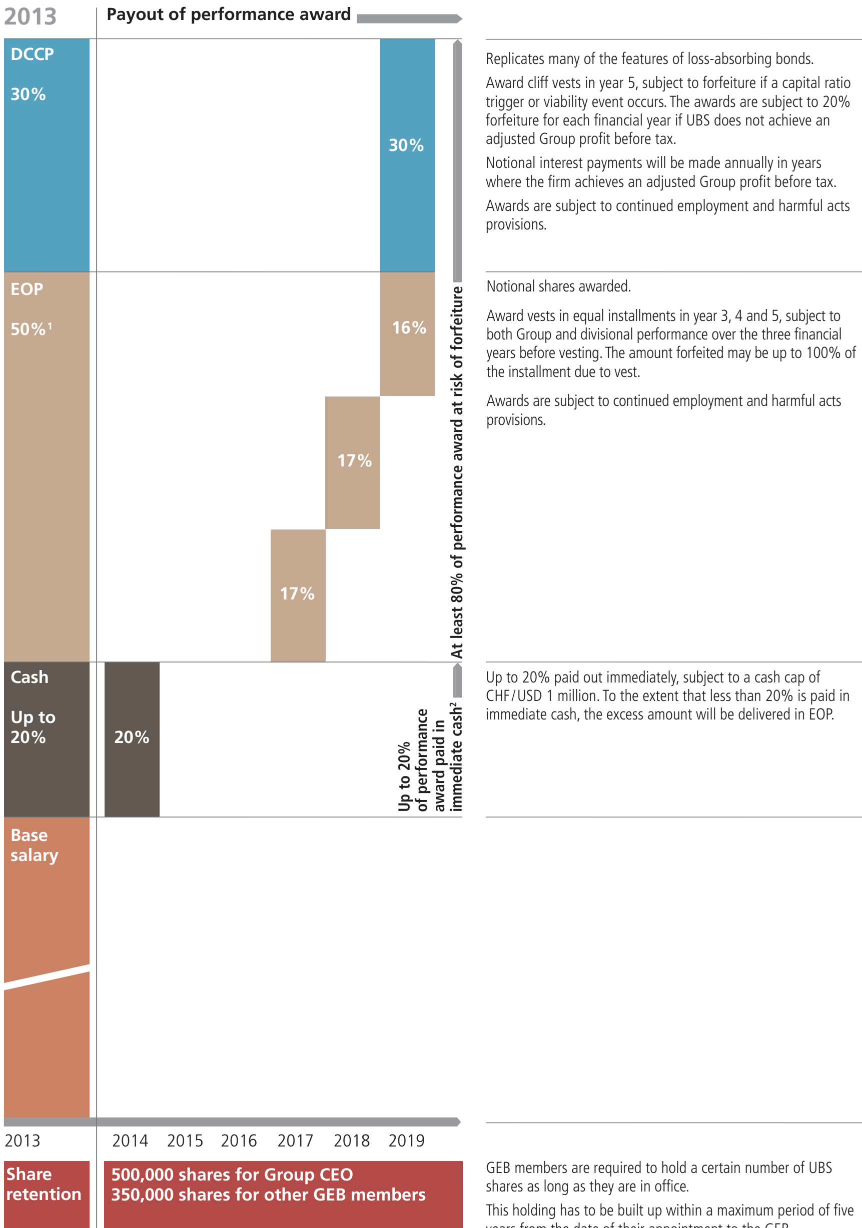
  – improperly disclosing confidential or proprietary information

  – soliciting UBS employees or clients

2013 compensation framework for GEB members

Of the annual performance award up to 20% is paid in the form of immediate cash, and 80% is paid as a longer-term performance award, with 50% paid in deferred equity and the remaining 30% in deferred notional bonds.

Illustrative example



Replicates many of the features of loss-absorbing bonds.

Award cliff vests in year 5, subject to forfeiture if a capital ratio trigger or viability event occurs. The awards are subject to 20% forfeiture for each financial year if UBS does not achieve an adjusted Group profit before tax.

Notional interest payments will be made annually in years where the firm achieves an adjusted Group profit before tax.

Awards are subject to continued employment and harmful acts provisions.

Notional shares awarded.

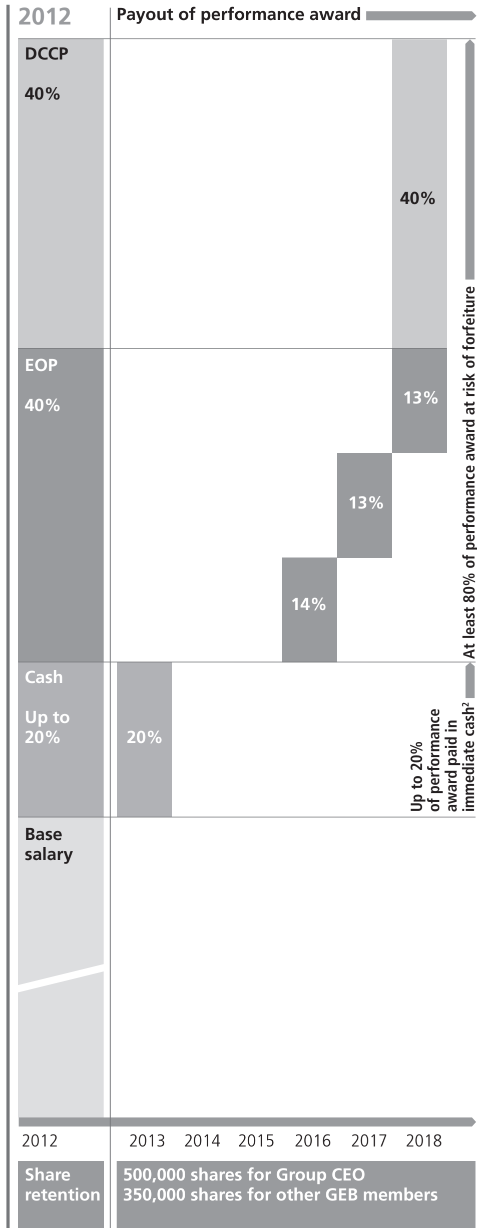
Award vests in equal installments in year 3, 4 and 5, subject to both Group and divisional performance over the three financial years before vesting. The amount forfeited may be up to 100% of the installment due to vest.

Awards are subject to continued employment and harmful acts provisions.

Up to 20% paid out immediately, subject to a cash cap of CHF/USD 1 million. To the extent that less than 20% is paid in immediate cash, the excess amount will be delivered in EOP.

GEB members are required to hold a certain number of UBS shares as long as they are in office.

This holding has to be built up within a maximum period of five years from the date of their appointment to the GEB.



1 At least 50% of the performance award is granted under EOP. 2 UK Code Staff receive 50% in the form of blocked shares.

Base salary

Each GEB member receives a fixed base salary, which is reviewed annually by the HRCC. GEB salaries, excluding the Group CEO, were unchanged from CHF 1.5 million (or currency equivalent), which was set by the BoD in early 2011. Since his appointment, the Group CEO's base salary was set at CHF 2.5 million.

Pensions and benefits

Pensions contributions and benefits for GEB members are in line with local practices for other employees.

➔ Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of our Annual Report 2013 for details on the various major post-employment benefit plans established in Switzerland and other countries

How we set variable compensation levels for our Group CEO and other GEB members – performance scorecard assessment

The Group CEO and other GEB members are eligible to receive an annual performance award at the full discretion of the BoD. In 2013, we enhanced our performance assessment approach based on a balanced scorecard. We assess an individual's performance against a number of financial and qualitative key performance indicators (KPI).

The financial factors determining the Group CEO's annual discretionary performance award are based on Group performance. For other GEB members, the financial criteria are split between Group performance and that of their relevant business division (BD) and/or region. Those who lead Group control functions, or who are solely regional CEOs, are assessed based on the perfor-

Overview of the quantitative and qualitative measures on which the performance scorecard is based

Quantitative measures (65% weighting)	Qualitative measures (35% weighting)
The quantitative factors are aligned with the Group's strategic plan. They are mainly based on the Group measures, supplemented with business division, regional or functional KPI for business division, regional or Corporate Center GEB members, and include the following: – Group return on equity (as reported) – adjusted Group profit before tax – fully applied common equity tier 1 (CET1) capital ratio – business division and/or regional KPI (if applicable) – functional KPI (for Corporate Center GEB members) Both regional and functional KPI may consist of some qualitative measures.	The qualitative factors assess how effective the Group CEO/GEB member is in respect of the following: – clients – evaluates how effective the individual is in increasing client satisfaction and maintaining high levels of satisfaction over the long term. This includes promoting cross-business division collaboration and fostering the delivery of the whole bank to our clients – people and culture – assesses the extent to which the individual actively develops successors for the most senior positions, facilitates talent mobility within the firm and promotes a diverse and inclusive workforce. Furthermore, this measure evaluates the individual's ability to reinforce a culture of accountability and responsibility, demonstrating our commitment to being a responsible corporate citizen and acting with integrity in all our interactions with our stakeholders – risk control – evaluates how effective the individual is in ensuring risk management and control principles are fully implemented and adhered to through an effective risk management and control framework. It also captures the degree to which risks are self-identified – regulatory compliance – focuses on the individual's success in ensuring regulatory compliance with the various regulatory frameworks in which we operate. It also evaluates how well the individual helps shape the firm's relationships with regulators through ongoing dialogue – execution effectiveness – assesses how the individual contributes to the development and execution of our strategy. The measure also looks to ensure there is success across all business lines, functions and regions, as applicable, through specific objectives, initiatives, timeframes and metrics – brand and reputation – assesses the individual's protection of our reputation and full compliance with our standards and principles, particularly our Code of Business Conduct and Ethics

Weightings of financial and qualitative measures

in %	Group CEO	BD / Regional CEO	Functional heads
Key performance indicators (KPI)		Weighting	
Group RoE, adjusted Group profit before tax and Basel III CET1 ratio (fully applied)	65	35	45
Business division / regional KPI		30	
Functional KPI			20
Financial	**65**	**65**	**65**
Qualitative	**35**	**35**	**35**
Total	**100**	**100**	**100**

mance of the Group and of the functions or of the regions they may oversee. Quantitative factors, such as business division financial, regional and functional measures, account for 65% and qualitative factors for 35% of the assessment. The qualitative factors considered are the same for the Group CEO and other GEB members.

The table above provides an overview of the quantitative and qualitative KPI on which the scorecard is based.

The weighting of the quantitative factors between Group, business division, regional and functional KPI varies depending on the GEB member's role, with a significant weighting on Group KPI for all GEB members.

The degree of achievement of these financial measures, coupled with the assessment of performance against the qualitative measures, gives an overall score that determines the starting point for a GEB member's annual performance award. Target total compensation is reviewed against the market value of the respective role. Scoring at target would generally result in a total compensation around the median of the industry peer group. Where the performance is below target, the score is reduced (and can be 0%), which then results in a total compensation below market median. If the performance exceeds the target, the score increases, resulting in a total compensation that can be above market median. While this method represents a more formulaic approach than in the past, it is not intended to be mechanical. The HRCC does not abdicate its responsibility to exercise sound judgment and applies an appropriate level of discretion that may result in the outcome of the above scorecard or compensation level being adjusted upwards or downwards by up to 20%. The HRCC's final compensation recommendations for GEB members are based on the scorecards, the assessment against each individual's market value for the role and the CEO's overall recommendation, excluding his own performance award. The HRCC's recommendations are then reviewed, and must be approved by the BoD, which retains full discretion in determining the variable compensation levels for GEB members and may decide not to grant any performance awards. The HRCC and BoD go through a similar process in setting the compensation for the Group CEO.

Caps

The total potential GEB performance award pool is capped at 2.5% of the firm's adjusted Group profit before tax, thereby linking overall GEB compensation to the firm's profitability. As the Group's adjusted profit before tax for 2013 was CHF 4.141 billion, the GEB 2013 performance award pool was capped at CHF 104 million.

The actual total performance award pool for 2013 was CHF 63 million, representing 1.5% (in 2012: CHF 52 million or 1.8%) of the Group's adjusted profit before tax. Furthermore, 100% of a GEB member's deferred compensation is subject to performance conditions.

For 2013, we also introduced individual compensation caps on the proportion of fixed pay to variable pay. The Group CEO's performance award is capped at five times base salary. Performance awards of other GEB members are capped at seven times base salary.

For 2013, GEB member and Group CEO performance awards were, on average, 3.7 times the base salary (2012: 3.2 times).

Benchmarking against peers

The HRCC reviews GEB compensation and benefits levels against those of a peer group of companies selected based on the comparability of their size, business mix, geographic mix, and the extent to which they are our competitors for talent. The HRCC also considers the practices of these peers that may influence their pay strategies and pay levels and their respective regulatory environments.

Year-on-year consistency of the peer group is considered an important element by the HRCC. In 2013, it reviewed our peer group and determined it remained appropriate. The group consists of the following 12 companies: Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, Julius Baer, Morgan Stanley and Nomura.

Overall, total compensation of GEB members is targeted at the median of the industry peer group, adjusted for individual and Group performance.

Comparability assessment against main peers

Benchmarking ensures that our executive compensation is appropriate relative to our industry peer group. The key benchmarking criteria are summarized in the following table.

Firm	Size[1]	Business mix[2]	Geographic mix[3]	Competitors for talent[4]	HQ location: regulatory[5]	HQ location: geography[6]
Bank of America	○	◐	○	●	◐	◐
Barclays	◐	◐	●	●	◐	◐
BNP Paribas	◐	○	◐	◐	○	◐
Citigroup	○	○	◐	●	◐	◐
Credit Suisse	●	●	●	●	●	●
Deutsche Bank	●	●	◐	●	◐	●
Goldman Sachs	◐	○	◐	◐	◐	○
HSBC	○	○	◐	●	◐	◐
JP Morgan Chase	○	○	○	●	◐	◐
Julius Baer	○	○	○	◐	●	●
Morgan Stanley	●	●	◐	●	◐	◐
Nomura	○	◐	○	◐	◐	○

○ Less comparable ◐ Moderately comparable ● Comparable

1 Size: evaluated in terms of revenue, profitability, assets and employee size. This would potentially impact management complexity outside of the impact of product mix and geography. 2 Business mix: in terms of type and size of major businesses. This would impact pay strategy, pay levels and approach and, importantly, risk profile. 3 Geographic mix: evaluated not only in terms of mix, but also from a European Headquarters (HQ) perspective. This impacts executive role definition and management complexity. 4 Competitors for talent: firms from which UBS recruits and / or firms which recruit from UBS. 5 HQ location / regulatory: impact of the regulatory environment based on home regulator. 6 HQ location / geography: culture and practice that impacts pay strategy, levels.

2013 deferral of performance awards

In line with our focus on generating sustainable performance, at least 80% of a GEB member's performance award is deferred. In 2012, in light of the firm's overall results for the year, and, based on a recommendation from the Group CEO, 100% of the GEB's 2012 performance award was deferred.

For 2013, a minimum of 50% of the overall performance award is awarded under the Equity Ownership Plan (EOP), a longer-term performance award. EOP awards vest in three equal installments from years three to five, subject to performance conditions being met.

Thirty percent of the overall performance award is awarded under the Deferred Contingent Capital Plan (DCCP), another longer-term performance award which vests only in year five. Notional interest is paid for each year provided the firm achieves an adjusted Group profit before tax for that year. In addition to a phase-in CET1 capital ratio trigger of 10%, DCCP awards are subject to an additional performance condition. If UBS does not achieve an adjusted Group profit before tax for any year during the vesting period, GEB members forfeit 20% of the award for each loss-making year. This means 100% of the award is subject to an additional risk of forfeiture in addition to the capital ratio trigger.

For each GEB member a maximum of 20% of the overall performance award can be paid out in the form of immediate cash, subject to a cap of CHF/USD 1 million (or currency equivalent). Any amount above this is paid in notional shares under the EOP. In addition, for GEB members considered "UK Code Staff" for the year 2013, 50% of any immediate cash must be delivered in vested shares which are blocked until 1 September 2014, and each EOP installment vesting on 1 March will be blocked for a further six months.

The average deferral period for deferred awards for GEB members in 2013 was 4.4 years. Our compensation plans have no upward leverage, such as multiplier factors, and therefore do not encourage excessive risk-taking.

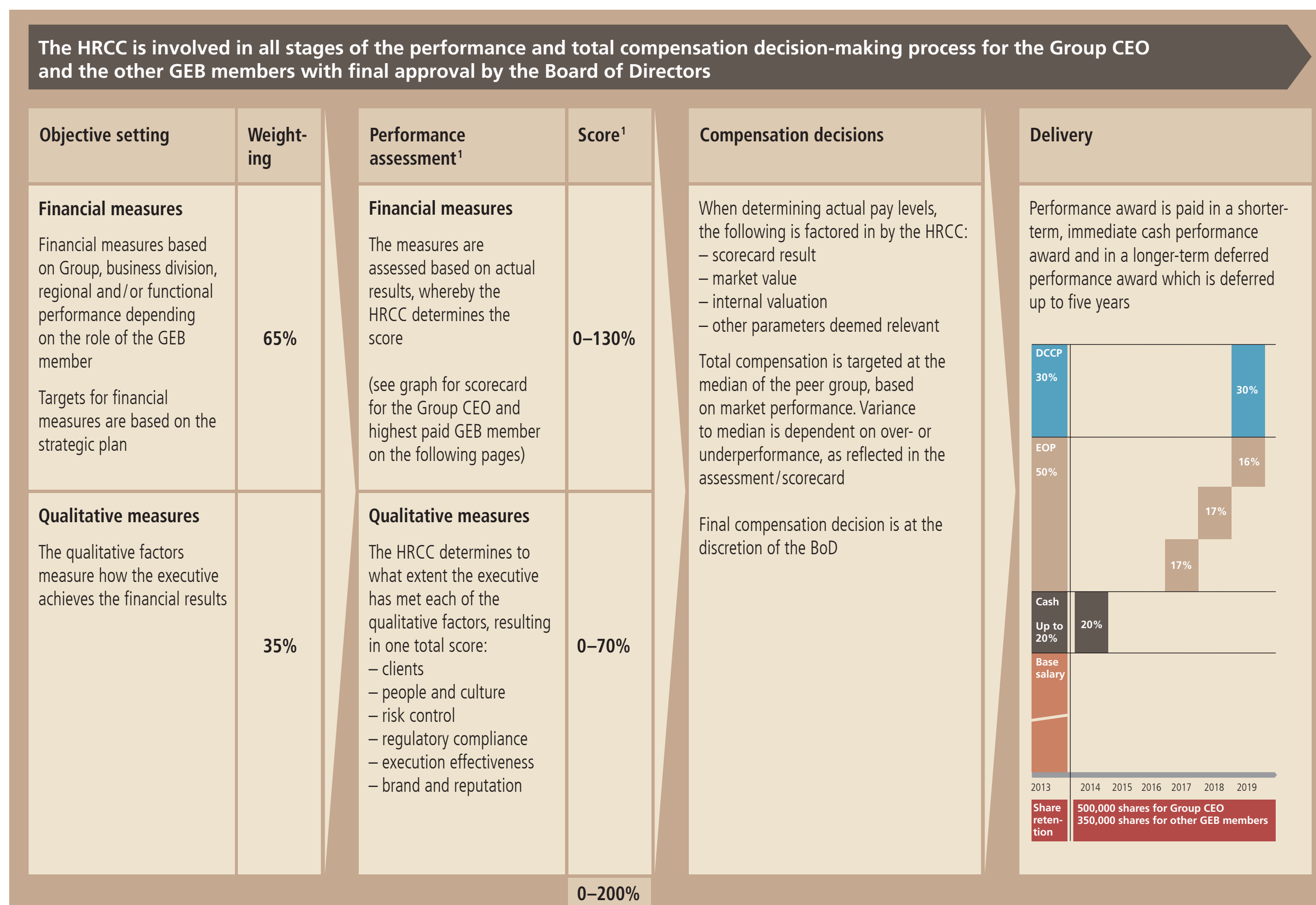
➔ Refer to the "Our deferred variable compensation plans" section of this report for more information

➔ Refer to the "Our compensation model for employees other than GEB members" section of this report for more information on UK Code Staff

Share ownership requirements

We aim to align GEB members' interests with those of our shareholders. To ensure GEB members remain focused on the longer-term success of the firm, we require the Group CEO to hold a

Overview of compensation process for the Group CEO and the other GEB members



1 The HRCC has the discretion to adjust the scoring/compensation level up- or downward by a maximum of 20%. Use of this discretion is still bounded by the defined total compensation caps.

minimum of 500,000 UBS shares and the other GEB members to hold a minimum of 350,000 UBS shares. These shareholdings must be built up within five years from the date a GEB member is appointed and must be retained for as long as they remain in office. The number of UBS shares held by each GEB member is determined by adding any vested or unvested shares to privately held shares. GEB members are not permitted to sell their UBS shares until the abovementioned thresholds have been reached. As of the end of 2013, all GEB members who have been in office for at least five years achieved their required share ownership levels.

Overview of GEB compensation determination process

The illustration above provides an overview of how GEB compensation is determined under the governance and oversight of the HRCC and the BoD.

2013 compensation

The performance awards of the Group CEO and each other member of the GEB are based on the achievement of both financial targets and qualitative performance objectives, as described earlier in this section.

As part of Mr. Ermotti's performance assessment, a 65% weighting was accorded to Group financial performance, and 35% was accorded to his performance against the qualitative criteria. In the case of Mr. Orcel (the highest paid GEB member for 2013), a 35% weighting was accorded to Group financial performance, 30% to Investment Bank performance and 35% to qualitative criteria.

A "Target score achievement" on the overall balanced scorecard supports market median level compensation.

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2013 compensation for the Group Chief Executive Officer

The table below summarizes the factors on which Mr. Ermotti's performance was assessed as Group CEO for 2013 by the HRCC in consultation with the Chairman.

The BoD recognized that under Mr. Ermotti's leadership, Group financial performance for 2013 was strong and was driven by progress towards the successful implementation of the firm's ambitious strategy – a strategy focused on sustainable performance, best-in-class capital ratios, and vigilance on operational risk and on effectiveness and efficiency. In terms of the Group financial targets, the firm delivered significantly increased adjusted Group profit before tax, up 44% compared with the prior year. The Group also achieved an increased return on equity, up significantly on 2012. The firm's share price development in 2013 also reflected investor confidence in the firm's progress and future success.

Additionally, UBS further enhanced its position as one of the world's best-capitalized banks, exceeding its year-end capital ratio targets. The firm surpassed its Basel III risk-weighted assets reduction target for the year and also continued to successfully deleverage its balance sheet. The firm's Basel III funding, liquidity and leverage ratios remained comfortably above regulatory requirements in 2013.

UBS's business divisions posted strong results for the year and were profitable in every quarter. The firm's success continued to give clients great confidence in UBS's strategy. This was demonstrated by net new money inflows into the firm's wealth management businesses, which increased by 14% year-on-year to CHF 54 billion.

Against the qualitative criteria, the BoD considered Mr. Ermotti's successes in promoting a Group-wide initiative to embed the firm's principles of client focus, excellence and sustainable performance further into the fabric of the firm. This effort will be key to ensuring the right behaviors and culture which will be essential to supporting UBS's success going forward. The assessment also recognized his consistent focus on protecting and improving the firm's reputation, and the clear improvement in the firm's standing with its key regulators.

In addition to the strategic, financial and qualitative accomplishments noted above, the BoD also recognized the positive impact that Mr. Ermotti had in effectively addressing operational risk remediation requirements and also resolving a number of key legal matters from the past.

Reflecting his achievements and strong performance in 2013, the BoD approved the proposal from the HRCC to grant Mr. Ermotti a performance award of CHF 7.9 million, bringing his total compensation (excluding benefits and contributions to retirement benefit plan) for the year to CHF 10.4 million. Based on the compensation framework, he received 13% of his performance award in cash CHF 1.0 million. The remaining 87% of his performance award was deferred under EOP (57% of his performance award) and under DCCP (30% of his performance award). The future actual pay-outs under EOP and DCCP are dependent upon the firm's forthcoming performance, as described earlier in this section.

Scorecard for the Group CEO

Financial factors[1]		2013 Result	Weighting	Assessment relative to plan			
					Threshold	Target	Stretch
Group (65%)	Group RoE	6.7%	20%			●	
	Adjusted Group profit before tax	4.1 billion	25%			●	
	Basel III CET1 ratio (fully applied)	12.8%	20%			●	

Qualitative factors	Weighting	Assessment			
			Threshold	Target	Stretch
Clients, people and culture, risk control, regulatory compliance, execution effectiveness, brand and reputation	35%			●	

1 Financial factors and target levels were based on internal performance objectives in our 2013 Operating Plan. These financial targets and ranges do not necessarily correspond to UBS's Group targets announced in October 2012, most of which are applicable from 2015.

2013 compensation for the highest paid GEB member

Andrea Orcel, the CEO of the Investment Bank, was the highest-paid GEB member for performance year 2013. The financial performance results and qualitative achievement assessment of Mr. Orcel as determined by the Group CEO are summarized in the table below. The HRCC and the BoD supported the overall assessment.

During his first full year as CEO of the Investment Bank, Mr. Orcel proved himself an effective leader and drove positive performance throughout a very successful year for the business. Mr. Orcel executed a fundamental turnaround in the Investment Bank's performance in 2013. He guided the business and its employees through a period of intense and sometimes challenging transformation following the announcement of the acceleration of the implementation of the firm's strategy in late 2012. In 2013, a more client-focused, less complex, and less risky Investment Bank delivered significantly higher profitability and outperformed on all its targets. The business achieved an adjusted profit before tax of CHF 2.5 billion for the year. It delivered an adjusted return on attributed equity of 30.6%, significantly above its 2013 target. It operated successfully below its relatively restrictive risk-weighted asset and funded asset targets. The Investment Bank remained highly focused on using its resources effectively and efficiently and achieved its cost / income ratio target for the year.

The Investment Bank reinforced its position among the global market leaders in its core businesses of advisory, research, equities, foreign exchange and precious metals. Further, Rates and Credit has transformed into a successful client-centric and capital-light business with a strong focus on improved IT effectiveness which has also led to best-in-class execution. The Investment Bank's turnaround performance was recognized with numerous industry awards, and most importantly, was applauded by clients. In line with the firm's strategy, the Investment Bank continued to work in close collaboration with all the firm's other businesses, in particular its wealth management businesses, to deliver the best of UBS to clients and drive sustainable returns for the benefit of UBS's shareholders.

In judging his achievements in relation to qualitative factors, the Group CEO considered that Mr. Orcel displayed a strong focus on ensuring the business delivered on the firm's principles of excellence, client focus and sustainable performance, and his consistent promotion of the highest standards of employee conduct and behavior whilst at the same time addressing issues from the past.

Reflecting his significant achievements and strong performance in 2013, the BoD approved the proposal from the Group CEO and the HRCC to grant Mr. Orcel a performance award of CHF 9.0 million, bringing his total compensation (excluding benefits and contributions to retirement benefit plan) for the year to CHF 10.5 million. 89% of his performance award was deferred, with 59% under EOP and 30% under DCCP.

➔ **Refer to the "2013 performance and compensation funding" section of this report for information on financial performance achievements in 2013**

Scorecard for the highest paid GEB member

Financial factors[1]		2013 Result	Weighting	Assessment relative to plan			
				Below threshold	Threshold – Target	Target – Stretch	Above stretch
Group (35%)	Group RoE	6.7%	10%			●	
	Adjusted Group profit before tax	4.1 billion	20%			●	
	Basel III CET1 ratio (fully applied)	12.8%	5%			●	
IB divisional (30%)	RoAE (adjusted)	31%	10%				●
	Cost / income ratio	73%	10%			●	
	Basel III RWA (fully applied)	62 billion	10%			●	
Qualitative factors		**Weighting**		**Assessment**			
				Below threshold	Threshold – Target	Target – Stretch	Above stretch
Clients, people and culture, risk control, regulatory compliance, execution effectiveness, brand and reputation		35%				●	

1 Financial factors and target levels were based on internal performance objectives in our 2013 Operating Plan. These financial targets and ranges do not necessarily correspond to UBS's Group targets announced in October 2012, most of which are applicable from 2015.

Total compensation for GEB members for the performance years 2013 and 2012

The table below shows the total compensation for GEB members for the performance years 2013 and 2012.

➔ **Refer to the "Supplemental information" section of this report and "Note 34 Related parties" in the "Financial information" section of our Annual Report 2013 for information on vested and unvested shares and options for GEB members**

Employment contracts

Employment contracts for GEB members do not provide for "golden parachutes," that is, special severance terms, including supplementary contributions to pension plans. All employment contracts for GEB members contain a notice period of six months, except for one which contains a 12-month notice period. If a GEB member leaves the firm before the end of a performance year they may be considered for a discretionary performance award based on their contribution during the time worked in that performance year following the principles outlined above. Such awards are at the full discretion of the BoD, which may decide not to grant any awards.

Audited

Total compensation for GEB members for the performance years 2013 and 2012

CHF, except where indicated[1]

Name, function	For the year	Base salary	Immediate cash[2]	Annual performance award under EOP[3]	Annual performance award under DCCP[4]	Benefits[5]	Contributions to retirement benefit plans[6]	Total
Sergio P. Ermotti, Group CEO	2013	2,500,000	1,000,000	4,530,000	2,370,000	127,300	202,822	10,730,122
Sergio P. Ermotti, Group CEO (highest-paid)	2012	2,500,000	0	3,660,000	2,440,000	69,500	201,088	8,870,588
Andrea Orcel (highest-paid)	2013	1,500,000	1,000,000	5,300,000	2,700,000	727,048	202,822	11,429,870
Aggregate of all GEB members who were in office at the end of the year[7]	2013	16,873,360	9,949,062	33,894,646	18,790,161	1,548,784	1,347,784	82,403,796
	2012	16,273,460	0	31,355,592	20,903,728	640,683	1,233,719	70,407,181
Aggregate of all GEB members who stepped down during the year[8]	2013	0	0	0	0	0	0	0
	2012	1,593,288	0	0	0	105,865	14,799	1,713,952

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013. 2 Under the 2013 compensation framework, 20% is paid out in immediate cash, subject to a cash cap of CHF / USD 1 million. Due to applicable UK Prudential Regulation Authority regulations, the immediate cash includes blocked shares for Andrea Orcel. For the performance year 2012, no immediate cash was paid. 3 For EOP awards for the performance years 2013 and 2012, the number of shares allocated at grant has been determined by dividing the amount communicated by CHF 18.60 and USD 20.88 (for notional shares) for 2013, and by CHF 15.014 and USD 15.868 (for actual shares) and by CHF 13.97 and USD 14.77 (for notional shares) for 2012, based on the average price of UBS shares over the ten trading days prior to and including the grant date (28 February 2014 and 15 March 2013 respectively). For notional shares granted under EOP 2012 the number of notional shares has been adjusted for the estimated value of dividends paid on UBS shares over the vesting period. 4 DCCP awards vest after the five-year vesting period. The amount reflects the amount of the notional bond excluding future notional interest. For DCCP awards for the performance year 2013, the notional interest rate is set at 5.125% for awards denominated in USD and 3.500% for awards denominated in CHF. For DCCP awards for the performance year 2012, the notional interest rate is set at 6.25% for awards denominated in USD and 5.40% for awards denominated in CHF. 5 Benefits are all valued at market price. 6 This figure excludes the mandatory employer's social security contributions, but includes the portion related to the employer's contribution to the statutory pension scheme. The employee contribution is included in the base salary and annual incentive award components. 7 11 GEB members were in office on 31 December 2013 and on 31 December 2012 respectively. 8 2012 includes three months in office as a GEB member for Alexander Wilmot-Sitwell and 10 months in office as a GEB member for Carsten Kengeter.

Fixed and variable compensation for GEB members[1]

	Total for the year ended 2013		Not deferred		Deferred[2]		Total for the year ended 2012[3]
CHF million, except where indicated	Amount	%	Amount	%	Amount	%	Amount
Total compensation							
Amount	80	100	27	34	53	66	70
Number of beneficiaries	11						13
Fixed compensation							
Base salary	17	21	17	100	0	0	18
Variable compensation	63	79	10	16	53	84	52
Immediate cash	10		10	100	0	0	0
Equity Ownership Plan (EOP)	34		0	0	34	100	31
Deferred Contingent Capital Plan (DCCP)	19		0	0	19	100	21

1 The figures refer to all GEB members in office in 2013. 2 This is based on the specific plan vesting and reflects the total award value at grant which may differ from the accounting expenses. 3 Year 2012 as reported in Annual Report 2012.

Loans

GEB members may be granted loans, fixed advances and mortgages. Such loans are made in the ordinary course of business on substantially the same terms as those granted to other employees, including interest rates and collateral, and do not involve more than the normal risk of collectability or contain other unfavorable features.

➔ **Refer to the "Supplemental information" section and "Note 34 Related parties" in the "Financial information" section of our Annual Report 2013 for information on loans granted to current and former GEB members**

Audited

Share and option ownership / entitlements of GEB members on 31 December 2013 / 2012[1]

Name, function	on 31 December	Number of unvested shares / at risk[2]	Number of vested shares	Total number of shares	Potentially conferred voting rights in %	Number of options[3]	Potentially conferred voting rights in %[4]
Sergio P. Ermotti, Group Chief Executive Officer	2013	453,460	69,900	523,360	0.025	0	0.000
	2012	220,928	41,960	262,888	0.013	0	0.000
Markus U. Diethelm, Group General Counsel	2013	542,417	108,007	650,424	0.032	0	0.000
	2012	506,132	126,098	632,230	0.030	0	0.000
John A. Fraser, Chairman and CEO Global Asset Management	2013	645,324	268,945	914,269	0.044	756,647	0.037
	2012	617,529	315,270	932,799	0.045	884,531	0.042
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate	2013	504,800	22,727	527,527	0.026	0	0.000
	2012	412,199	95,537	507,736	0.024	0	0.000
Ulrich Körner, Group Chief Operating Officer and CEO UBS Group EMEA	2013	688,923	208,887	897,810	0.044	0	0.000
	2012	605,284	121,837	727,121	0.035	0	0.000
Philip J. Lofts, Group Chief Risk Officer	2013	601,553	157,447	759,000	0.037	500,741	0.024
	2012	542,402	169,789	712,191	0.034	536,173	0.026
Robert J. McCann, CEO Wealth Management Americas and CEO UBS Group Americas	2013	892,872	65,971	958,843	0.046	0	0.000
	2012	658,470	18,112	676,582	0.032	0	0.000
Tom Naratil, Group Chief Financial Officer	2013	422,516	263,027	685,543	0.033	867,087	0.042
	2012	340,757	233,603	574,360	0.027	935,291	0.045
Andrea Orcel, CEO Investment Bank	2013	1,209,775	0	1,209,775	0.059	0	0.000
	2012	1,755,691	0	1,755,691	0.084	0	0.000
Chi-Won Yoon, CEO UBS Group Asia Pacific	2013	502,762	441,143	943,905	0.046	538,035	0.026
	2012	478,986	370,760	849,746	0.041	578,338	0.028
Jürg Zeltner, CEO UBS Wealth Management	2013	624,415	13,920	638,335	0.031	203,093	0.010
	2012	522,500	38,329	560,829	0.027	203,093	0.010
Total	2013	7,088,817	1,619,974	8,708,791	0.422	2,865,603	0.139
	2012	6,660,878	1,531,295	8,192,173	0.391	3,137,426	0.150

1 This table includes all vested and unvested shares and options of GEB members, including related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Deferred variable compensation plans" section in this report for more information on the plans. 3 Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information. 4 No conversion rights are outstanding.

2013 compensation for the Board of Directors

Members of the Board of Directors (BoD) receive fixed fees for their services, of which 50% is paid in blocked UBS shares unless they elect to receive 100% in blocked UBS shares. The BoD members do not receive variable compensation. This reinforces their focus on long-term strategy, supervision and governance. It also helps them to remain independent of the firm's senior management. The Chairman, as a non-independent BoD member, receives an annual base salary, UBS blocked shares and benefits.

Chairman of the BoD

Our compensation framework provides for the Chairman of the BoD, Axel A. Weber, to receive an annual base salary of CHF 2 million and 200,000 UBS shares, blocked from distribution for four years, as well as benefits. The shares are not designed or intended as variable compensation. The value of the 200,000 UBS shares awarded for 2013 was CHF 3,720,000. Accordingly, his total compensation, including benefits and pension fund contributions for his services as Chairman from January to December 2013 was CHF 6,069,516.

This share component ensures that the Chairman's pay is aligned with the longer-term performance of the firm. The Chairman's employment agreement does not provide for special severance terms, including supplementary contributions to pension plans. Benefits for the Chairman are in line with local practices for other employees. Determining the Chairman's compensation is the responsibility of the Human Resources and Compensation Committee (HRCC), which conducts an annual assessment and takes into consideration fee and/or compensation levels for comparable roles outside of UBS.

Given the continued improvements in our share price since the inception of our compensation framework for the chairman role in 2009, the HRCC has, in agreement with the Chairman, revisited the framework for 2014 and decided to limit the upside and cap the Chairman's total compensation at the current level of CHF 5.7 million. Following market practice for company chairmen, we have implemented a pay mix shift where a larger part of the Chairman's compensation will be paid in cash (currently foreseen to be approximately 60%). The balance of the overall compensation will be delivered in UBS shares which will continue to be blocked from distribution for four years.

Independent BoD members

With the exception of the Chairman, all BoD members are deemed to be independent directors and receive fixed base fees for their services, with 50% of their fees in cash and the other 50% in blocked UBS shares that are restricted from sale for four years. Alternatively, they may choose to have 100% of their remuneration paid in blocked UBS shares. In all cases, the number of shares that independent directors are entitled to receive is calculated using a discount of 15% below the prevailing market price at the time of issuance. In addition to the base fee, independent BoD members receive fees known as committee retainers that reflect their workload in serving on the firm's various board committees. The Senior Independent Director and the Vice Chairman of the BoD each receive an additional payment of CHF 250,000. In accordance with their role, independent BoD members do not receive performance awards, severance payments or benefits. Base fees, committee retainers and any other payments received by independent BoD members are subject to an annual review: a proposal is submitted by the Chairman of the BoD to the HRCC, which then submits a recommendation to the BoD for final approval.

The "Remuneration details and additional information for independent BoD members" table on the following page shows the remuneration received by independent BoD members between the 2013 and 2014 Annual General Meetings of Shareholders (AGM). Fees have remained unchanged during this period, and have been kept largely at the same level since 1998. Remuneration levels for BoD members, other than the Chairman, ranged from CHF 375,000 to CHF 1,075,000. Total remuneration for the independent BoD members for the period between the 2013 and 2014 AGMs was CHF 7.6 million, which was flat compared with the prior period.

In accordance with normal practice, two BoD members chose to receive 100% of their fees, less applicable deductions, in UBS shares.

Loans

Loans to independent members are made in the ordinary course of business at general market conditions. Loans to non-independent members are made in the ordinary course of business on substantially the same terms as those granted to other employees, including interest rates and collateral, and do not involve more than the normal risk of collectability or contain other unfavorable features.

➔ **Refer to the "Supplemental information" section of this report and "Note 34 Related parties" in the "Financial information" section of our Annual Report 2013 for information on loans granted to current and former BoD members**

Audited

Total payments to BoD members

CHF, except where indicated[1]	For the year	Total
Aggregate of all BoD members	2013	13,694,516
	2012	11,802,434

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013.

Audited

Compensation details and additional information for non-independent BoD members

CHF, except where indicated[1]

Name, function[2]	For the year	Base salary	Annual share award	Benefits[3]	Contributions to retirement benefit plans[4]	Total
Axel A. Weber, Chairman	**2013**	2,000,000	3,720,000	89,446	260,070	**6,069,516**
	2012	1,322,581	2,003,995[5]	69,867	171,898	**3,568,341**
Kaspar Villiger, former Chairman	**2013**	–	–	–	–	**–**
	2012	354,167	200,000[5]	54,926	–	**609,093**

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013. 2 Axel A. Weber was the only non-independent member in office on 31 December 2013 and on 31 December 2012 respectively. Kaspar Villiger did not stand for re-election at the AGM on 3 May 2012. 3 Benefits are all valued at market price. 4 This figure excludes the mandatory employer's social security contributions, but includes the portion related to the employer's contribution to the statutory pension scheme. The employee contribution is included in the base salary and annual incentive award components. 5 These shares are blocked for four years.

Audited

Remuneration details and additional information for independent BoD members

CHF, except where indicated[1]

Name, function[2]	Audit Committee	Human Resources & Compensation Committee	Governance & Nominating Committee	Corporate Responsibility Committee	Risk Committee	For the period AGM to AGM	Base fee	Committee retainer(s)	Additional payments	Total	Share percentage[3]	Number of shares[4, 5]
Michel Demaré, Vice Chairman	M	M	M			**2013/2014**	325,000	400,000	250,000[6]	**975,000**	50	30,834
	M		M			**2012/2013**	325,000	300,000	250,000[6]	**875,000**	50	34,233
David Sidwell, Senior Independent Director			M		C	**2013/2014**	325,000	500,000	250,000[6]	**1,075,000**	50	33,997
			M		C	**2012/2013**	325,000	500,000	250,000[6]	**1,075,000**	50	42,057
Reto Francioni, member				M		**2013/2014**	325,000	50,000		**375,000**	50	11,859
						2012/2013	–	–		**–**	–	–
Rainer-Marc Frey, member		M			M	**2013/2014**	325,000	300,000		**625,000**	100	37,394
		M			M	**2012/2013**	325,000	300,000		**625,000**	100	46,367
Ann F. Godbehere, member	M	C				**2013/2014**	325,000	500,000		**825,000**	50	26,091
	M	C				**2012/2013**	325,000	500,000		**825,000**	50	32,276
Axel P. Lehmann, member					M	**2013/2014**	325,000	200,000		**525,000**	100	31,403
			M		M	**2012/2013**	325,000	300,000		**625,000**	100	46,367
Wolfgang Mayrhuber, former member						**2013/2014**	–	–		**–**	–	–
		M		C		**2012/2013**	325,000	200,000		**525,000**	50	20,539
Helmut Panke, member		M			M	**2013/2014**	325,000	300,000		**625,000**	50	19,765
		M			M	**2012/2013**	325,000	300,000		**625,000**	50	24,452
William G. Parrett, member	C			M		**2013/2014**	325,000	350,000		**675,000**	50	21,347
	C			M		**2012/2013**	325,000	350,000		**675,000**	50	26,408
Isabelle Romy, member	M		M			**2013/2014**	325,000	300,000		**625,000**	50	19,765
	M		M			**2012/2013**	325,000	300,000		**625,000**	50	24,452
Beatrice Weder di Mauro, member	M				M	**2013/2014**	325,000	400,000		**725,000**	50	22,928
	M			M		**2012/2013**	325,000	250,000		**575,000**	50	22,496
Joseph Yam, member				M	M	**2013/2014**	325,000	250,000		**575,000**	50	18,184
				M	M	**2012/2013**	325,000	250,000		**575,000**	50	22,496
Total 2013										**7,625,000**		
Total 2012										**7,625,000**		

Legend: C = Chairperson of the respective Committee, M = Member of the respective Committee

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013. 2 There were 11 independent BoD members in office on 31 December 2013. Reto Francioni was appointed at the AGM on 2 May 2013 and Wolfgang Mayrhuber did not stand for re-election at the AGM on 2 May 2013. There were 11 independent BoD members in office on 31 December 2012. Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012 and Bruno Gehrig did not stand for re-election at the AGM on 3 May 2012. 3 Fees are paid 50% in cash and 50% in blocked UBS shares. However, independent BoD members can elect to have 100% of their remuneration paid in blocked UBS shares. 4 For 2013, shares valued at CHF 18.60 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2014), and were granted with a price discount of 15% for a new value of CHF 15.81. These shares are blocked for four years. For 2012, shares valued at CHF 15.03 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2013), and were granted with a price discount of 15% for a new value of CHF 12.78. These shares are blocked for four years. 5 Number of shares is reduced in case of the 100% election to deduct social security contributions. All remuneration payments are subject to social security contributions / withholding tax. 6 This payment is associated with the Vice Chairman or the Senior Independent Director function, respectively.

Our compensation model for employees other than GEB members

The elements that make up total compensation consist of a base salary and a performance award. The performance award may comprise a shorter-term immediate cash performance award as well as a longer-term performance award which is deferred into UBS notional shares and UBS notional bonds. Furthermore, pension contributions and benefits are paid in line with local practices.

Base salary

The base salary reflects the skills, role and experience of an employee as well as local market practices. It is fixed and usually paid monthly or semi-monthly. Between 2011 and 2013 we made only limited salary increases. We have determined to bring salaries in line with the market, although this will vary greatly between functions and locations. With effect from March 2014, base salaries were increased by a total of CHF 157 million, an increase of 2.5%. This return to healthy increases, reflective of competitive trends, supports our position in the market on salaries. Nonetheless, increases will continue to be focused on those who were promoted, are considered to be high contributors, or who delivered a very strong performance or took on increased responsibilities. This practice is broadly in line with developments in the industry as a whole. As a firm, we focus on total compensation. For example, 2014 performance award pools will consider salary increases granted earlier in the year. We will continue to review salaries and performance awards in light of market developments, performance, affordability and our commitment to deliver sustainable returns to our shareholders.

Pensions, benefits and employee share purchase program

We offer certain benefits such as health insurance and retirement benefits. These benefits vary depending on the location, but are competitive within each of the markets in which we operate.

While pension contributions and pension plans vary across locations and countries in accordance with local requirements and market practice, pension plan rules in any one location are generally the same for all employees in that location, including management.

Our employee share purchase program, the Equity Plus Plan, allows employees to contribute up to 30% of their base salary and/or up to 35% of their performance award toward the purchase of UBS shares. All employees below the rank of Managing Director are eligible to participate. Employees can purchase UBS shares at market price and they receive one matching share for free for every three purchased through the program. Shares purchased under the Equity Plus Plan are generally restricted from disposal for a maximum of three years from the time of purchase. The matching shares vest after three years, with vesting being subject to continued employment with the firm.

➔ **Refer to "Note 28 Pension and other post-employment benefit plans" in the "Financial information" section of our Annual Report 2013 for more information on the various major post-employment benefit plans established in Switzerland and other countries**

Performance award

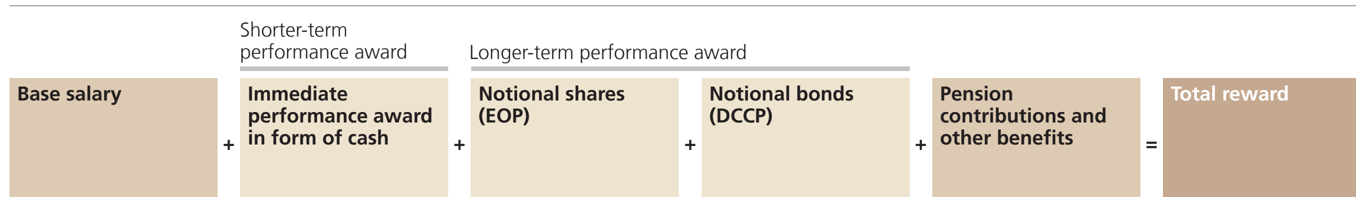
Most of our regular employees are considered for an annual discretionary performance award. The level of performance award depends on the firm's overall performance, the performance of the employee's business division, and the individual's performance, and is at the complete discretion of the firm.

For 2013, reflecting the improved performance of the firm, the performance award for employees across the Group was on average approximately 52% of the base salary (2012: 37%).

Benchmarking

Given the diversity of our businesses, the companies we use as benchmarks vary with, and are dependent on, the relevant business divisions and locations, as well as the nature of the positions involved. For certain businesses or positions, we may take into account other major international banks, additional large Swiss private banks, private equity firms, hedge funds and non-financial firms. Furthermore, we also benchmark employee compensation internally for comparable roles within and across business divisions and locations.

Compensation elements



Deferral of performance awards

To help ensure our employees are focused on the longer-term profitability of the firm, we require that a significant part of their performance award be deferred for up to five years if their total compensation exceeds CHF/USD 300,000, an increase from CHF/USD 250,000 in 2012. This increase, together with the introduction of graduated deferral rates, aligns our deferral levels closer to the market. For participants in our deferral schemes at the highest levels of compensation, the effective deferral rate has been increased, while for others at lower levels of compensation it has been decreased. The deferral increases at higher marginal rates in line with the value of the performance award, with the lowest deferral rate set at 40% of the performance award and the highest rate at 75%, compared to the previously flat rate of 60%. In addition, the portion paid out in immediate cash is capped at CHF/USD 1 million. Any immediate cash award in excess of the CHF/USD 1 million cap is deferred as notional shares under the Equity Ownership Plan (EOP). The effective deferral rate therefore depends on the value of the performance award and the value of the total compensation.

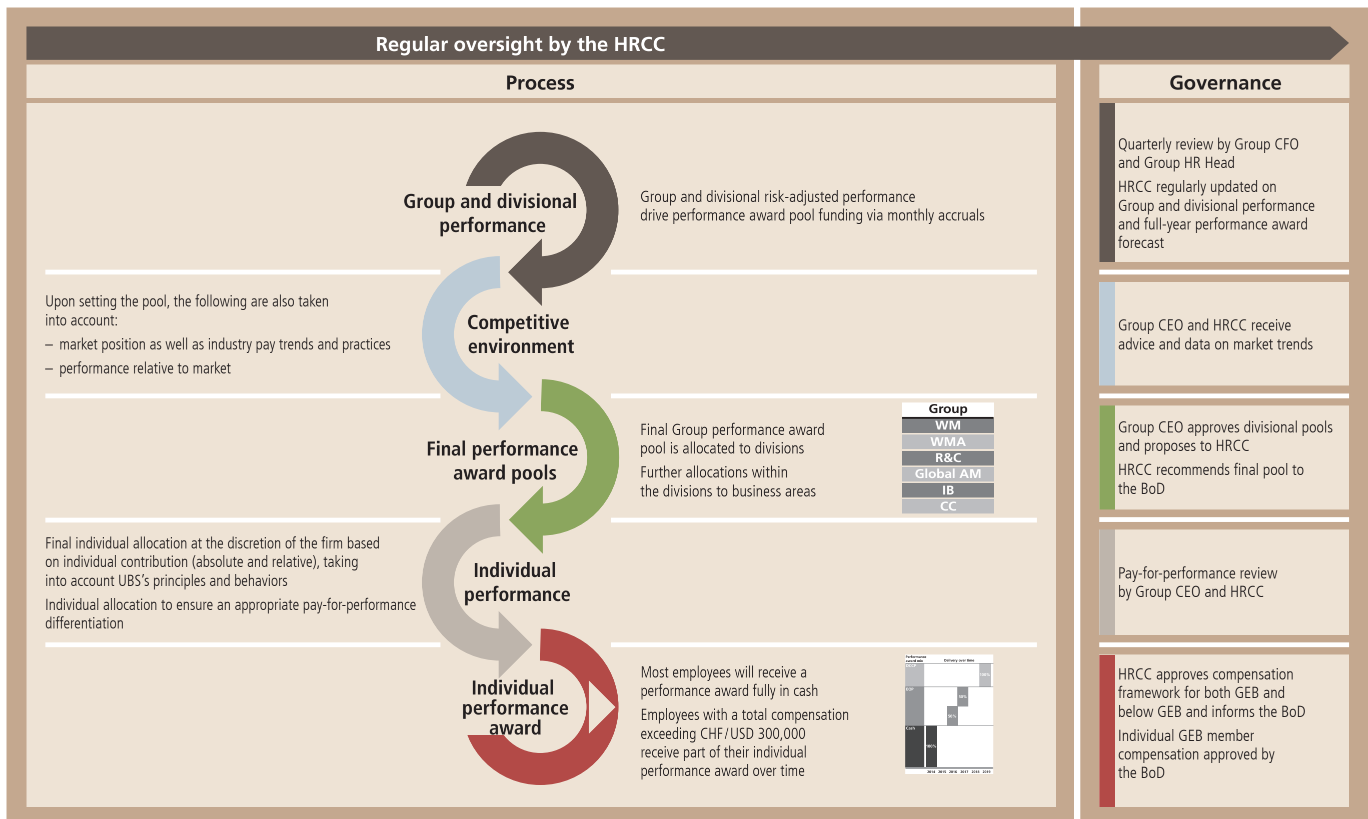
Of the deferred annual performance award, 60% is deferred in UBS notional shares under the EOP and the remaining 40% is deferred in notional bonds under the Deferred Contingent Capital Plan (DCCP). Global Asset Management employees receive 75% of their deferred performance awards in notional funds under the EOP and the remaining 25% under the DCCP. The average deferral period of the deferred awards for employees below GEB level for 2013 was 3.5 years.

➔ Refer to the "Our deferred variable compensation plans" section of this report for more information about the terms of our deferred variable compensation plans, including the forfeiture provisions to which they are subject, and the terms applicable to Global Asset Management employees

➔ Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information on specific local plans with deferral provisions that differ from those described here

The illustration below provides an overview of how we determine an individual performance award and the governance and oversight processes conducted by senior management and the HRCC as part of that process.

Determination of individual performance award



Other variable compensation components

To support hiring or retention, particularly at senior levels, we may offer certain incentives separate from the annual performance awards. These include the following:

- Replacement payments to compensate employees for deferred awards forfeited as a result of joining UBS. Such payments are prevailing industry practice and are often necessary to attract senior candidates who generally have a significant portion of their awards deferred at their current employer and where continued employment is required to avoid forfeiture.
- Retention payments made to key employees to induce them to stay, particularly during critical periods for the firm.
- On a very limited basis, guarantees may be required to attract individuals with certain skills and experience. These awards, which are fixed incentives to which our standard deferral applies, are paid regardless of future events, but are limited to the first performance year.
- Sign-on payments that may be offered to employees hired late in the year to replace performance awards that they would have earned at their current employer but have forfeited by joining UBS. In addition, in very limited circumstances, certain candidates may be offered sign-on payments to increase the chances of their accepting an offer.
- Severance payments made to employees in redundancy cases when asked to leave as part of a reduction in the workforce. These are governed by location-specific severance policies. At a minimum, we offer severance terms which comply with the applicable local laws ("legally obligated severance"). In certain locations, we may provide severance packages that are negotiated with our local social partners that go beyond these minimum legal requirements ("standard severance"). In addition, we may make severance payments that exceed legally obligated or standard severance payments ("supplemental severance") where we believe that they are aligned with market practice and appropriate under the circumstances.

Compensation for financial advisors in Wealth Management Americas

In line with market practice for US brokerage businesses, the compensation system for financial advisors in Wealth Management Americas is based on production payout and awards. Production payout, paid monthly, is primarily based on revenue generated. Advisors may also qualify for year-end awards, most of which are deferred for between six and 10 years. The awards are based on strategic performance measures which may include production, length of service, net new money brought in, and/or production related to advisory fees and financial planning. Production payout rates and awards may be reduced if financial advisors make repeated or significant transaction errors and/or demonstrate negligence or carelessness or otherwise fail to comply with the firm's rules, standards, practices and policies and/or applicable law.

Key Risk Takers

Identifying Key Risk Takers is important to ensure we incentivize only appropriate risk-taking. Key Risk Takers are defined as those employees who can materially set, commit or control significant amounts of the firm's resources and/or exert significant influence over its risk profile. This includes employees who work in front office roles, logistics and control functions. We currently have 543 individuals classified as Key Risk Takers. We also include employees with a performance award exceeding CHF/USD 2 million

Fixed and variable compensation for Key Risk Takers[1]

	Total for the year ended 2013		Not deferred		Deferred[2]		Total for the year ended 2012[3]
CHF million, except where indicated	Amount	%	Amount	%	Amount	%	Amount
Total compensation							
Amount	1,041	100	449	43	591	57	790
Number of beneficiaries	543						501
Fixed compensation							
Base salary	235	23	235	100	0	0	218
Variable compensation	806	77	214	27	591	73	572

1 Includes employees with a performance award exceeding CHF/USD 2 million (Highly Paid Employees). 2 This is based on the specific plan vesting and reflects the total award value at grant which may differ from the accounting expenses. 3 Year 2012 as reported in our Annual Report 2012.

(Highly Paid Employees) in this category if they have not already been identified as Key Risk Takers. All 11 GEB members are Key Risk Takers, and their compensation is disclosed separately in this report.

Key Risk Takers identified at the beginning of the performance year are subject to a performance evaluation by the control functions. Since the performance year 2010, the vesting of their deferred awards has been contingent on meeting Group and/or divisional performance conditions. Like all other employees, Key Risk Takers also are subject to forfeiture or reduction of the deferred portion of their compensation if they commit harmful acts.

The same compensation measures apply to all Group Managing Directors (GMDs), regardless of whether they are classified as Key Risk Takers or not. GMDs receive part of their annual performance award under the EOP and the DCCP, with the vesting of their deferred EOP awards contingent on the same performance conditions to which Key Risk Takers are subject.

Although most Key Risk Takers are subject to higher marginal deferral rates under the new graduated deferral scheme, all Key Risk Takers are subject to the mandatory deferral of at least 50% of their performance award which applies regardless of whether or not the UBS deferral threshold has been met, in order to comply with regulatory requirements.

We believe that we comply fully with the relevant Swiss Financial Market Supervisory Authority (FINMA) requirements regarding risk takers, and we also consult with our other key regulators on the topic.

UK Code Staff

In accordance with guidance from the UK Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), we have identified 156 employees, consisting of senior management and employees whose professional activities could have a material impact on the firm's risk profile in the UK, as so-called "UK Code Staff." Compensation measures that apply to UK Code Staff are generally similar to those applied to Key Risk Takers. However, due to specific UK PRA/FCA requirements, 50% of UK Code Staff performance awards that are paid out immediately are delivered in UBS shares, which are blocked for six months. In addition, any notional shares granted to UK Code Staff under the EOP for their performance in 2013 will be subject to an additional six-month blocking period upon vesting.

Control functions and Group Internal Audit

To monitor risk effectively, our control functions, Risk Control (including Compliance), Finance and Legal, must be independent. To support this, their compensation is determined independently from the revenue producers that they oversee, supervise or support. Their performance award pool is not based on the performance of these businesses, but instead reflects the performance of the firm as a whole. In addition, we consider other factors such as how well the function has performed, together with our market positioning. Decisions regarding individual compensation for the senior managers of the control functions are made by the function heads and approved by the Group CEO. Decisions regarding individual compensation within Group Internal Audit (GIA) are made by the Head of GIA and approved by the Chairman. The compensation for the Head of GIA is approved by the HRCC.

Sign-on payments, replacement payments, severance payments and guarantees

	Total 2013	*Of which expenses recognized in 2013*[3]	*Of which expenses to be recognized in 2014 and later*	Total 2012[4]	Number of beneficiaries	
CHF million, except where indicated					2013	2012[4]
Total sign-on payments	**18**	*9*	*8*	17	**165**	182
of which GEB members	*0*	*0*	*0*	*0*	**0**	*0*
of which Key Risk Takers[1]	*9*	*3*	*6*	*4*	**7**	*5*
Total replacement payments	**67**	**3**	63	96	**209**	203
of which GEB members	*0*	*0*	*0*	*25*	**0**	*1*
of which Key Risk Takers[1]	*30*	*1*	*29*	*32*	**15**	*16*
Total guarantees	**34**	**14**	21	40	**52**	68
of which GEB members	*0*	*0*	*0*	*0*	**0**	*0*
of which Key Risk Takers[1]	*15*	*5*	*10*	*20*	**7**	*10*
Total severance payments[2]	**138**	*129*	*9*	319	**2,291**	2,321
of which GEB members	*0*	*0*	*0*	*0*	**0**	*0*
of which Key Risk Takers[1]	*2*	*1*	*1*	*0.2*	**2**	*1*

1 Expenses for Key Risk Takers is the full-year amount for individuals in office on 31 December 2013. Key Risk Takers include employees with a performance award exceeding CHF/USD 2 million or more (Highly Paid Employees). 2 Severance payments include legally obligated and standard severance, as well as supplemental severance payments of CHF 24 million. 3 Expenses before post vesting transfer restrictions. 4 Year 2012 as reported in Annual Report 2012.

Our deferred variable compensation plans for 2013

To ensure our employees' and stakeholders' interests are aligned, we grant part of our performance awards in UBS notional shares and UBS notional bonds. To help ensure our employees are focused on the medium- and longer-term profitability of the firm, all variable compensation plans require a significant part of an employee's performance award above a total compensation threshold to be deferred for up to five years and include forfeiture provisions. Compensation is closely linked to longer-term sustainable performance. All our variable compensation plans feature performance conditions.

Equity Ownership Plan (EOP)

The EOP is a mandatory deferral plan for all employees with total compensation greater than CHF/USD 300,000. These employees receive at least 60% of their deferred performance award under the EOP in notional shares and are eligible to receive reinvested dividend equivalents. EOP awards granted to Global Asset Management employees have a different vesting schedule and deferral mix, as shown in the table below, and are granted as cash-settled notional funds. For 2013, approximately 5,300 employees received EOP awards. EOP awards are granted annually.

The plan includes provisions that enable the firm to trigger forfeiture of some, or all, of the unvested deferred portion if an employee commits certain harmful acts or in most cases of terminated employment.

The vesting of an EOP award granted to GEB members, GMDs and Key Risk Takers (including Highly Paid Employees) depends on both Group and divisional performance. Group performance is measured by the average adjusted Group return on tangible equity (RoTE). Divisional performance is measured by the average adjusted divisional return on attributed equity (RoAE). For Corporate Center employees, it is measured by the

Overview of our deferred compensation plans

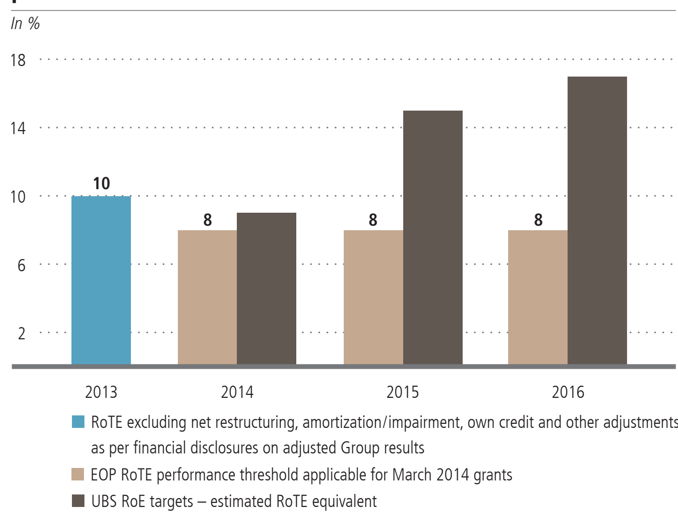
		Equity Ownership Plan	Deferred Contingent Capital Plan
Beneficiaries		GEB members, Key Risk Takers and all employees with total compensation greater than CHF/USD 300,000	GEB members, Key Risk Takers and all employees with total compensation greater than CHF/USD 300,000
Deferral mix		GEB members: at least 62.5% Global Asset Management employees: at least 75% All other employees: at least 60%	GEB members: 37.5% Global Asset Management employees: 25% All other employees: 40%
Vesting schedule		GEB members: vests in three installments in years 3, 4 and 5 Global Asset Management employees: vests in three installments in years 2, 3 and 5 All other employees: vests in equal installments in year 2 and 3	Vests in full in year 5
Conditions influencing payout	**Share price**	●	
	Forfeiture clauses	●	●
	Harmful acts	●	●
	Performance conditions	GEB members, GMDs and Key Risk Takers (including Highly Paid Employees): Number of UBS shares delivered at vesting depends on the achievement of both Group and respective divisional performance conditions[1]	Depends on whether a trigger event or viability event has occurred and, for GEB members, also on profitability
Profitability as funding driver		●	●
Instrument		UBS notional shares[2] (eligible for dividend equivalents)	Notional bonds and interest

1 Includes Global Asset Management employees who are GMDs, Key Risk Takers (including Highly Paid Employees). 2 Notional funds for Global Asset Management employees.

average of the RoAE for all business divisions excluding the Corporate Center ("Continuing Businesses RoAE"). By linking the vesting of EOP awards with a return on equity over a two- to five-year time horizon, we focus our employees on developing and managing the business in a way that delivers sustainable returns. We believe that Group RoTE provides a more consistent basis to measure performance than the Group's return on shareholders' equity (RoE), which also includes goodwill and intangibles.

The Group's published RoE targets can be converted into RoTE targets by deducting the current balance of goodwill and intangibles from the Group's total equity base, resulting in an adjusted RoTE approximately 1 to 2 percentage points higher than our adjusted RoE of 8.3%. Our 2015 RoE target of 15% or greater is the equivalent of RoTE of 17% or greater, calculated based on our estimated tangible equity. However, given elevated operational risk RWA, we may not achieve this target until 2016. The threshold for the Group RoTE has been increased for the 2014 performance year to 8% from 6%, and takes into consideration the continued financial effects of restructuring.

Return on tangible equity – comparison with EOP performance thresholds



If the average adjusted Group RoTE achieved is equal to or above the 8% threshold, the EOP award will vest in full, subject to the relevant business divisional threshold also being met. If the Group RoTE is 0% or negative, the installment will be fully forfeited for the entire firm regardless of any division's particular performance. If the average adjusted Group RoTE falls between 0% and 8%, the award will vest on a linear basis between 0% and 100%, again subject to the relevant business divisional threshold being met.

The purpose of the business divisional threshold is to reduce the amount of the EOP award that vests for any business division that does not meet its performance target. Therefore, if the business divisional return on attributable equity (RoAE) threshold (see table below) is met, no adjustment is made to the EOP award. If, however, the RoAE falls below the threshold but is above 0% for any business division, the award will be partially forfeited. The extent of the forfeiture depends on how much the actual RoAE falls below the threshold for that business division, and can be up to 40%. If the actual RoAE for a business division is 0% or negative, the installment will be fully forfeited for that business division. The HRCC assesses the achievement of the performance conditions.

The example below shows how we determine the percentage vesting.

Performance conditions for EOP awards granted in February 2014

	Installment vesting after	Applicable performance period
GEB	3 years	2014, 2015 and 2016
	4 years	2015, 2016 and 2017
	5 years	2016, 2017 and 2018
GMDs and Key Risk Takers (including Highly Paid Employees)	2 years	2014 and 2015
	3 years	2014, 2015 and 2016

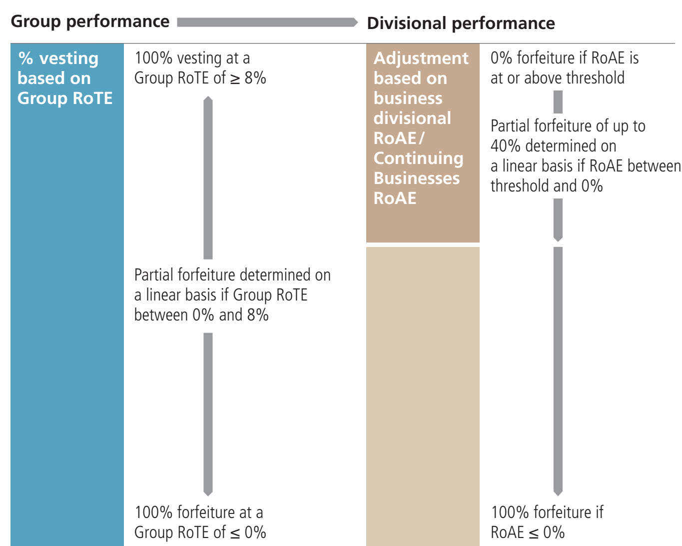
Group RoTE threshold

Group RoTE threshold	≥8%

Business divisional RoAE thresholds (or, for Corporate Center employees, Continuing Businesses RoAE threshold)

Wealth Management	≥50%
Wealth Management Americas	≥22.5%
Retail & Corporate	≥17.5%
Global Asset Management	≥25%
Investment Bank	≥15%
Corporate Center	≥20%

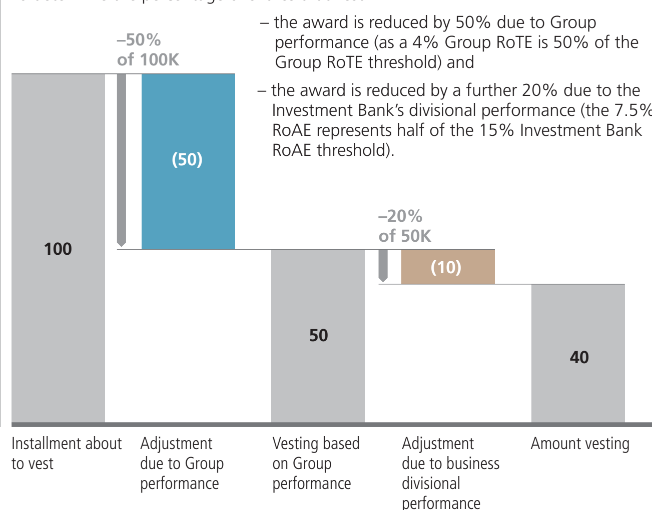
EOP performance conditions for GEB members, GMDs and Key Risk Takers (including Highly Paid Employees)



Illustrative example (assuming constant share price)

Assume an EOP award of CHF 100,000 granted to an Investment Bank employee due to vest in 2017, and an actual average adjusted Group RoTE and Investment Bank RoAE (averaged over the performance years 2014 to 2016) of 4% and 7.5%, respectively. To determine the percentage of shares that vest

– the award is reduced by 50% due to Group performance (as a 4% Group RoTE is 50% of the Group RoTE threshold) and
– the award is reduced by a further 20% due to the Investment Bank's divisional performance (the 7.5% RoAE represents half of the 15% Investment Bank RoAE threshold).



Deferred Contingent Capital Plan (DCCP)

The DCCP is a mandatory deferral plan for all employees with total compensation greater than CHF/USD 300,000. Such employees receive 40% of their deferred performance award under the DCCP, with the exception of Global Asset Management employees, who receive 25% of their deferred performance awards under the plan. For 2013, approximately 5,300 employees received DCCP awards. DCCP awards are granted annually.

Employees are awarded notional bonds with annual interest payments. UBS will only pay interest for the performance years in which the firm generates an adjusted Group profit before tax. For years in which UBS does not achieve an adjusted Group profit before tax, no notional interest will be paid. The notional interest rate is 5.125% for awards denominated in US dollars and 3.500% for awards denominated in Swiss francs. These interest rates are based on the most recent issuance of our low-trigger loss-absorbing capital (February 2014 denominated in euros with a coupon of 4.75%) adjusted for differences in currency and tenor.

Awards vest in full after five years subject to there being no trigger event. Awards granted under the DCCP forfeit if our phase-in common equity tier 1 (CET1) capital ratio falls below 10% for GEB members and 7% for all other employees. This writedown threshold is higher than the 5% for public holders of our low-trigger loss-absorbing capital notes. In addition, awards are also forfeited if a viability event occurs, that is, if FINMA provides a written notice to UBS that the DCCP must be written down to prevent the insolvency, bankruptcy or failure of UBS, or if UBS receives a commitment of extraordinary support from the public sector that is necessary to prevent such an event. For GEB members, an additional performance condition applies. If UBS does not achieve an adjusted profit before tax for any year during the vesting period, GEB members forfeit 20% of their award for each loss-making year.

The plan includes provisions that enable the firm to trigger forfeiture of some, or all, of the unvested deferred portion if an employee commits certain harmful acts or in most cases of terminated employment.

➔ Refer to “Performance awards granted for the 2013 performance year,” “Performance award expenses in the 2013 performance year” and “Total personnel expenses for 2013” in the “Supplemental information” section of this report for more information

➔ Refer to “Vesting of outstanding awards granted in prior years impacted by performance conditions” and “Discontinued plans” section of this report for more information on past awards

Our Total Reward Principles and compensation governance

The Human Resources and Compensation Committee (HRCC) takes into account the philosophy and objectives embodied in our Total Reward Principles. These influence how we structure compensation and provide funding for our performance award pool. They reflect our focus on pay for performance, sustainable profitability, sound governance and risk awareness, and support the firm's strategy by promoting and rewarding behavior that enhances the firm's position and reputation. Compensation should help foster a sense of engagement among employees and serve to align their long-term interests with those of clients and shareholders. Our Total Reward Principles were reviewed most recently by the HRCC on 30 August 2013.

We must clearly link pay with performance. To maintain this link, the key performance indicators we use to measure our progress in executing our strategy are taken into account when determining the size of each divisional performance award pool and are used as a basis for setting the performance conditions of our compensation plans. A balanced mix of fixed and variable compensation ensures appropriate risk-taking and behavior that produces sustainable business results.

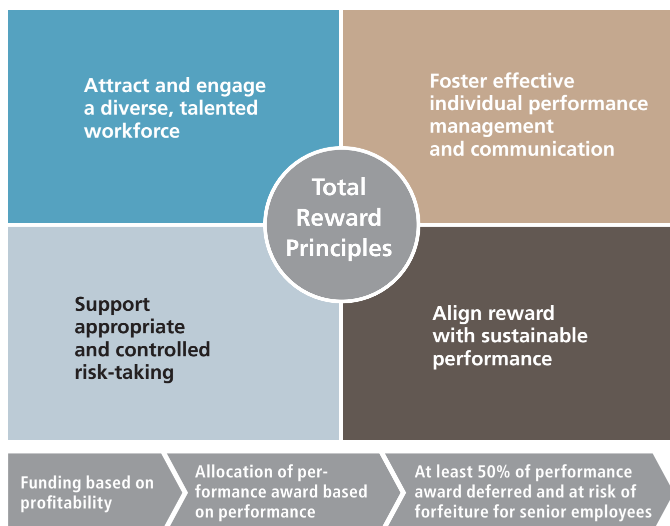
Overview of HRCC's governance

Ensuring we have strong governance and oversight of our compensation process is the responsibility of the HRCC. The HRCC is a committee of the Board of Directors (BoD) and consists of four independent BoD members. On 31 December 2013, the HRCC members were Ann F. Godbehere, who chairs the committee, Michel Demaré, Rainer-Marc Frey and Helmut Panke.

Among its other responsibilities, the HRCC, on behalf of the BoD
- reviews our Total Reward Principles
- reviews and approves annually the design of the total compensation framework, including compensation programs and plans
- reviews performance award funding throughout the year and proposes the final performance award pool to the BoD for approval
- together with the Group CEO, proposes base salaries and annual performance awards for other GEB members to the BoD, which approves the total compensation of the GEB
- together with the Chairman of the BoD, proposes the compensation for the Group CEO
- approves the total compensation for the Chairman of the BoD
- together with the Chairman, proposes the total individual compensation for independent BoD members for approval by the BoD

Total Reward Principles

The four Total Reward Principles establish a framework for managing performance and integrating risk control. They also specify how we structure compensation and provide necessary funding for our performance award pool. These principles apply to all employees, but may vary in certain locations due to local laws and regulations.



The Group CEO and the Chairman of the BoD may not attend any parts of committee meetings when specific decisions are made about their own individual compensation. These decisions are at the discretion of the HRCC and the BoD. Base fees and committee retainers received by independent BoD members are subject to an annual review. A proposal is submitted by the Chairman of the BoD to the HRCC, which then submits a recommendation to the BoD. The BoD has the ultimate responsibility for approving the compensation strategy proposed by the HRCC.

The HRCC held seven meetings and five calls in 2013 with an average attendance of 94%. The HRCC reappointed Hostettler, Kramarsch & Partner to provide impartial external advice on compensation-related matters. The company has no other mandates with UBS. Compensation consulting firm Towers Watson, appointed by Group Human Resources, continued to provide the HRCC with data on market trends and benchmarks, including in relation to GEB and BoD compensation. Various subsidiaries of Towers Watson provide similar data to Group Human Resources in relation to compensation at lower levels of the organization. Towers Watson has no other compensation-related mandates with UBS.

The Risk Committee's role in compensation

We are engaged in a risk management business and our success depends on prudent risk-taking. We will not tolerate inappropriate behavior that can harm the firm, its reputation or the interests of our many stakeholders. The Risk Committee, another BoD committee, works closely with the HRCC to ensure our approach to compensation reflects risk management and control. The Risk Committee supervises and sets appropriate risk management and control principles and receives regular briefings on how risk is factored into the compensation process. It also monitors Risk Control's involvement in compensation and reviews risk-related aspects of the compensation process.

➔ Refer to our corporate governance website at www.ubs.com/corporate-governance for more information

Compensation authorities

The BoD has the ultimate responsibility for approving the compensation strategy proposed by the HRCC, a BoD committee that determines the appropriate level of resources for compensation matters.

Recipients	Compensation recommendations developed by	Approved by	Communicated by
Chairman of the BoD	Chairperson of the HRCC	HRCC	HRCC
Independent BoD members (remuneration system and fees)	Chairman of the BoD and HRCC	BoD	Chairman of the BoD
Group CEO	Chairman of the BoD and HRCC	BoD	Chairman of the BoD
Other GEB members	HRCC and Group CEO	BoD	Group CEO
Key Risk Takers	Responsible GEB member together with functional management team	Divisional pools: HRCC Overall pool: BoD	Line manager

Recipients	Variable compensation recommendations developed by	Approved by	Communicated by
Employees	Responsible GEB member together with functional management team	Divisional pools: HRCC Overall pool: BoD	Line manager

Supplemental information

This section provides an overview and further context regarding our compensation strategy and framework. It also provides further information required to comply with statutory disclosure requirements.

Performance awards granted for the 2013 performance year

The "Total variable compensation" table shows the amount of variable compensation awarded to employees for the performance year 2013, together with the number of beneficiaries for each type of award granted. We define variable compensation as the discretionary, performance-based award pool for the given year. In the case of deferred awards, the final amount paid to an employee is dependent on performance conditions to which parts of these awards are subject and consideration of relevant forfeiture provisions. The deferred share award amount is based on the fair value of these awards on the date of grant.

The "Deferred compensation" table on the following page shows the current intrinsic value of unvested outstanding deferred variable compensation awards subject to ex-post adjustments. For share-based plans, the intrinsic value is determined based on the closing share price on 30 December 2013. For notional funds, it is determined using the latest available market price for the underlying funds at year-end 2013, and for deferred cash plans, it is determined based on the outstanding amount of cash owed to award recipients. All awards made under our deferred variable compensation plans listed in the "Deferred compensation" table are subject to ex-post adjustments, whether implicitly, through exposure to share price movements, or explicitly, for example, through forfeitures instigated by the firm. Accordingly, their value can change over time. The amounts shown in the column "Relating to awards for prior years" already take into account ex-post implicit adjustments that have occurred as a result of share price movements between the respective dates on which these awards were granted and 30 December 2013.

➔ Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information

Performance award expenses in the 2013 performance year

The performance award expenses include all immediate expenses related to 2013 compensation awards and expenses deferred

Total variable compensation[1]

	Expenses		Expenses deferred to future periods		Adjustments[2]		Total		Number of beneficiaries	
CHF million, except where indicated	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Cash performance awards	**1,942**	1,411	**0**	0	**(24)**	0	**1,918**	1,411	**46,593**	46,709
Deferred Contingent Capital Plan	**152**	145	**348**	361	**0**	0	**500**	506	**5,286**	6,317
Deferred cash plans[3]	**2**	5	**7**	10	**0**	0	**9**	15	**23**	58
UBS share plans	**190**	135	**520**	383	**41**	24	**751**	542	**4,931**	5,866
Equity Ownership Plan – notional funds	**19**	28	**37**	20	**0**	0	**56**	48	**370**	506
Total performance award pool	**2,305**	1,724	**912**	774	**17**	24	**3,234**	2,522	**46,620**	46,732

	Expenses		Expenses deferred to future periods		Adjustments		Total	
CHF million, except where indicated	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Total variable compensation – other[4]	**152**	424	**340**	494	**(101)[5]**	(137)[5]	**391**	781

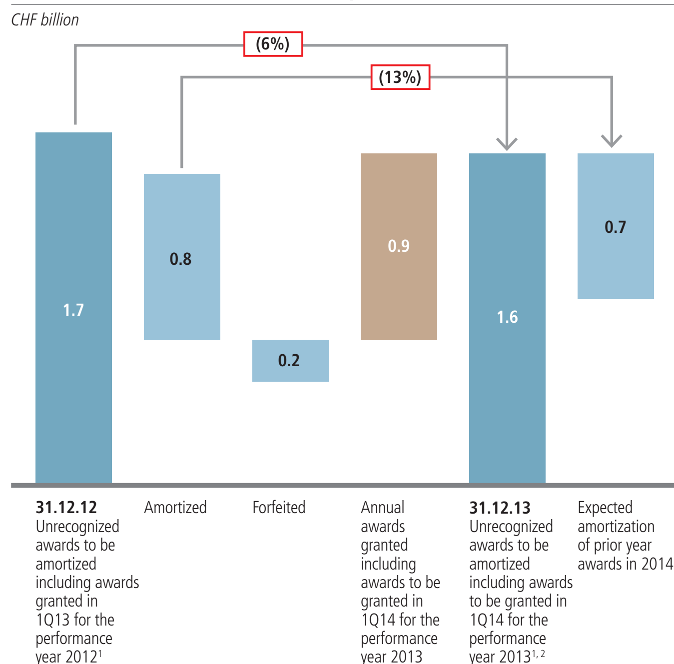
	Expenses		Expenses deferred to future periods		Adjustments		Total		Number of beneficiaries	
CHF million, except where indicated	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Total WMA financial advisor compensation[6]	**2,334**	2,087	**592**	706	**0**	0	**2,926**	2,793	**7,137**	7,059

1 The total "performance award" paid to employees for the performance years 2013 (CHF 3,234 million) and 2012 (CHF 2,522 million). Expenses under "Total variable compensation – other" and "Total WMA financial advisor compensation" are not part of UBS's performance award pool. 2 Adjustments relating to post-vesting transfer restrictions and other adjustments 3 Deferred cash plans include specific regional deferred cash plan which is not part of the Group's compensation delivery framework. 4 Replacement payments and retention plan payments including the 2012 Special Plan Award Program. 5 Included in expenses deferred to future periods is an amount of CHF 101 million (prior year CHF 137 million) relating to future interest on the DCCP. As the amount recognized as performance award represents the present value of the award at the date granted to the employee, this interest amount is adjusted out in the analysis. 6 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements.

to 2013 related to awards made in prior years. The chart shows the amount at the end of 2013 of unrecognized awards to be amortized in subsequent years. This was CHF 1.6 billion for 2013, compared with CHF 1.7 billion at the end of 2012.

The table below shows the value of actual ex-post explicit and implicit adjustments to outstanding deferred compensation in the financial year 2013. Ex-post adjustments occur after an award has been granted. Ex-post explicit adjustments occur when we adjust compensation by forfeiting deferred awards. Ex-post implicit adjustments are unrelated to any action taken by the firm and occur as a result of share price movements that impact the value of an award. The total value of ex-post explicit adjustments made to UBS shares in 2013, based on the approximately 14 million shares forfeited during 2013, is a reduction of CHF 234 million. This includes partial forfeiture of the vesting installment of Performance Equity Plan 2010 of 48% due to performance conditions not fully achieved. The total value of ex-post explicit adjustments made to UBS options and share-settled stock appreciation rights (SARs) in 2013, based on the approximately 0.1 million options/SARs forfeited during 2013, is a reduction in value of CHF 1 million. The size of implicit adjustments is mainly due to an increase in the share price. However, the share price as of year-end means that many of the options previously granted remain out of the money. Hence, the majority of outstanding option awards had no intrinsic value as of the end of 2013.

Amortization of deferred compensation



1 Related to performance awards and including special plan awards.
2 Estimate. The actual amount to be expensed in future periods may vary, for example due to forfeitures.

Deferred compensation[1,2]

CHF million, except where indicated	Relating to awards for 2013	Relating to awards for prior years[3]	Total	of which exposed to ex-post adjustments	Total deferred compensation at year-end 2012
Deferred Contingent Capital Plan	500	465	965	100%	506
Equity Ownership Plan	751	3,044	3,795	100%	3,925
Equity Ownership Plan – notional funds	56	447	503	100%	582
Discontinued deferred compensation plans[4]	0	336	336	100%	420
Total	1,307	4,292	5,599		5,433

1 This is based on specific plan vesting and reflects the economic value of the outstanding awards, which may differ from the accounting expenses. 2 Refer to "Note 29 Equity participation and other compensation plans in the "Financial information" section of our Annual Report 2013 for more information. 3 This takes into account the ex-post implicit adjustments, given the share price movements since grant. 4 Cash Balance Plan (CBP), Senior Executive Equity Ownership Plan (SEEOP), Performance Equity Plan (PEP), Incentive Performance Plan (IPP) and Deferred Cash Plan (DCP).

Ex-post explicit and implicit adjustments to deferred compensation in 2013[1]

	Ex-post explicit adjustments[4]		Ex-post implicit adjustments to unvested awards[5]	
CHF million	2013	2012	2013	2012
	31.12.13	31.12.12	31.12.13	31.12.12
UBS notional bonds (DCCP)	(27)			
UBS shares (EOP, IPP, PEP, SEEOP)[2]	(234)	(211)	368	(178)
UBS options (KESOP) and SARs (KESAP)[2]	(1)	(16)		
UBS notional funds (EOP)[3]	(20)	(8)	51	52

1 Compensation (performance awards and other variable compensation) relating to awards for previous performance years. 2 IPP, PEP, SEEOP, Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP) are discontinued deferred compensation plans. 3 Awards granted under this plan are cash-settled and 100% susceptible to ex-post implicit adjustments. 4 Ex-post explicit adjustments are calculated as units forfeited during the year, valued at the share price on 30 December 2013 (CHF 16.92) and on 28 December 2012 (CHF 14.27) for UBS shares and valued with the fair value at grant for UBS options. For the notional funds awarded to Global Asset Management employees under the EOP, this represents the forfeiture credits recognized in 2013 and 2012. For DCCP the fair value at grant of the forfeited awards during the year is reflected. 5 Ex-post implicit adjustments for UBS shares are calculated based on the difference between the weighted average grant date fair value and the share price at year-end. The amount for notional funds is calculated using the mark-to-market change during 2013 and 2012.

Personnel expenses

	Expenses				
CHF million	Relating to awards for 2013	Relating to awards for prior years	Total 2013	2012	2011
Salaries	**6,268**	0	**6,268**	6,814	6,859
Cash performance awards	**1,942**	(30)	**1,912**	1,373	1,466
Deferred Contingent Capital Plan	**152**	96	**248**	145	0
Deferred cash plans	**2**	53	**55**	154	343
UBS share plans	**190**	502	**692**	1,202	1,490
UBS share option plans	**0**	0	**0**	14	100
Equity Ownership Plan – notional funds	**19**	60	**79**	112	118
Total variable compensation – performance award[1]	**2,305**	681	**2,986**	3,000	3,516
of which: guarantees for new hires	***14***	*62*	***76***	*134*	*173*
Variable compensation – other[1]	**152**	136	**288**	367	191
of which:					
replacement payments[2]	***6***	*72*	***78***	*109*	*121*
forfeiture credits	***0***	*(146)*	***(146)***	*(174)*	*(215)*
severance payments[3]	***114***	*0*	***114***	*303*	*239*
retention plan and other payments	***32***	*210*	***242***	*128*	*46*
Contractors	**190**	0	**190**	214	217
Social security	**732**	60	**792**	768	743
Pension and other post-employment benefit plans[4]	**887**	0	**887**	18	831
Wealth Management Americas: Financial advisor compensation[1, 5]	**2,334**	806	**3,140**	2,873	2,518
Other personnel expenses	**609**	22	**631**	682	758
Total personnel expenses[6]	**13,477**	1,705	**15,182**	14,737	15,634

1 Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information. 2 Replacement payments are payments made to compensate employees for deferred awards forfeited as a result of joining UBS. This table includes the expenses recognized in the financial year (mainly the amortization of the award). 3 Includes legally obligated and standard severance payments. 4 2012 included a credit of CHF 730 million related changes to our Swiss pension plan and a credit of CHF 116 million related changes to retiree benefit plans in the US. Refer to "Note 28 Pension and other post-employment benefit plans" of the "Financial information" section of our Annual Report 2013 for more information. 5 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. 6 Includes restructuring charges of CHF 156 million for the year ended 31 December 2013 and CHF 358 million for the year ended 31 December 2012. Refer to "Note 32 Changes in organization" in the "Financial information" section of our Annual Report 2013 for more information.

Total personnel expenses for 2013

The table "Personnel expenses" shows our total personnel expenses in 2013 for our 60,205 employees. It includes salaries, pension contributions and other personnel costs, social security contributions and variable compensation. Variable compensation includes discretionary cash performance awards paid in 2014 for the 2013 performance year, the amortization of unvested deferred awards granted in previous years and the cost of deferred awards granted to employees who are eligible for retirement in the context of the compensation framework at the date of grant.

The performance award pool reflects the value of discretionary performance awards granted relating to the 2013 performance year, including awards that are paid out immediately and those that are deferred. To determine our variable compensation expenses, the following adjustments are required in order to reconcile the performance award pool to the accounting expenses recognized in the Group's financial statements prepared under IFRS:
- reduction for the unrecognized future amortization (including accounting adjustments) of unvested deferred awards granted in 2014 for the performance year 2013
- addition for the 2013 amortization of unvested deferred awards granted in prior years

As a large part of compensation consists of deferred awards, the amortization of unvested deferred awards granted in prior years forms a significant part of the IFRS accounting expenses in both 2012 and 2013.

➔ **Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information**

Vesting of outstanding awards granted in prior years impacted by performance conditions

The tables below show the extent to which the performance conditions of awards granted in prior years have been met and the percentage of the award which vested on 1 March 2014.

Vesting of awards with performance conditions

Performance Equity Plan 2011		
Performance conditions	**Performance achieved**	**% of installment vesting**
Cumulative economic profit and relative shareholder return for the period 2011–2013. The percentage applied to determine the number of UBS shares to be delivered at vesting is calculated by multiplying the economic profit multiplier ("EP multiplier") with the total shareholder return multiplier ("TSR multiplier"), rounded to a full percentage	For the period from 2011 to the end of 2013 the HRCC determined that the EP multiplier is 50% and the TSR multiplier is 80%, which results in a multiplier of 40%	40%

Cash Balance Plan 2012		
Performance conditions	**Performance achieved**	**% of installment vesting**
The award is adjusted based on Group RoE. If Group RoE is below 0%, the actual Group RoE determines the extent of the downward adjustment. If Group RoE is between 0% and 6%, no adjustment will be made. If Group RoE exceeds 6%, the award is adjusted upwards in line with the actual Group RoE, up to a maximum of 20%	The last installment was adjusted upward by 1.3% based on the compound actual Group RoE over 2012 and 2013	101.3%

Equity Ownership Plan 2010/2011 and 2011/2012 and Senior Executive Equity Ownership Plan 2010/2011 and 2011/2012		
Performance conditions	**Performance achieved**	**% of installment vesting**
Adjusted operating profit before tax for the business division or, for Corporate Center, adjusted Group operating profit before tax	As the Group and the business divisions reported an operating profit for 2013, the profitability performance condition has been met and the third installment of the EOP awards and SEEOP 2010/2011 awards and second installment of EOP and SEEOP 2011/2012 awards will vest in full	100%

Discontinued deferred compensation plans

The table lists discontinued compensation plans. UBS has not granted any options since 2009. The strike price for stock options awarded under prior compensation plans has not been reset.

➔ **Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information**

Plan	Cash Balance Plan (CBP)	Performance Equity Plan (PEP)	Senior Executive Equity Ownership Plan (SEEOP)	Special Plan Award Program (SPAP)	Deferred Cash Plan (DCP)	Incentive Performance Plan (IPP)	Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP)	Senior Executive Stock Appreciation Rights Plan (SESAP) and Senior Executive Stock Option Plan (SESOP)
Years granted	2010–2012	2010–2012	2010–2012	2012 only	2011 only	2010 only	2002–2009	2002–2009
Eligible employees	GEB members	GEB members	GEB members and GMDs	Selected Managing Directors and GMDs in the Investment Bank	Investment Bank employees whose total compensation exceeded CHF 1 million	GEB members and other senior employees (approximately 900 employees)	Selected employees (approximately 17,000 employees between 2002 and 2009)	GEB members and Group Managing Board
Instrument	Cash	Performance shares	Shares	Shares	Cash	Performance shares	Share-settled stock appreciation rights (SAR) or stock options with a strike price not less than the fair market value of a UBS share on the date of grant	Share-settled stock appreciation rights (SAR) or stock options with a strike price not less than the fair market value of a UBS share on the date of grant
Performance conditions	CBP 2011: dependent on the return on equity CBP 2010: dependent on UBS being profitable	The number of UBS shares delivered can be between zero and two times the number of performance shares granted, depending on whether performance targets relating to eco-nomic profit (EP) and relative total shareholder return (TSR) have been achieved	Dependent on whether the business division makes a loss (the amount forfeited depends on the extent of the loss and generally ranges from 10% to 50% of the award portion due to vest)	Dependent on the level of reduction in risk-weighted assets achieved and the average published return on risk-weighted assets in the Investment Bank in 2012, 2013 and 2014	None	Dependent on share price at the end of the five-year period	None	None
Restrictions / other conditions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information	Subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information
Vesting period	Vests in equal installments over a two-year period	Vests in full three years after grant	Vests in equal installments over a five-year period	Vests in full three years after grant	Vests in one-third installments over a three-year period	Vests in full at the end of five years. Number of shares that vest can be between one and three times the number of performance shares initially granted	Vests in full three years after grant. SAR and options expire 10 years from the date of grant	Vests in full three years after grant. SAR and options expire 10 years from the date of grant

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Total of all vested and unvested shares of GEB members[1, 2]

	Total	of which vested	of which vesting				
			2014	2015	2016	2017	2018
Shares on 31 December 2013	**8,708,791**	1,619,974	1,652,867	2,373,539	1,263,412	1,052,595	746,404
			2013	2014	2015	2016	2017
Shares on 31 December 2012	**8,192,173**	1,531,295	1,811,280	1,652,867	2,373,539	517,001	306,191

1 Includes related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Deferred variable compensation plans" section in this report for more information on the plans.

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Number of shares of BoD members on 31 December 2013 / 2012[1]

Name, function	on 31 December	Number of shares held	Voting rights in %
Axel A. Weber, Chairman[2]	2013	233,333	0.011
	2012	200,000	0.010
Michel Demaré, Vice Chairman	2013	150,412	0.007
	2012	116,179	0.006
David Sidwell, Senior Independent Director	2013	151,184	0.007
	2012	149,199	0.007
Reto Francioni, member[2]	2013	0	0.000
	2012	–	0.000
Rainer-Marc Frey, member	2013	209,044	0.010
	2012	162,677	0.008
Ann F. Godbehere, member	2013	113,562	0.006
	2012	81,286	0.004
Axel P. Lehmann, member	2013	185,970	0.009
	2012	139,603	0.007
Wolfgang Mayrhuber, former member[3]	2013	–	0.000
	2012	38,957	0.002
Helmut Panke, member	2013	162,244	0.008
	2012	137,792	0.007
William G. Parrett, member	2013	99,914	0.005
	2012	91,078	0.004
Isabelle Romy, member[2]	2013	24,452	0.001
	2012	0	0.000
Beatrice Weder di Mauro, member[2]	2013	22,496	0.001
	2012	0	0.000
Joseph Yam, member	2013	48,679	0.002
	2012	26,183	0.001
Total	2013	1,401,290	0.068
	2012	1,142,954	0.055

1 This table includes blocked and unblocked shares held by BoD members, including related parties. No options were granted in 2013 and 2012. 2 Reto Francioni was appointed at the AGM on 2 May 2013. Axel A. Weber, Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012. 3 Wolfgang Mayrhuber did not stand for re-election at the AGM on 2 May 2013.

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Total of all blocked and unblocked shares of BoD members[1]

	Total	of which unblocked	of which blocked until			
			2014	2015	2016	2017
Shares on 31 December 2013	**1,401,290**	201,098	204,792	216,451	324,012	454,937
			2013	2014	2015	2016
Shares on 31 December 2012	**1,142,954**	56,624	302,118	204,792	231,501	347,919

1 Includes related parties.

Audited

Vested and unvested options of GEB members on 31 December 2013 / 2012[1]

on 31 December	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Sergio P. Ermotti, Group Chief Executive Officer						
2013	0					
2012	0					
Markus U. Diethelm, Group General Counsel						
2013	0					
2012	0					
John A. Fraser, Chairman and CEO Global Asset Management						
2013	756,647	170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
2012	884,531	127,884	2003	31.01.2006	31.01.2013	USD 22.53
		170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate						
2013	0					
2012	0					
Ulrich Körner, Group Chief Operating Officer and CEO UBS Group EMEA						
2013	0					
2012	0					
Philip J. Lofts, Group Chief Risk Officer						
2013	500,741	35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66
2012	536,173	9,985	2003	01.03.2004	31.01.2013	CHF 27.81
		9,980	2003	01.03.2005	31.01.2013	CHF 27.81
		9,974	2003	01.03.2006	31.01.2013	CHF 27.81
		1,833	2003	01.03.2004	28.02.2013	CHF 26.39
		1,830	2003	01.03.2005	28.02.2013	CHF 26.39
		1,830	2003	01.03.2006	28.02.2013	CHF 26.39
		35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66

on 31 December	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Robert J. McCann, CEO Wealth Management Americas and CEO UBS Group Americas						
2013	0					
2012	0					
Tom Naratil, Group Chief Financial Officer						
2013	867,087	145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
2012	935,291	63,942	2003	31.01.2006	31.01.2013	USD 22.53
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
Andrea Orcel, CEO Investment Bank						
2013	0					
2012	0					
Chi-Won Yoon, CEO UBS Group Asia Pacific						
2013	538,035	6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35
2012	578,338	8,648	2003	01.03.2004	31.01.2013	USD 20.49
		8,642	2003	01.03.2005	31.01.2013	USD 20.49
		8,635	2003	01.03.2006	31.01.2013	USD 20.49
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		3,374	2003	01.03.2004	28.02.2013	USD 19.53
		3,371	2003	01.03.2005	28.02.2013	USD 19.53
		3,371	2003	01.03.2006	28.02.2013	USD 19.53

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information.

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Vested and unvested options of GEB members on 31 December 2013 / 2012[1] (continued)

on 31 December	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Chi-Won Yoon, CEO UBS Group Asia Pacific (continued)						
		6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35
Jürg Zeltner, CEO UBS Wealth Management						
2013	**203,093**	4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
Jürg Zeltner, CEO UBS Wealth Management (continued)						
		230	2006	08.09.2008	08.09.2016	CHF 65.76
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35
2012	**203,093**	4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
		230	2006	08.09.2008	08.09.2016	CHF 65.76
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information.

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Loans granted to GEB members on 31 December 2013 / 2012 [1]

CHF, except where indicated[2]

Name, function	on 31 December	Loans[3]
Ulrich Körner, Group Chief Operating Officer and CEO UBS Group EMEA (highest loan in 2013)	**2013**	**5,181,976**
Markus U. Diethelm, Group General Counsel (highest loan in 2012)	**2012**	**5,564,012**
Aggregate of all GEB members	**2013**	**18,763,976**
	2012	**18,862,820**

1 No loans have been granted to related parties of the GEB members at conditions not customary in the market. 2 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section in our Annual Report 2013. 3 All loans granted are secured loans, except for CHF 311,308 in 2012.

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Loans granted to BoD members on 31 December 2013/ 2012 [1]

CHF, except where indicated[2]

	on 31 December	Loans[3, 4]
Aggregate of all BoD members	**2013**	**1,520,000**
	2012	**500,000**

1 No loans have been granted to related parties of the BoD members at conditions not customary in the market. 2 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section in our Annual Report 2013. 3 All loans granted are secured loans. 4 CHF 1,520,000 for Reto Francioni in 2013. CHF 500,000 for Michel Demaré in 2012.

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Compensation paid to former BoD and GEB members[1]

CHF, except where indicated[2]

	For the year	Compensation	Benefits	Total
Former BoD members	**2013**	0	0	**0**
	2012	0	0	**0**
Aggregate of all former GEB members[3]	**2013**	0	27,809	**27,809**
	2012	0	25,465	**25,465**
Aggregate of all former BoD and GEB members	**2013**	0	27,809	**27,809**
	2012	0	25,465	**25,465**

1 Compensation or remuneration that is connected with the former member's activity on the BoD or GEB or that is not at market conditions. 2 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section in our Annual Report 2013. 3 Includes one former GEB member in 2013 and 2012.

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Introduction and accounting principles

The financial information section of UBS's Annual Report 2013 consists of: a) the audited consolidated financial statements of UBS Group for 2013 prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), b) the UBS AG (Parent Bank) review and audited financial statements for 2013, prepared in order to meet Swiss regulatory requirements and in compliance with Swiss GAAP, c) supplemental disclosures required under US Securities and Exchange Commission (SEC) regulations and d) supplemental disclosures required under Basel III Pillar 3 regulations.

The significant accounting policies applied in the preparation of UBS's Group financial statements are described in Note 1 to the financial statements. Except where otherwise explicitly stated in these financial statements, all financial information is in Swiss francs (CHF) and presented on a consolidated basis under IFRS, and all references to "UBS" refer to the UBS Group and not to the Parent Bank. UBS AG (Parent Bank) is incorporated in Switzerland, has branches worldwide and owns all subsidiaries, directly or indirectly. All references to 2013, 2012 and 2011 refer to the fiscal years ended 31 December 2013, 2012 and 2011, respectively. The financial statements for the UBS Group and the Parent Bank have been audited by Ernst & Young Ltd.

Consolidated financial statements

Management's report on internal control over financial reporting

Management's responsibility for internal control over financial reporting

The Board of Directors and management of UBS AG (UBS) are responsible for establishing and maintaining adequate internal control over financial reporting. UBS's internal control over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

UBS's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation and fair presentation of financial statements, and that receipts and expenditures of the company are being made only in accordance with authorizations of UBS management and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of internal control over financial reporting as of 31 December 2013

UBS management has assessed the effectiveness of UBS's internal control over financial reporting as of 31 December 2013 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework (1992 Framework). Based on this assessment, management believes that, as of 31 December 2013, UBS's internal control over financial reporting was effective.

The effectiveness of UBS's internal control over financial reporting as of 31 December 2013 has been audited by Ernst & Young Ltd, UBS's independent registered public accounting firm, as stated in their report appearing on pages 346 to 347, which expressed an unqualified opinion on the effectiveness of UBS's internal control over financial reporting as of 31 December 2013.

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 6 March 2014

Report of independent registered public accounting firm on internal control over financial reporting

We have audited the internal control over financial reporting of UBS AG and its subsidiaries as of 31 December 2013, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). UBS AG's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control Over Financial Reporting on page 345.

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, UBS AG and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of 31 December 2013, based on the COSO criteria.

We also have audited, in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of UBS AG and its subsidiaries as of 31 December 2013 and 2012, and the related consolidated income statements and consolidated statements of comprehensive income, changes in equity and cash flows and notes thereto for each of the three years in the period ended 31 December 2013, of UBS AG and our report dated 6 March 2014 expresses an unqualified opinion thereon.

Ernst & Young Ltd

Jonathan Bourne Licensed Audit Expert (Auditor in Charge)	Troy J. Butner Certified Public Accountant (U.S.)

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 6 March 2014

Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of UBS AG and its subsidiaries which are comprised of the consolidated balance sheets as of 31 December 2013 and 2012, and the related consolidated income statements and consolidated statements of comprehensive income, changes in equity and cash flows, and notes thereto, for each of the three years in the period ended 31 December 2013 on pages 350 to 505.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used

and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UBS AG and its subsidiaries at 31 December 2013 and 2012, and the consolidated results of operations and the cash flows for each of the three years in the period ended 31 December 2013 in accordance with IFRS, as issued by the International Accounting Standards Board, and comply with Swiss law.

Report on other legal and regulatory requirements

We confirm that we meet the Swiss legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements in accordance with the instructions of the Board of Directors.

In accordance with Swiss law, we recommend that the consolidated financial statements submitted to you be approved.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of UBS AG and its subsidiaries as of 31 December 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework), and our report dated 6 March 2014 expresses an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

Ernst & Young Ltd

Jonathan Bourne Licensed Audit Expert (Auditor in Charge)	Troy J. Butner Certified Public Accountant (U.S.)

Income statement

		For the year ended			% change from
CHF million, except per share data	Note	**31.12.13**	31.12.12	31.12.11	31.12.12
Interest income	3	**13,137**	15,968	17,969	(18)
Interest expense	3	**(7,351)**	(9,990)	(11,143)	(26)
Net interest income	3	**5,786**	5,978	6,826	(3)
Credit loss (expense) / recovery	12	**(50)**	(118)	(84)	(58)
Net interest income after credit loss expense		**5,736**	5,860	6,742	(2)
Net fee and commission income	4	**16,287**	15,396	15,236	6
Net trading income	3	**5,130**	3,526	4,343	45
Other income	5	**580**	641	1,467	(10)
Total operating income		**27,732**	25,423	27,788	9
Personnel expenses	6	**15,182**	14,737	15,634	3
General and administrative expenses	7	**8,380**	8,653	5,959	(3)
Depreciation and impairment of property and equipment	16	**816**	689	761	18
Impairment of goodwill	17	**0**	3,030	0	(100)
Amortization and impairment of intangible assets	17	**83**	106	127	(22)
Total operating expenses		**24,461**	27,216	22,482	(10)
Operating profit / (loss) before tax		**3,272**	(1,794)	5,307	
Tax expense / (benefit)	8	**(110)**	461	901	
Net profit / (loss)		**3,381**	(2,255)	4,406	
Net profit / (loss) attributable to preferred noteholders[1]		**204**	220		(7)
Net profit / (loss) attributable to non-controlling interests[1]		**5**	5	268	0
Net profit / (loss) attributable to UBS shareholders		**3,172**	(2,480)	4,138	

Earnings per share (CHF)

Basic	9	**0.84**	(0.66)	1.10	
Diluted	9	**0.83**	(0.66)	1.08	

1 Refer to “Note 1b Changes in accounting policies, comparability and other adjustments” for information on the adoption of IFRS 10.

Statement of comprehensive income

CHF million	For the year ended 31.12.13	31.12.12	31.12.11
Comprehensive income attributable to UBS shareholders			
Net profit / (loss)	**3,172**	(2,480)	4,138
Other comprehensive income			
Other comprehensive income that may be reclassified to the income statement[1]			
Foreign currency translation			
Foreign currency translation movements, before tax	**(440)**	(362)	693
Foreign exchange amounts reclassified to the income statement from equity	**(36)**	(58)	8
Income tax relating to foreign currency translation movements	**5**	(91)	20
Subtotal foreign currency translation, net of tax	**(471)**	(511)	722
Financial investments available-for-sale			
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	**(57)**	335	1,458
Impairment charges reclassified to the income statement from equity	**41**	85	39
Realized gains reclassified to the income statement from equity	**(265)**	(433)	(950)
Realized losses reclassified to the income statement from equity	**56**	19	24
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	**71**	20	(76)
Subtotal financial investments available-for-sale, net of tax	**(154)**	26	495
Cash flow hedges			
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	**(652)**	1,714	3,093
Net realized (gains) / losses reclassified to the income statement from equity	**(1,261)**	(1,235)	(1,140)
Income tax relating to cash flow hedges	**393**	(95)	(417)
Subtotal cash flow hedges, net of tax	**(1,520)**	384	1,537
Total other comprehensive income that may be reclassified to the income statement, net of tax	**(2,145)**	(102)	2,753
Other comprehensive income that will not be reclassified to the income statement[1]			
Defined benefit plans			
Gains / (losses) on defined benefit plans, before tax	**1,178**	1,023	(2,141)
Income tax relating to defined benefit plans	**(239)**	(413)	321
Subtotal defined benefit plans, net of tax	**939**	609	(1,820)
Property revaluation surplus			
Gains on property revaluation, before tax	**0**	8	0
Net (gains) / losses reclassified to retained earnings	**(6)**	0	0
Income tax relating to gains on property revaluation	**0**	(2)	0
Subtotal changes in property revaluation surplus, net of tax	**(6)**	6	0
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**933**	615	(1,820)
Total other comprehensive income	**(1,211)**	514	934
Total comprehensive income attributable to UBS shareholders	**1,961**	(1,966)	5,071

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for information on the adoption of the revisions to IAS 1.

Table continues on the next page.

Statement of comprehensive income (continued)

Table continued from previous page.

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Comprehensive income attributable to preferred noteholders[1]			
Net profit / (loss)	**204**	220	
Other comprehensive income			
Other comprehensive income that will not be reclassified to the income statement[2]			
Foreign currency translation movements, before tax	**355**	(41)	
Income tax relating to foreign currency translation movements	**0**	0	
Subtotal foreign currency translation, net of tax	**355**	(41)	
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**355**	(41)	
Total comprehensive income attributable to preferred noteholders	**559**	179	
Comprehensive income attributable to non-controlling interests[1]			
Net profit / (loss)	**5**	5	268
Other comprehensive income			
Other comprehensive income that will not be reclassified to the income statement[2]			
Foreign currency translation movements, before tax	**(1)**	15	292
Income tax relating to foreign currency translation movements	**0**	0	0
Subtotal foreign currency translation, net of tax	**(1)**	15	292
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**(1)**	15	292
Total comprehensive income attributable to non-controlling interests	**4**	20	560
Total comprehensive income			
Net profit / (loss)	**3,381**	(2,255)	4,406
Other comprehensive income	**(857)**	487	1,226
of which: other comprehensive income that may be reclassified to the income statement	***(2,145)***	*(102)*	*2,753*
of which: other comprehensive income that will not be reclassified to the income statement	***1,288***	*589*	*(1,528)*
Total comprehensive income	**2,524**	(1,767)	5,632

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for information on the adoption of IFRS 10. 2 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for information on the adoption of the revisions to IAS 1.

Balance sheet

				% change from
CHF million	Note	**31.12.13**	31.12.12	31.12.12
Assets				
Cash and balances with central banks		**80,879**	66,383	22
Due from banks	10	**17,170**	21,220	(19)
Cash collateral on securities borrowed	11	**27,496**	37,372	(26)
Reverse repurchase agreements	11	**91,563**	130,941	(30)
Trading portfolio assets	13	**122,848**	160,564	(23)
of which: assets pledged as collateral which may be sold or repledged by counterparties	*25*	***42,449***	*44,698*	*(5)*
Positive replacement values	14	**245,835**	418,957	(41)
Cash collateral receivables on derivative instruments	11	**28,007**	30,413	(8)
Financial assets designated at fair value	27	**7,364**	9,106	(19)
Loans	10	**286,959**	279,901	3
Financial investments available-for-sale	15	**59,525**	66,230	(10)
Investments in associates	30	**842**	858	(2)
Property and equipment	16	**6,006**	6,004	0
Goodwill and intangible assets	17	**6,293**	6,461	(3)
Deferred tax assets	8	**8,845**	8,143	9
Other assets	18	**20,228**	17,244	17
Total assets		**1,009,860**	1,259,797	(20)
Liabilities				
Due to banks	19	**12,862**	23,024	(44)
Cash collateral on securities lent	11	**9,491**	9,203	3
Repurchase agreements	11	**13,811**	38,557	(64)
Trading portfolio liabilities	13	**26,609**	34,247	(22)
Negative replacement values	14	**239,953**	395,260	(39)
Cash collateral payables on derivative instruments	11	**49,138**	71,148	(31)
Financial liabilities designated at fair value	20	**69,901**	91,901	(24)
Due to customers	19	**390,825**	373,459	5
Debt issued	21	**81,586**	104,837	(22)
Provisions	22	**2,971**	2,536	17
Other liabilities	8, 23	**62,777**	66,523	(6)
Total liabilities		**959,925**	1,210,697	(21)
Equity				
Share capital		**384**	384	0
Share premium		**33,952**	33,898	0
Treasury shares		**(1,031)**	(1,071)	(4)
Equity classified as obligation to purchase own shares		**(46)**	(37)	24
Retained earnings		**24,475**	21,297	15
Cumulative net income recognized directly in equity, net of tax		**(9,733)**	(8,522)	14
Equity attributable to UBS shareholders		**48,002**	45,949	4
Equity attributable to preferred noteholders		**1,893**	3,109	(39)
Equity attributable to non-controlling interests		**41**	42	(2)
Total equity		**49,936**	49,100	2
Total liabilities and equity		**1,009,860**	1,259,797	(20)

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares	Retained earnings	Cumulative net income recognized directly in equity, net of tax
Balance as of 1 January 2011	**383**	**34,393**	**(654)**	**(54)**	**19,604**	**(9,945)**
Issuance of share capital						
Acquisition of treasury shares			(2,455)			
Disposition of treasury shares			1,949[2]			
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		(83)				
Premium on shares issued and warrants exercised		10				
Employee share and share option plans		19				
Tax (expense) / benefit recognized in share premium		280				
Dividends						
Equity classified as obligation to purchase own shares – movements				15		
Preferred notes						
New consolidations and other increases / (decreases)		(5)				
Deconsolidations and other decreases						
Total comprehensive income for the year recognized in equity					4,138	934
Balance as of 31 December 2011	**383**	**34,614**	**(1,160)**	**(39)**	**23,742**	**(9,011)**
Effect of adoption of IFRS 10[1]					35	(24)
Balance as of 1 January 2012 after adoption of IFRS 10	**383**	**34,614**	**(1,160)**	**(39)**	**23,777**	**(9,035)**
Issuance of share capital	0					
Acquisition of treasury shares			(1,398)[2]			
Disposition of treasury shares			1,486			
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		(9)				
Premium on shares issued and warrants exercised		4				
Employee share and share option plans		126				
Tax (expense) / benefit recognized in share premium		(457)				
Dividends		(379)[3]				
Equity classified as obligation to purchase own shares – movements				2		
Preferred notes						
New consolidations and other increases / (decreases)		(1)				
Deconsolidations and other decreases						
Total comprehensive income for the year recognized in equity					(2,480)	514
Balance as of 31 December 2012	**384**	**33,898**	**(1,071)**	**(37)**	**21,297**	**(8,522)**
Issuance of share capital	**1**					
Acquisition of treasury shares			**(846)**			
Disposition of treasury shares			**887**[2]			
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		**203**				
Premium on shares issued and warrants exercised		**30**				
Employee share and share option plans		**305**				
Tax (expense) / benefit recognized in share premium		**91**				
Dividends		**(564)**[3]				
Equity classified as obligation to purchase own shares – movements				**(9)**		
Preferred notes						
New consolidations and other increases / (decreases)					**6**	
Deconsolidations and other decreases		**(11)**				
Total comprehensive income for the year recognized in equity					**3,172**	**(1,211)**
Balance as of 31 December 2013	**384**	**33,952**	**(1,031)**	**(46)**	**24,475**	**(9,733)**

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for information on the adoption of IFRS 10. 2 For the year 2013, the net disposal of 12 million treasury shares (CHF 170 million) which related to market-making and hedging activities of the Investment Bank are presented as dispositions. For the year 2012, the net acquisition of 5 million treasury shares (CHF 92 million) are presented as acquisitions. For the year 2011, the net disposal of 5 million treasury shares (CHF 122 million) are presented as dispositions. 3 Reflects the payment of CHF 0.15 (2012: CHF 0.10) per share of CHF 0.10 par value out of the capital contribution reserve of UBS AG (Parent Bank).

of which: Foreign currency translation	of which: Financial investments available-for-sale	of which: Cash flow hedges	of which: Defined benefit pension plans	of which: Property revaluation surplus	Total equity attributable to UBS shareholders	Preferred noteholders	Non-controlling interests	Total equity
(7,169)	(243)	1,063	(3,596)	0	**43,728**		**5,043**	**48,770**
					0			0
					(2,455)			(2,455)
					1,949			1,949
					(83)			(83)
					10			10
					19			19
					280			280
					0		(269)	(269)
					15			15
					0		(882)	(882)
					(5)		1	(4)
					0		(47)	(47)
722	495	1,537	(1,820)	0	5,071		560	5,632
(6,447)	252	2,600	(5,415)	0	**48,530**		**4,406**	**52,935**
5	(29)				11	3,150	(4,359)	(1,198)
(6,443)	223	2,600	(5,415)	0	**48,540**	**3,150**	**46**	**51,737**
					0			0
					(1,398)			(1,398)
					1,486			1,486
					(9)			(9)
					4			4
					126			126
					(457)			(457)
					(379)	(220)	(6)	(605)
					2			2
					0			0
					(1)		(10)	(11)
					0		(9)	(9)
(511)	26	384	609	6	(1,966)	179	20	(1,767)
(6,954)	249	2,983	(4,806)	6	**45,949**	**3,109**	**42**	**49,100**
					1			**1**
					(846)			**(846)**
					887			**887**
					203			**203**
					30			**30**
					305			**305**
					91			**91**
					(564)	**(204)**	**(6)**	**(773)**
					(9)			**(9)**
					0	**(1,572)**		**(1,572)**
					6			**6**
					(11)	**0**		**(11)**
(471)	**(154)**	**(1,520)**	**939**	**(6)**	**1,961**	**559**	**4**	**2,524**
(7,425)	**95**	**1,463**	**(3,867)**	**0**	**48,002**	**1,893**	**41**	**49,936**

Shares issued and treasury shares held

	For the year ended			% change from
Number of shares	**31.12.13**	31.12.12	31.12.11	31.12.12
Shares issued				
Balance at the beginning of the year	**3,835,250,233**	3,832,121,899	3,830,840,513	0
Issuance of shares	**6,751,836**	3,128,334	1,281,386	116
Balance at the end of the year	**3,842,002,069**	3,835,250,233	3,832,121,899	0
Treasury shares				
Balance at the beginning of the year	**87,879,601**	84,955,551	38,892,031	3
Acquisitions	**55,346,016**	114,292,481	155,636,639	(52)
Dispositions	**(69,425,365)**	(111,368,431)	(109,573,119)	(38)
Balance at the end of the year	**73,800,252**	87,879,601	84,955,551	(16)

Conditional share capital

As of 31 December 2013, 138,759,156 additional shares (31 December 2012: 145,510,992 shares) could have been issued to fund UBS's employee share option programs.

On 14 April 2010, the Annual General Meeting of UBS AG shareholders approved the creation of conditional capital to a maximum number of 380,000,000 shares for conversion rights/warrants granted in connection with the issuance of bonds or similar financial instruments.

In 2013, the conditional capital of up to 100,000,000 shares, which was available in connection with an arrangement with the Swiss National Bank (SNB), was removed. The SNB provided a loan to the SNB StabFund, to which UBS transferred certain illiquid securities and other positions in 2008 and 2009. As part of this arrangement, UBS granted warrants on shares to the SNB, which would have been exercisable if the SNB had incurred a loss on the loan. In 2013, the loan was paid back in full, the warrants were terminated and the relevant conditional capital was removed.

Total conditional share capital outstanding as of 31 December 2013 is also disclosed in "Note 10 Share capital and significant shareholders" of the UBS AG (Parent Bank) financial statements.

Statement of cash flows

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Cash flow from / (used in) operating activities			
Net profit / (loss)	**3,381**	(2,255)	4,406
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation and impairment of property and equipment	**816**	689	761
Impairment of goodwill	**0**	3,030	0
Amortization and impairment of intangible assets	**83**	106	127
Credit loss expense / (recovery)	**50**	118	84
Share of net profits of associates	**(49)**	(88)	(42)
Deferred tax expense / (benefit)	**(545)**	294	795
Net loss / (gain) from investing activities	**(522)**	(486)	(996)
Net loss / (gain) from financing activities	**3,988**	3,717	(5,856)
Other net adjustments	**5,148**	6,088	3,703
Net (increase) / decrease in operating assets and liabilities:			
Due from / to banks	**(7,551)**	(7,686)	(14,569)
Cash collateral on securities borrowed and reverse repurchase agreements	**43,754**	102,436	(67,262)
Cash collateral on securities lent and repurchase agreements	**(23,659)**	(66,407)	27,116
Trading portfolio, replacement values and financial assets designated at fair value	**44,068**	9,369	17,225
Cash collateral on derivative instruments	**(22,407)**	4,399	6,330
Loans / due to customers	**12,087**	15,869	6,068
Other assets, provisions and other liabilities	**(3,935)**	(1,771)	8,218
Income taxes paid, net of refunds	**(382)**	(261)	(349)
Net cash flow from / (used in) operating activities	**54,325**	67,160	(14,241)
Cash flow from / (used in) investing activities			
Purchase of subsidiaries, associates and intangible assets	**(49)**	(11)	(58)
Disposal of subsidiaries, associates and intangible assets[1]	**136**	41	50
Purchase of property and equipment	**(1,236)**	(1,118)	(1,129)
Disposal of property and equipment	**639**	202	233
Net (investment in) / divestment of financial investments available-for-sale[2]	**5,966**	(13,994)	20,281
Net cash flow from / (used in) investing activities	**5,457**	(14,879)	19,377

1 Includes dividends received from associates. 2 Includes gross cash inflows from sales and maturities (CHF 7,258 million for the year ended 31 December 2013, CHF 8,796 million for the year ended 31 December 2012) and gross cash outflows from purchases (CHF 3,521 million for the year ended 31 December 2013, CHF 7,422 million for the year ended 31 December 2012) predominantly related to longer-term US asset-backed securities held as financial investments available-for-sale which were transferred from Wealth Management Americas to Corporate Center – Core Functions in 2013. Other net cash flows (CHF 2,229 million inflows for the year ended 31 December 2013, CHF 15,368 million outflows for the year ended 31 December 2012) almost entirely related to our multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury.

Table continues on the next page.

Statement of cash flows (continued)

Table continued from previous page.

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Cash flow from / (used in) financing activities			
Net short-term debt issued / (repaid)	**(4,290)**	(37,967)	15,338
Net movements in treasury shares and own equity derivative activity	**(341)**	(1,159)	(1,885)
Increase in share capital	**1**	0	0
Dividends paid on UBS shares	**(564)**	(379)	0
Issuance of long-term debt, including financial liabilities designated at fair value	**28,014**	55,890	52,590
Repayment of long-term debt, including financial liabilities designated at fair value	**(68,954)**	(54,259)	(62,626)
Dividends paid and repayments of preferred notes	**(1,415)**	(221)	0
Net changes of non-controlling interests	**(6)**	(16)	(748)
Net cash flow from / (used in) financing activities	**(47,555)**	(38,110)	2,670
Effects of exchange rate differences on cash and cash equivalents	**(2,702)**	(673)	(2,129)
Net increase / (decrease) in cash and cash equivalents	**9,524**	13,500	5,678
Cash and cash equivalents at the beginning of the year	**99,108**	85,609	79,934
Cash and cash equivalents at the end of the year[1]	**108,632**	99,108	85,612
Cash and cash equivalents comprise:			
Cash and balances with central banks	**80,879**	66,383	40,638
Money market paper[2]	**4,288**	4,381	3,900
Due from banks[3]	**23,465**	28,344	41,074
Total[4]	**108,632**	99,108	85,612
Additional information			
Net cash flow from / (used in) operating activities include:			
Cash received as interest	**12,148**	14,551	16,667
Cash paid as interest	**7,176**	9,166	9,812
Cash received as dividends on equity investments, investment funds and associates[5]	**1,421**	1,430	1,343

1 Prior period data for cash and cash equivalents was restated upon adoption of IFRS 10 as follows: from CHF 85,612 million to CHF 85,609 million for the opening balance of 2012 and from CHF 99,118 million to CHF 99,108 million for the closing balance of 2012. 2 Money market paper is included on the balance sheet under Trading portfolio assets (31 December 2013: CHF 1,716 million, 31 December 2012: CHF 2,192 million, 31 December 2011: CHF 1,783 million) and Financial investments available-for-sale (31 December 2013: CHF 2,571 million, 31 December 2012: CHF 2,190 million, 31 December 2011: CHF 2,117 million). 3 Includes positions recognized in the balance sheet under Due from banks (31 December 2013: CHF 14,413 million, 31 December 2012: CHF 15,951 million, 31 December 2011: 18,733 million) and Cash collateral receivables on derivative instruments with bank counterparties (31 December 2013: CHF 9,052 million, 31 December 2012: CHF 12,393 million, 31 December 2011: CHF 22,341 million). 4 CHF 8,333 million and CHF 10,109 million of cash and cash equivalents were restricted as of 31 December 2013 and 31 December 2012, respectively. Refer to "Note 25 Restricted and transferred financial assets" for more information. 5 Includes dividends received from associates (2013: CHF 69 million, 2012: CHF 37 million, 2011: CHF 28 million) reported within cash flow from / (used in) investing activities.

Notes to the consolidated financial statements

Note 1 Summary of significant accounting policies

a) Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements (the "Financial Statements") of UBS AG and its subsidiaries ("UBS" or the "Group") are described in this note. These policies have been applied consistently in all years presented unless otherwise stated.

1) Basis of accounting

UBS provides a broad range of financial services including: advisory services, underwriting, financing, market-making, asset management and brokerage on a global level, and retail banking in Switzerland. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged.

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are presented in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. On 6 March 2014, the Financial Statements were authorized for issue by the Board of Directors. The Financial Statements are prepared using uniform accounting policies for similar transactions and other events. Intercompany transactions and balances have been eliminated.

Disclosures incorporated in the "Risk, treasury and capital management" section of this report, which form part of these Financial Statements, are marked as audited. These disclosures relate to requirements under IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements* and are not repeated in the "Financial information – consolidated financial statements" section.

2) Use of estimates

Preparation of the Financial Statements requires management to make estimates and assumptions that affect reported income, expenses, assets, liabilities and the disclosure of contingent assets and liabilities. Actual results in the future could differ from such estimates and assumptions, and such differences may be material to the Financial Statements. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to estimates resulting from these reviews are recognized in the period in which they occur.

The following notes to the Financial Statements contain information about those areas of estimation uncertainty considered to require critical judgment and have the most significant effect on the amounts recognized in the Financial Statements: Note 8 *Income taxes,* Note 12 *Allowances and provisions for credit losses,* Note 17 *Goodwill and intangible assets,* Note 22 *Provisions and contingent liabilities,* Note 24 *Fair value measurement,* Note 28 *Pension and other post-employment benefit plans* and Note 29 *Equity participation and other compensation plans*.

3) Subsidiaries and structured entities

The Financial Statements comprise those of the parent company (UBS AG) and its subsidiaries, including controlled structured entities (SE), presented as a single economic entity. *Equity attributable to non-controlling interests* is presented on the consolidated balance sheet within *Equity,* separately from *Equity attributable to UBS shareholders.*

As detailed in Note 1b, UBS adopted IFRS 10 *Consolidated Financial Statements* on 1 January 2013 on a limited retrospective basis. Under IFRS 10, UBS controls an entity when it has power over the relevant activities of the entity, exposure to variable returns and the ability to use its power to affect its returns. Where an entity is governed by voting rights, control is generally indicated by a direct shareholding of more than one-half of the voting rights.

In other cases, the assessment of control is more complex and requires greater use of judgment. Where UBS has an interest in an entity that absorbs variability, we consider whether UBS has power over the entity which allows it to affect the variability of its returns. Consideration is given to all facts and circumstances to determine whether the Group has power over another entity, that is, the current ability to direct the relevant activities of an entity when decisions about those activities need to be made. Factors such as the purpose and design of the entity, rights held through contractual arrangements such as call rights, put rights or liquidation rights, as well as potential decision-making rights are all considered in this assessment. Where the Group has power over the relevant activities, a further assessment is made to determine whether, through that power, it has the ability to affect its own returns, that is, assessing whether power is held in a principal or agent capacity. Consideration is given to (i) the scope of decision-making authority, (ii) rights held by other parties, including removal or other participating rights, (iii) exposure to variability, including remuneration, relative to total variability of the entity as well as whether that exposure is different from other investors. If, after review of these factors, UBS concludes that it can exercise its power to affect its own returns, the entity is consolidated.

Subsidiaries, including SE, are consolidated from the date control is obtained and are deconsolidated from the date control ceases. Control, or the lack thereof, is reassessed if facts and

Note 1 Summary of significant accounting policies (continued)

circumstances indicate that there is a change to one or more of the elements needed to establish that control is present.

Refer to Note 30 for more information on subsidiaries and structured entities.

Structured entities (SE)

SE are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. Such entities generally have a narrow and well-defined objective and include those historically referred to as special purpose entities (SPE) and some investment funds. We assess whether an entity is an SE by considering the nature of the activities of the entity as well as the substance of voting or similar rights afforded to other parties, including investors and independent boards or directors. We consider rights such as the ability to liquidate the entity or remove the decision maker to be similar to voting rights when the holder has the substantive ability to exercise such rights without cause. In the absence of such rights or in cases where the existence of such rights cannot be fully established, the entity is considered to be an SE.

The Group sponsors the formation of SE and interacts with non-sponsored SE for a variety of reasons including allowing clients to obtain or be exposed to particular risk profiles, to provide funding or to sell or purchase credit risk. Many SE are established as bankruptcy remote, meaning that only the assets in the SE are available for the benefit of the SE's investors and such investors have no other recourse to UBS. UBS is deemed to be the sponsor of an SE when it is involved in its creation, establishment and promotion and facilitates its ongoing success through the transfer of assets or the provision of explicit or implicit financial, operational or other support. Where the Group acts purely as an advisor, administrator or placement agent for an SE created by a third-party entity, it is not considered to be sponsored by UBS.

UBS will consolidate an SE in line with the consolidation principles described above. When UBS does not consolidate an SE but has an interest in an SE or has sponsored an SE, additional disclosures are provided in Note 30 on the nature of these interests and sponsorship activities.

UBS is involved with a number of SE types:

- *Securitization structured entities* are established to issue securities to investors which are backed by assets held by the SE and whereby (i) significant credit risk associated with the securitized exposures has been transferred to third parties and (ii) there is more than one risk position or tranche issued by the securitization vehicle in line with the Basel III securitization definition. All securitization entities are classified as SE.
- *Client investment structured entities* are established predominantly for clients to invest in specific assets or risk exposures through purchasing notes issued by the SE, predominantly on a fixed term basis. The SE may source assets via a transfer from UBS or through an external market transaction. In some cases, UBS may enter into derivatives with the SE to either align the cash flows of the entity with the investor's intended investment objective or to introduce other desired risk exposures. In certain cases, UBS may have interests in a third-party sponsored SE to hedge specific risks or participate in asset-backed financing.
- *Investment fund structured entities* have a collective investment objective, are managed by an investment manager and are either passively managed, such that any decision-making does not have a substantive effect on variability, or are actively managed and investors or their governing bodies do not have substantive voting or similar rights. UBS creates and sponsors a large number of funds for which it may have an interest through the receipt of variable management fees and/or a direct investment. In addition, UBS has interests in a number of funds created and sponsored by third parties, including exchange-traded funds and hedge funds, to hedge issued structured products.

Business combinations

Business combinations are accounted for using the acquisition method. As of the acquisition date, UBS recognizes the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. For each business combination, UBS measures the non-controlling interests in the acquiree (being present ownership interests providing entitlement to a proportionate share of the net assets of the acquiree in the event of liquidation) either at fair value or at their proportionate share of the acquiree's identifiable net assets.

The cost of an acquisition is the aggregate of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity instruments issued, measured at acquisition-date fair values. Acquisition-related costs are expensed as incurred. Any contingent consideration that may be transferred by UBS is recognized at fair value at the acquisition date. If the contingent consideration is classified as an asset or liability, subsequent changes in the fair value of the contingent consideration are recognized in the income statement. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within *Equity*.

Any excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed is considered goodwill and is recognized as a separate asset on the balance sheet, initially measured at cost. If the fair value of the net assets of the subsidiary acquired exceeds the aggregate of the consideration transferred and the amount recognized for non-controlling interests, the difference is recognized in the income statement on the acquisition date.

Refer to Note 31 for more information on business combinations completed during 2013.

Note 1 Summary of significant accounting policies (continued)

4) Associates and joint ventures

Investments in entities in which UBS has significant influence, but not control, over the financial and operating policies of the entity are classified as investments in associates and accounted for under the equity method of accounting. Normally, significant influence is indicated when UBS owns between 20% and 50% of a company's voting rights. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased after the date of acquisition to recognize the Group's share of the investee's net profit or loss (including net profit or loss recognized directly in equity). Interests in joint ventures are also accounted for under the equity method of accounting. A joint venture is subject to a contractual agreement between UBS and one or more third parties, which establishes joint control over the relevant activities and provides rights to the net assets of the entity. Interests in joint ventures are classified as investments in associates.

If the reporting date of an associate or joint venture is different to UBS's reporting date, the most recently available financial statements of the associate or joint venture are used to apply the equity method. Adjustments are made for effects of significant transactions or events that may occur between that date and the UBS reporting date.

Investments in associates and interests in joint ventures are classified as "held for sale" if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Refer to item 29) for more information.

Refer to Note 30 for more information on associates and joint ventures.

5) Recognition and derecognition of financial instruments

UBS recognizes financial instruments on its balance sheet when the Group becomes a party to the contractual provisions of the instruments. UBS also acts in a trustee or other fiduciary capacity, which results in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Unless the recognition criteria are satisfied, these assets and the related income are excluded from UBS's Financial Statements, as they are not assets of UBS.

Financial assets

UBS enters into certain transactions where it transfers financial assets recognized on its balance sheet but retains either all or a portion of the risks and rewards of the transferred financial assets. If all or substantially all of the risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transactions where transfers of financial assets result in UBS retaining all or substantially all risks and rewards include securities lending and repurchase transactions described under items 13) and 14). They also include transactions where financial assets are sold to a third party together with a total return swap that results in UBS retaining all or substantially all risks and rewards of the transferred assets. These types of transactions are accounted for as secured financing transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS derecognizes the financial asset if control over the asset is surrendered. The rights and obligations retained in the transfer are recognized separately as assets and liabilities, respectively. In transfers where control over the financial asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Examples of such transactions include written put options, acquired call options, or other instruments linked to the performance of the transferred asset.

For the purposes of the Group's disclosures of transferred financial assets, a financial asset is typically considered to have been transferred when the Group a) transfers the contractual rights to receive the cash flows of the financial asset or b) retains the contractual rights to receive the cash flows of that asset, but assumes a contractual obligation to pay the cash flows to one or more entities.

Where financial assets have been pledged as collateral or in similar arrangements, they are considered to have been transferred if the counterparty has received the contractual right to the cash flows of the pledged assets, as may be evidenced, for example, by the counterparty's right to sell or repledge the assets. Where the counterparty to the pledged financial assets has not received the contractual right to the cash flows, the assets are considered pledged, but not transferred.

Refer to Note 25b and 25c for more information on transferred financial assets.

Financial liabilities

UBS derecognizes a financial liability from its balance sheet when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is exchanged for a new one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability with any difference in the respective carrying amounts being recognized in the income statement.

6) Determination of fair value

Fair value is 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. Determination of fair value is considered a critical accounting policy for the Group.

Refer to Note 24 for more information.

Note 1 Summary of significant accounting policies (continued)

7) Trading portfolio assets and liabilities

Non-derivative financial assets and liabilities are classified at acquisition as held for trading and presented in the trading portfolio if they are a) acquired or incurred principally for the purpose of selling or repurchasing in the near term, or b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The trading portfolio includes non-derivative financial instruments (including those with embedded derivatives) and commodities. Financial instruments that are considered derivatives in their entirety generally are presented on the balance sheet as *Positive replacement values* or *Negative replacement values.* Refer to item 15) for more information. The trading portfolio includes recognized assets and liabilities relating to proprietary-, hedging- and client-related business.

Trading portfolio assets include debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans), equity instruments, assets held under unit-linked contracts and precious metals and other commodities owned by the Group ("long" positions). Trading portfolio liabilities include obligations to deliver financial instruments such as debt and equity instruments which the Group has sold to third parties but does not own ("short" positions).

Assets and liabilities in the trading portfolio are measured at fair value. Gains and losses realized on disposal or redemption of these assets and liabilities and unrealized gains and losses from changes in the fair value of these assets and liabilities are reported as *Net trading income.* Interest and dividend income and expense on these assets and liabilities are included in *Interest and dividend income* or *Interest and dividend expense*.

The Group uses settlement date accounting when recognizing assets and liabilities in the trading portfolio. From the date a purchase transaction is entered into (trade date) until settlement date, UBS recognizes any unrealized profits and losses arising from remeasuring the transaction to fair value in *Net trading income.* The corresponding receivable or payable is presented on the balance sheet as a *Positive replacement value* or *Negative replacement value*, respectively. On settlement date, the resulting financial asset is recognized on the balance sheet at the fair value of the consideration given or received, plus or minus the change in fair value of the contract since the trade date. From the trade date of a sales transaction, unrealized profits and losses are no longer recognized and, on settlement date, the asset is derecognized.

Trading portfolio assets transferred to external parties that do not qualify for derecognition (refer to item 5) for more information) and where the transferee has obtained the right to sell or repledge the assets continue to be classified on the UBS balance sheet as *Trading portfolio assets* but are identified as *Assets pledged as collateral which may be sold or repledged by counterparties.* Such assets continue to be measured at fair value.

Refer to Note 13 for more information on trading portfolio assets and liabilities.

8) Financial assets and financial liabilities designated at fair value through profit or loss, ("fair value option")

A financial instrument may only be designated at fair value through profit or loss upon initial recognition and this designation cannot be changed subsequently. Financial assets and financial liabilities designated at fair value are presented on separate lines on the face of the balance sheet. The fair value option can be applied only if one of the following criteria is met:

- the financial instrument is a hybrid instrument which includes a substantive embedded derivative;
- the financial instrument is part of a portfolio which is risk managed on a fair value basis and reported to senior management on that basis or
- the application of the fair value option eliminates or significantly reduces an accounting mismatch that would otherwise arise.

UBS has used the fair value option to designate most of its issued hybrid debt instruments as financial liabilities designated at fair value through profit or loss, on the basis that such financial instruments include embedded derivatives and/or are managed on a fair value basis. Such hybrid debt instruments predominantly include the following:

- *Credit-linked bonds or notes:* linked to the performance (coupon and/or redemption amount) of single names (such as a company or a country) or a basket of reference entities;
- *Equity-linked bonds or notes:* linked to a single stock, a basket of stocks or an equity index and
- *Rates-linked bonds or notes:* linked to a reference interest rate, interest rate spread or formula.

The fair value option is applied to certain loans and loan commitments, otherwise accounted for at amortized cost, which are hedged predominantly with credit derivatives. The application of the fair value option to the loans and loan commitments reduces an accounting mismatch, as the credit derivatives are accounted for as derivative instruments at fair value through profit or loss.

In order to reduce an accounting mismatch, UBS has also applied the fair value option to certain structured loans and reverse repurchase and securities borrowing agreements which are part of portfolios managed on a fair value basis.

Similarly, the fair value option is applied to assets held to hedge deferred cash-settled employee compensation awards, in order to reduce an accounting mismatch that would arise due to the liability being measured on a fair value basis.

Fair value changes related to financial instruments designated at fair value through profit or loss are recognized in *Net trading income*. Interest income and interest expense on financial assets

and liabilities designated at fair value through profit or loss are recognized in *Interest income on financial assets designated at fair value* or *Interest expense on financial liabilities designated at fair value,* respectively.

UBS applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments in the trading portfolio. Refer to items 5) and 7) for more information.

Refer to Notes 3, 20, 24e and 27d for more information on financial assets and liabilities designated at fair value.

9) Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets that are not classified as held for trading, designated at fair value through profit or loss, or loans and receivables. They are recognized on a settlement date basis.

Financial investments available-for-sale include debt securities held as part of the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury, strategic equity investments, certain investments in real estate funds, certain equity instruments including private equity investments, and debt instruments and non-performing loans acquired in the secondary market.

Financial investments available-for-sale are recognized initially at fair value less transaction costs and are measured subsequently at fair value. Unrealized gains and losses are reported in *Equity,* net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains before tax are presented separately from unrealized losses before tax in Note 15.

For monetary instruments (such as debt securities), foreign exchange translation gains and losses determined by reference to the instrument's amortized cost basis are recognized in *Net trading income*. Foreign exchange translation gains and losses related to other changes in fair value are recognized in *Other comprehensive income*. Foreign exchange translation gains and losses associated with non-monetary instruments (such as equity securities) are part of the overall fair value change of the instruments and are recognized directly in *Other comprehensive income*.

Interest and dividend income on financial investments available-for-sale are included in *Interest and dividend income from financial investments available-for-sale. Interest* income is determined by reference to the instrument's amortized cost basis using the effective interest rate (EIR).

On disposal of an investment, any related accumulated unrealized gains or losses included in *Equity* are transferred to the Income statement and reported in *Other income. Gains* or losses on disposal are determined using the average cost method.

At each balance sheet date, UBS assesses whether indicators of impairment are present for an available-for-sale investment. An available-for-sale investment is impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the investment, the estimated future cash flows from the investment have decreased. A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its original cost is considered objective evidence of an impairment. In the event of a significant decline in fair value below its original cost (20%) or a prolonged decline (six months), an impairment is recorded unless facts and circumstances clearly indicate that this information, on its own, is not evidence of an impairment.

For debt investments, objective evidence of impairment includes significant financial difficulty for the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial reorganization. If a financial investment available-for-sale is determined to be impaired, the related cumulative net unrealized loss previously recognized in *Equity* is included in the income statement within *Other income*. For equity instruments, any further loss is recognized directly in the income statement, whereas for debt instruments, any further loss is recognized in the income statement only if there is additional objective evidence of impairment. After the recognition of an impairment on a financial investment available-for-sale, increases in the fair value of equity instruments are reported in *Equity* and increases in the fair value of debt instruments up to amortized cost in original currency are recognized in *Other income,* provided that the fair value increase is related to an event occurring after the impairment loss was recorded.

UBS applies the same recognition and derecognition principles to financial assets available-for-sale as to financial instruments in the trading portfolio (refer to items 5) and 7) for more information), except that unrealized gains and losses between trade date and settlement date are recognized in *Equity* rather than in the income statement.

Refer to Note 15 for more information on financial investments available-for-sale.

10) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as held-for-trading, not designated as at fair value through profit and loss or available-for-sale, and are not assets for which the Group may not recover substantially all of its initial net investment, other than because of a credit deterioration. Financial assets classified as loans and receivables include:

- originated loans where funding is provided directly to the borrower;
- participation in a loan from another lender and purchased loans;
- securities which are classified as loans and receivables at acquisition date, such as auction rate securities;
- securities previously in the trading portfolio and reclassified to loans and receivables (refer to Note 27c for more information) and
- loans such as leverage finance loans previously in the trading portfolio and reclassified to loans and receivables (refer to Note 27c for more information).

Note 1 Summary of significant accounting policies (continued)

Loans and receivables are recognized when UBS becomes a party to the contractual provisions of the instrument, which is when funding is advanced to borrowers. They are recorded initially at fair value, based on the amount provided to originate or purchase the loan or receivable, together with any transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost using the EIR method, less allowances for credit losses. Refer to item 11) for information on allowances for credit losses and to Note 27a for an overview of the financial assets classified as loans and receivables.

Interest on loans and receivables is included in *Interest earned on loans and advances* and is recognized on an accrual basis. Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments are generally deferred and amortized to *Interest earned on loans and advances* over the life of the loan using the EIR method. Where no loan is expected to be advanced, any fees are recognized as follows:

- for loan commitments that are not expected to result in a loan being advanced, the fees are recognized in *Commission income* over the commitment period and
- for loan syndication fees where UBS does not retain a portion of the syndicated loan, or where UBS does retain a portion of the syndicated loan at the same effective yield for comparable risk as other participants, fees are credited to *Commission income* when the services have been provided.

Presentation of receivables from central banks

Deposits with central banks which are available on demand are presented on the balance sheet as *Cash and balances with central banks*. All longer-dated receivables with central banks are presented under *Due from banks*.

Financial assets reclassified to loans and receivables

When a financial asset is reclassified from held for trading to loans and receivables, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss recognized in the income statement before reclassification is not reversed. The fair value of a financial asset on the date of reclassification becomes its cost basis going forward. In 2008 and 2009, UBS determined that certain financial assets classified as held for trading were no longer held for the purpose of selling or repurchasing in the near term and that the Group had the intention and ability to hold these assets for the foreseeable future, considered to be a period of approximately twelve months from the reclassification. Therefore, these assets were reclassified from held for trading to loans and receivables (refer to Note 27c for more information).

Renegotiated loans

A renegotiated or restructured loan is a loan for which the terms have been modified or for which additional collateral has been requested that was not contemplated in the original contract.

Typical key features of terms and conditions granted through renegotiation to avoid default include the provision of special interest rates, postponement of interest or amortization payments, modification of the schedule of repayments or amendment of loan maturity. There is no change in the EIR following a renegotiation.

If a loan is renegotiated with concessionary conditions (i.e., new terms and conditions are agreed which do not meet the normal market criteria for the quality of the obligor and the type of loan,) the position is still classified as non-performing and is rated as being in counterparty default. It will remain so until the loan is collected or written off and will be assessed for impairment on an individual basis.

If a loan is renegotiated on a non-concessionary basis (e.g., additional collateral is provided by the client, or new terms and conditions are agreed which meet the normal market criteria, for the quality of the obligor and the type of loan,) the loan will be re-rated using the Group's regular rating scale. In these circumstances, the loan is removed from impaired status and therefore included in our collective assessment of loan loss allowances. For the purposes of measuring credit losses, within the collective loan loss assessment these loans are not segregated from other loans which have not been renegotiated. Management regularly reviews all loans to ensure that all criteria according to the loan agreement continue to be met and that future payments are likely to occur.

A restructuring of a loan could lead to a fundamental change in the terms and conditions of a loan, resulting in the original loan being derecognized and a new loan being recognized. A change is considered fundamental if the present value of the contractual cash flows (as a proportion of notional) has been changed by 10% or more, or there has been a significant change in the risk profile of the loan.

If a loan is derecognized in these circumstances, the new loan is measured at fair value at initial recognition. Any allowance taken to date against the original loan is eliminated and is not attributed to the new loan. Consequently, the new loan is not considered impaired and is included within the general collective loan assessment for the purpose of measuring credit losses.

11) Allowances and provisions for credit losses

An allowance or provision for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due (or the equivalent thereof) on a claim based on the original contractual terms due to credit deterioration of the issuer or counterparty. A "claim" means a loan or receivable carried at amortized cost, or a commitment such as a letter of credit, a guarantee, or another similar instrument. Objective evidence of impairment includes significant financial difficulty for the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Note 1 Summary of significant accounting policies (continued)

An allowance for credit losses is reported as a reduction of the carrying value of a claim on the balance sheet. For an off-balance-sheet item, such as a commitment, a provision for credit loss is reported in *Provisions*. Changes to allowances and provisions for credit losses are recognized as *Credit loss expense*.

Allowances and provisions for credit losses are evaluated at both a counterparty-specific level and collectively based on the following principles:

Counterparty-specific: A loan is considered impaired when management determines that it is probable that the Group will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition and capacity, resources and payment record, the prospects for support from any financially responsible guarantors and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value, using the claim's original EIR, of expected future cash flows including amounts that may result from restructuring or the liquidation of collateral. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. Impairment is measured and allowances for credit losses are established based on the difference between the carrying amount and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the loan is discontinued. The increase of the present value of the impaired loan due to the passage of time is reported as *Interest income*.

All impaired loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with prior estimates result in a change in the allowance for credit losses and are charged or credited to *Credit loss expense / recovery*. An allowance for impairment is reversed only when the credit quality has improved to such an extent that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim, or the equivalent value thereof. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses or, if no allowance has been established previously, directly to *Credit loss expense / recovery*. Recoveries, in part or in full, of amounts previously written off are credited to *Credit loss expense / recovery*.

A loan is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days, when insolvency proceedings have commenced, or when obligations have been restructured on concessionary terms. Loans are evaluated individually for impairment when amounts have been overdue by more than 90 days, or sooner if other objective evidence indicates that a loan may be impaired.

Collectively: All loans for which no impairment is identified at a counterparty-specific level are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors, to collectively assess whether impairment exists within a portfolio. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions of the group of financial assets on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently in the portfolio. Estimates of changes in future cash flows for the group of financial assets reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows for the group of financial assets are reviewed regularly to reduce any differences between loss estimated and actual loss experience. Allowances from collective assessment of impairment are recognized as *Credit loss expense / recovery* and result in an offset to the aggregated loan position. As the allowance cannot be allocated to individual loans, the loans are not considered to be impaired and interest is accrued on each loan according to its contractual terms. If objective evidence becomes available that indicates that an individual financial asset is impaired, it is removed from the group of financial assets assessed for impairment on a collective basis and is assessed separately as a counterparty-specific claim.

Reclassified securities and acquired securities carried at amortized cost: Estimated cash flows associated with financial assets reclassified from the held for trading category to loans and receivables in accordance with the requirements in item 10) and other similar assets acquired subsequently are revised periodically. Adverse revisions in cash flow estimates related to credit events are recognized in the income statement as *Credit loss expense*. For reclassified securities, increases in estimated future cash receipts, as a result of increased recoverability over those expected at the time of reclassification, are recognized as an adjustment to the EIR on the loan from the date of change (refer to Note 27c for more information).

Refer to Note 12 for more information on allowances and provisions for credit loss.

12) Securitization structures set up by UBS

UBS securitizes certain financial assets, generally selling *Trading portfolio assets* to SE which issue securities to investors. UBS applies the policies set out in item 3) in determining whether the respective SE must be consolidated and those set out in item 5) in determining whether derecognition of transferred financial assets is appropriate. The following statements mainly apply to transfers of financial assets which qualify for derecognition.

Gains or losses related to the sale of *Trading portfolio assets* involving a securitization are generally recognized when the

Note 1 Summary of significant accounting policies (continued)

derecognition criteria are satisfied with the gain or loss being classified in *Net trading income*.

Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in *Trading portfolio assets* and are carried at fair value. Synthetic securitization structures typically involve derivative financial instruments for which the principles set out in item 15) apply.

UBS acts as structurer and placement agent in various mortgage-backed securities (MBS) and other asset-backed securities (ABS) securitizations. In such capacity, UBS may purchase collateral on its own behalf or on behalf of clients during the period prior to securitization. UBS then typically sells the collateral into designated trusts upon closing of the securitization. In other securitizations, UBS may only provide financing to a designated trust in order to fund the purchase of collateral by the trust prior to securitization. UBS underwrites the offerings to investors, earning fees for its placement and structuring services. Consistent with the valuation of similar inventory, fair value of retained tranches is initially and subsequently determined using market price quotations where available or internal pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. Where possible, assumptions based on observable transactions are used to determine the fair value of retained interests, but for some interests substantially no observable information is available.

Refer to Note 30c for more information on the Group's involvement with securitization entities.

13) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis. In such transactions, UBS typically borrows or lends equity and debt securities in exchange for securities or cash collateral. Additionally, UBS borrows securities from its clients' custody accounts in exchange for a fee. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors on a daily basis the market value of the securities received or delivered and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

Cash collateral received is recognized with a corresponding obligation to return it *(Cash collateral on securities lent)* and cash collateral delivered is derecognized and a corresponding receivable reflecting UBS's right to receive it back is recorded *(Cash collateral on securities borrowed)*. The securities which have been transferred are not recognized on, or derecognized from, the balance sheet unless the risks and rewards of ownership are also transferred. Refer to item 5) for more information. UBS-owned securities transferred to a borrower that is granted the right to sell or repledge those transferred securities are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral*. Securities received in a borrowing transaction are disclosed as off-balance-sheet items if UBS has the right to resell or repledge them, with additional disclosure provided for securities that UBS has actually resold or repledged. The sale of securities which is settled by delivering securities received in a borrowing or lending transaction generally triggers the recognition of a trading liability (short sale). Where securities are either received or paid in lieu of cash ("securities for securities" transactions), neither the securities received (paid) nor the obligation to return (right to receive) the securities are recognized on the balance sheet, as the derecognition criteria are not met. Refer to item 5) for more information.

Interest receivable or payable for financing transactions is recognized in the income statement on an accrual basis and is recorded as *Interest income* or *Interest expense*.

Refer to Notes 11, 25 and 26 for more information on securities borrowing and lending.

14) Repurchase and reverse repurchase transactions

Securities purchased under agreements to resell *(Reverse repurchase agreements)* and securities sold under agreements to repurchase *(Repurchase agreements)* are treated as collateralized financing transactions. Nearly all reverse repurchase and repurchase agreements involve debt instruments, such as bonds, notes or money market paper. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors on a daily basis the market value of the securities received or delivered and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

In a reverse repurchase agreement, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded in the balance sheet line *Reverse repurchase agreements,* recognizing UBS's right to receive the cash back. In a repurchase agreement, the cash received is recognized and a corresponding obligation, including accrued interest, is recorded in the balance sheet line *Repurchase agreements*. Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized on or derecognized from the balance sheet, unless the risks and rewards of ownership are transferred. UBS-owned securities transferred to a recipient that is granted the right to resell or repledge them are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral*. Securities received in reverse repurchase agreements are disclosed as off-balance-sheet items if UBS has the right to resell or repledge them, with additional disclosure provided for securities that UBS has actually resold or repledged (refer to Note 25 for more information). Additionally, the sale of securities which is settled by delivering securities re-

Note 1 Summary of significant accounting policies (continued)

ceived in reverse repurchase transactions generally triggers the recognition of a trading liability (short sale).

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

The Group generally offsets reverse repurchase agreements and repurchase agreements with the same counterparty, maturity, currency and Central Securities Depository (CSD) in accordance with the relevant accounting requirements. Refer to item 35) for more information.

Refer to Notes 11, 25 and 26 for more information on repurchase and reverse repurchase transactions.

15) Derivative instruments and hedge accounting

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are remeasured subsequently to fair value. The method of recognizing fair value gains or losses depends on whether derivatives are held for trading or are designated and effective as hedging instruments. If designated as hedging instruments, the method of recognizing gains or losses depends on the nature of the risk being hedged as described within this item.

Derivative instruments are generally reported on the balance sheet as *Positive replacement values* or *Negative replacement values*. Derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivables on derivative instruments* or *Cash collateral payables on derivative instruments*. They are not classified within replacement values because the change in fair value of these instruments is settled each day, either in fact or in substance, through the cash payment of variation margin. Products that receive this treatment are futures contracts, 100% daily margined exchange-traded options, interest rate swaps transacted with the London Clearing House and certain credit derivative contracts. Changes in the fair values of derivatives are recorded in *Net trading income,* unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships.

Refer to Note 14 for more information on derivative instruments and hedge accounting.

Hedge accounting

The Group uses derivative instruments as part of its risk management activities to manage exposures particularly to interest rate and foreign currency risks, including exposures arising from forecast transactions. If derivative and non-derivative instruments meet certain criteria specified below, they may be designated as hedging instruments in hedges of the change in fair value of recognized assets or liabilities ("fair value hedges"), hedges of the variability in future cash flows attributable to a recognized asset or liability or highly probable forecast transactions ("cash flow hedges") or hedges of a net investment in a foreign operation ("net investment hedges").

At the time a financial instrument is designated in a hedge relationship, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction and the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments, primarily derivatives, have been "highly effective" in offsetting changes in the fair value or cash flows associated with the designated risk of the hedged items. A hedge is considered highly effective if the following criteria are met: a) at inception of the hedge and throughout its life, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk and b) actual results of the hedge are within a range of 80% to 125%. In the case of hedging forecast transactions, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that could ultimately affect the reported net profit or loss. The Group discontinues hedge accounting voluntarily, or when the Group determines that a hedging instrument is not, or has ceased to be, highly effective as a hedge, when the derivative expires or is sold, terminated or exercised, when the hedged item matures, is sold or repaid or when forecast transactions are no longer deemed highly probable.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item attributable to the hedged risk, or the amount by which changes in the present value of future cash flows of the hedging instrument exceed changes in the present value of (expected) future cash flows of the hedged item. Such ineffectiveness is recorded in current period earnings in *Net trading income*. Interest income and expense on derivatives designated as hedging instruments in effective hedge relationships is included in *Net interest income*.

Fair value hedges

For qualifying fair value hedges, the change in the fair value of the hedging instrument is recognized in the income statement along with the change in the fair value of the hedged item that is attributable to the hedged risk. In fair value hedges of interest rate risk, the fair value change of the hedged item attributable to the hedged risk is reflected in the carrying value of the hedged item. If the hedge accounting relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortized fair value adjustment") is amortized to the income statement over the remaining term to maturity of the hedged item.

For a portfolio hedge of interest rate risk, the equivalent change in fair value is reflected within *Other assets* or *Other liabil-*

Note 1 Summary of significant accounting policies (continued)

ities. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the amount included in *Other assets* or *Other liabilities* is amortized to the income statement over the remaining term to maturity of the hedged items.

Cash flow hedges
Fair value gains or losses associated with the effective portion of derivatives designated as cash flow hedges for cash flow repricing risk are recognized initially in *Equity*. When the hedged forecast cash flows affect profit or loss, the associated gains or losses on the hedging derivatives are reclassified from *Equity* to profit or loss.

If a cash flow hedge for forecasted transactions is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gains or losses on the hedging derivatives previously reported in *Equity* remain there until the committed or forecasted transactions occur and affect profit or loss. If the forecasted transactions are no longer expected to occur, the deferred gains or losses are reclassified immediately to profit or loss.

Hedges of net investments in foreign operations
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in *Equity* (and presented in the statement of changes in equity and statement of comprehensive income under *Foreign currency translation*), while any gains or losses relating to the ineffective and/or undesignated portion (for example, the interest element of a forward contract) are recognized in the income statement. Upon loss of control of the foreign operation or its liquidation, the cumulative value of any such gains or losses associated with the entity, and recognized directly in *Equity,* is reclassified to the income statement.

Economic hedges that do not qualify for hedge accounting
Derivative instruments that are transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments used for trading purposes (i.e., realized and unrealized gains and losses are recognized in *Net trading income*), except for the forward points on certain short duration foreign exchange contracts, which are reported in *Net interest income*. Refer to Note 14 for more information on economic hedges.

Embedded derivatives
Derivatives may be embedded in other financial instruments ("host contracts"), for example, they could be represented by the conversion feature embedded in a convertible bond. Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. An embedded derivative is generally required to be separated from the host contract and accounted for as a standalone derivative instrument at fair value through profit or loss if: (i) the host contract is not carried at fair value with changes in fair value reported in the income statement, (ii) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and (iii) the terms of the embedded derivative would meet the definition of a standalone derivative were they contained in a separate contract. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract, and are shown in Note 27a in the "Held for trading" category, reflecting the measurement and recognition principles applied.

Typically, UBS applies the fair value option to hybrid instruments (refer to item 8) for more information), in which case bifurcation of an embedded derivative component is not required.

16) Loan commitments
Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Loan commitments that can be cancelled by UBS at any time (without giving a reason) according to their general terms and conditions, are not recognized on the balance sheet and are not included in the off-balance-sheet disclosures. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with *Loans and receivables*. Refer to item 10) for more information.

Irrevocable loan commitments (where UBS has no right to withdraw the loan commitment once communicated to the beneficiary, or which are revocable only due to automatic cancellation upon deterioration in a borrower's creditworthiness) are classified into the following categories:
– derivative loan commitments, being loan commitments that can be settled net in cash or by delivering or issuing another financial instrument, or loan commitments for which there is evidence of selling loans resulting from similar loan commitments before or shortly after origination;
– loan commitments designated at fair value through profit and loss (refer to item 8) for more information) and
– all other loan commitments. These are not recorded in the balance sheet, but a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made. Other loan commitments include irrevocable forward starting reverse repurchase and irrevocable securities borrowing agreements. Any change in the liability relating to these other loan commitments is recorded in the income statement in *Credit loss expense/recovery*. Refer to items 11) and 27) for more information.

17) Financial guarantee contracts
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for an incurred loss because a specified debtor fails to make payments

Note 1 Summary of significant accounting policies (continued)

when due in accordance with the terms of a specified debt instrument. UBS issues such financial guarantees to banks, financial institutions and other parties on behalf of clients to secure loans, overdrafts and other banking facilities.

Certain written financial guarantees that are managed on a fair value basis are designated at fair value through profit or loss. Refer to item 8) for more information. Financial guarantees that are not managed on a fair value basis are initially recognized in the financial statements at fair value. Subsequent to initial recognition, these financial guarantees are measured at the higher of the amount initially recognized less cumulative amortization, and to the extent a payment under the guarantee has become probable, the present value of the expected payment. Any change in the liability relating to probable expected payments resulting from guarantees is recorded in the income statement in *Credit loss expense / recovery*.

18) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an original maturity of three months or less including cash, money market paper and balances with central and other banks.

19) Physical commodities

Physical commodities (precious metals, base metals and other commodities) held by UBS as a result of its broker-trader activities are accounted for at fair value less costs to sell and recognized within *Trading portfolio assets*. Changes in fair value less costs to sell are recorded in *Net trading income*.

20) Property and equipment

Property and equipment includes own-used properties, investment properties, leasehold improvements, information technology hardware, externally purchased and internally developed software and communication and other similar equipment. With the exception of investment properties, *Property and equipment* is carried at cost (which includes capitalized interest from associated borrowings, where applicable), less accumulated depreciation and impairment losses, and is reviewed periodically for impairment.

Refer to Note 16 for more information on property and equipment.

Classification of own-used property

Own-used property is defined as property held by the Group for use in the supply of services or for administrative purposes, whereas investment property is defined as property held to earn rental income and/or for capital appreciation. Where a property of the Group includes an own-used portion and an investment portion which can be sold separately, they are separately accounted for as own-used property and investment property. If the portions cannot be sold separately, the whole property is classified as own-used unless the portion used by the Group is minor. The classification of property is reviewed on a regular basis. When the use of a property changes from own-used to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in *Other comprehensive income* and presented in the revaluation reserve in equity. Any loss is recognized immediately in profit or loss. When an investment property is reclassified as own-used property, its fair value at the date of reclassification becomes its cost basis for subsequent measurement purposes.

Investment property

Investment property is carried at fair value with changes in fair value recognized in the income statement in *Other income* in the period of change.

Leasehold improvements

Leasehold improvements are investments made to customize buildings and offices occupied under operating lease contracts to make them suitable for their intended purpose. The present value of estimated reinstatement costs required to bring a leased property back into its original condition at the end of the lease is capitalized as part of total leasehold improvements with a corresponding liability recognized to reflect the obligation incurred. Reinstatement costs are recognized in profit and loss through depreciation of the capitalized leasehold improvements over their estimated useful lives and the liability is relieved as cash payments are applied.

Property held for sale

Where UBS has decided to sell non-current assets such as property or equipment and the sale of these assets is highly probable to occur within 12 months, these assets are classified as non-current assets held for sale and are reclassified to *Other assets*. Upon classification as held for sale, they are no longer depreciated and are carried at the lower of book value or fair value less cost to sell.

Software

Software development costs are recognized only when the costs can be measured reliably and it is probable that future economic benefits will arise. Internally generated software that meets these criteria is classified in property and equipment, together with purchased software.

Estimated useful life of property and equipment

Property and equipment is depreciated on a straight-line basis over its estimated useful life as follows.

Note 1 Summary of significant accounting policies (continued)

Properties, excluding land	Not exceeding 67 years
Leasehold improvements	Residual lease term
Other machines and equipment	Not exceeding 10 years
IT hardware and communication equipment	Not exceeding 5 years
Software	Not exceeding 5 years

21) Goodwill and intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition. Goodwill is not amortized. It is tested annually for impairment and, additionally, when an indication of impairment exists at the end of each reporting period. For goodwill impairment testing purposes, UBS considers the segments reported in Note 2a as separate cash-generating units, since this is the level at which the performance of investments is reviewed and assessed by management. The recoverable amount of a segment is determined on the basis of its value-in-use.

Intangible assets comprise separately identifiable intangible items arising from business combinations and certain purchased trademarks and similar items. Intangible assets are recognized at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized. In nearly all cases, identified intangible assets have a definite useful life. At each balance sheet date, intangible assets are reviewed for indications of impairment. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

Intangible assets are classified into two categories: (i) infrastructure and (ii) customer relationships, contractual rights and other. Infrastructure consists of a branch network intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Client relationships, contractual rights and other includes mainly intangible assets for client relationships, non-compete agreements, favorable contracts, trademarks and trade names acquired in business combinations.

Refer to Note 17 for more information on goodwill and intangible assets.

22) Income taxes

Income tax payable on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as a deferred tax asset if it is probable that future taxable profit (based on profit forecast assumptions) will be available against which those losses can be utilized.

Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Tax assets and liabilities of the same type (current or deferred) are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Current and deferred taxes are recognized as income tax benefit or expense in the income statement except for current and deferred taxes recognized (i) upon the acquisition of a subsidiary, (ii) for unrealized gains or losses on financial investments available-for-sale, for changes in fair value of derivative instruments designated as cash flow hedges, for remeasurements of defined benefit plans, and for certain foreign currency translations of foreign operations, (iii) for certain tax benefits on deferred compensation awards, and (iv) for gains and losses on the sale of treasury shares. Deferred taxes recognized in a business combination (point (i)) are considered when determining goodwill. Amounts relating to points (ii), (iii) and (iv) are recognized directly in equity as *Other comprehensive income.*

Refer to Note 8 for more information on income taxes.

23) Debt issued

Debt issued is carried at amortized cost. In cases where, as part of the Group's risk management management activity, fair value hedge accounting is applied to fixed-rate debt instruments carried at amortized cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure. Refer to item 15) for more information on hedge accounting. In most cases, structured notes issued are designated at fair value through profit or loss using the fair value option, on the basis that they are managed on a fair value basis, that the structured notes contain an embedded derivative, or both. Refer to item 8) for more information on the fair value option. The fair value option is not applied to certain structured notes that contain embedded derivatives that reference foreign exchange rates and/or precious metal prices. For these instruments, the embedded derivative component is measured on a fair value basis and the related underlying debt host component is measured on an amortized cost basis, with both components presented together within *Debt issued*.

Debt issued and subsequently repurchased in relation to market-making or other activities is treated as redeemed. A gain or loss on redemption is recorded in *Other income* depending on

whether the repurchase price of the bond is lower or higher than its carrying value. A subsequent sale of own bonds in the market is treated as a reissuance of debt. Interest expense on debt instruments measured at amortized cost is included in *Interest on debt issued*.

Refer to Note 21 for more information on debt issued.

24) Pension and other post-employment benefit plans

UBS sponsors a number of post-employment benefit plans for its employees worldwide, which include defined benefit and defined contribution pension plans, and other post-employment benefits such as medical and life insurance benefits that are payable after the completion of employment.

Refer to Note 28 for more information on pension and other post-employment benefit plans.

Defined benefit pension plans

Defined benefit pension plans specify an amount of benefit that an employee will receive, which is usually dependent on one or more factors such as age, years of service and compensation. The defined benefit liability recognized in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets at the balance sheet date. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. UBS applies the projected unit credit method to determine the present value of its defined benefit obligations, the related current service cost and, where applicable, past service cost. These amounts, which take into account the specific features of each plan, including risk sharing between the employee and employer, are calculated periodically by independent qualified actuaries.

Defined contribution plans

A defined contribution plan is a pension plan under which UBS pays fixed contributions into a separate entity from which post-employment and other benefits are paid. UBS has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. UBS's contributions are expensed when the employees have rendered services in exchange for such contributions. This is generally in the year of contribution. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Other post-retirement benefits

UBS also provides post-retirement medical and life insurance benefits to certain retirees in the US and the UK. The expected costs of these benefits are recognized over the period of employment using the same accounting methodology used for defined benefit pension plans.

25) Equity participation and other compensation plans

Equity participation plans

UBS has established several equity participation plans in the form of share plans, option plans and share-settled stock appreciation right (SAR) plans. UBS's equity participation plans include mandatory, discretionary and voluntary plans. UBS recognizes the fair value of share, option and SAR awards, determined at the date of grant, as compensation expense over the period that the employee is required to provide services in order to earn the award.

Awards that do not require the employee to provide future service to become entitled to the award, such as those granted to retirement eligible employees, including those employees who meet full career retirement criteria, are considered vested at the grant date. Compensation expense is fully recognized on the grant date, or in a period prior to the grant date if it is attributable to past service, and the amount of the award can be reasonably and reliably estimated. Such awards remain forfeitable until the legal vesting date if certain conditions are not met. Where no future service is required, forfeiture events occurring after the grant date do not result in a reversal of compensation expense because the related services have been received.

Plans requiring future service have either a tiered vesting structure, which vest in increments over a specified period, or a cliff vesting structure, which vest at the end of a specified period. Compensation expense is recognized over the service period on a tiered basis for awards that have a tiered vesting structure and on a straight-line basis for awards with a cliff vesting structure. Plans may contain provisions that shorten the required service period due to achievement of retirement eligibility or upon termination due to redundancy. In such instances, compensation expense is recognized over the period from grant date to the retirement eligibility or redundancy date. Forfeiture of these awards that occurs during the service period results in a reversal of compensation expense.

Awards settled in UBS shares or options are classified as equity instruments. The fair value of an equity-settled award is determined at the date of grant and is not subsequently remeasured, unless its terms are modified such that the fair value immediately after modification exceeds the fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognized as compensation expense, either over the remaining service period or, for vested awards, immediately.

Cash-settled awards are classified as liabilities and are remeasured to fair value at each balance sheet date as long as the award is outstanding. Changes in fair value are reflected in compensation expense and, on a cumulative basis, no compensation expense is recognized for awards that expire worthless or remain unexercised.

Refer to Note 29 for more information on the determination of fair value of equity participation plans.

Note 1 Summary of significant accounting policies (continued)

Other compensation plans

UBS has established other fixed and variable deferred compensation plans, the values of which are not linked to UBS's own equity. Deferred cash compensation plans are either mandatory or discretionary plans and include awards based on a notional cash amount, where ultimate payout is fixed or may vary based on achievement of performance conditions. Compensation expense is recognized over the period that the employee is required to provide services in order to earn the award. If the employee is not required to provide future services, such as for awards granted to employees who are retirement eligible, including those employees who meet full career retirement criteria, compensation expense is recognized on or prior to the grant date. The amount recognized during the service period is based on an estimate of the amount expected to be paid out under the plan, such that cumulative expense recognized ultimately equals the cash distributed to employees. For awards in the form of alternative investment vehicles or similar structures, which provide employees with a payout based on the value of specified underlying assets, the initial value is based on the fair value on the grant date of the underlying assets (e.g., money market funds, UBS and non-UBS mutual funds and other UBS-sponsored funds). This initial value is recognized over the period that the employee provides service to become entitled to the award. These awards are remeasured to fair value at each reporting date until the award is distributed. Changes in fair value, including increases and decreases in value, are recognized proportionately to the elapsed service period. Forfeiture of these awards results in the reversal of compensation expense.

Refer to Note 29 for more information on other compensation plans.

26) Amounts due under unit-linked investment contracts

Financial liabilities from unit-linked investment contracts are presented as *Other liabilities* on the balance sheet. These contracts allow investors to invest in a pool of assets through issued investment units. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amounts due to unit holders and is equal to the fair value of the reference asset pool. Assets held under unit-linked investment contracts are presented as *Trading portfolio assets.*

Refer to Notes 13 and 23 for more information on unit-linked investment contracts.

27) Provisions

Provisions are liabilities of uncertain timing or amount, and are recognized when UBS has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The majority of UBS's provisions relate to litigation, regulatory and similar matters, restructuring, employee benefits, real estate and loan commitments and guarantees. Provisions that are similar in nature are aggregated to form a class, while the remaining provisions, including those of less significant amounts, are presented under *Other provisions*. Provisions are presented separately on the balance sheet and, when they are no longer considered uncertain in timing or amount, are reclassified to *Other liabilities – Other*.

The Group recognizes provisions for litigation, regulatory and similar matters when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated.

Restructuring provisions are recognized when a detailed and formal restructuring plan has been approved and a valid expectation has been raised that the restructuring will be carried out, either through commencement of the plan or announcements to affected employees.

Provisions are recognized for lease contracts if the unavoidable costs of a contract exceed the benefits expected to be received under it (onerous lease contracts). For example, this may occur when a significant portion of leased property is expected to be vacant for an extended period.

Provisions for employee benefits are recognized mainly in respect of service anniversaries and sabbatical leave.

Provisions are recognized at the best estimate of the consideration required to settle the present obligation at the balance sheet date. Such estimates are based on all available information and are revised over time as more information becomes available. If the effect of the time value of money is material, provisions are discounted and measured at the present value of the expenditure expected to settle or discharge the obligation, using a rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

A provision is not recognized when UBS has a present obligation that has arisen from past events but it is not probable that an outflow of resources will be required to settle it, or a sufficiently reliable estimate of the amount of the obligation cannot be made. Instead, a contingent liability is disclosed. Contingent liabilities are also disclosed for possible obligations that arise from past events whose existence will be confirmed only by uncertain future events not wholly within the control of UBS.

Refer to Note 22 for more information on provisions.

28) Equity, treasury shares and contracts on UBS AG shares

Transaction costs related to share issuances

Incremental transaction costs directly attributable to the issue of new shares or contracts with mandatory gross physical settlement classified as equity instruments are recognized in and deducted from *Equity* as *Transaction costs related to share issuances, net of tax.*

Non-controlling interests and preferred noteholders

Net profit and *Equity* are presented including non-controlling interests and preferred noteholders. *Net profit* is split into *Net prof-*

Note 1 Summary of significant accounting policies (continued)

it attributable to UBS shareholders, Net profit attributable to non-controlling interests and *Net profit attributable to preferred noteholders. Equity* is split into *Equity attributable to UBS shareholders, Equity attributable to non-controlling interests* and *Equity attributable to preferred noteholders.*

UBS AG shares held ("treasury shares")

UBS AG shares held by the Group are presented in *Equity* as *Treasury shares* at their acquisition cost which includes transaction costs. Treasury shares are deducted from *Equity* until they are cancelled or reissued. The difference between the proceeds from sales of treasury shares and their weighted average cost (net of tax, if any) is reported as *Share premium*.

Net cash settlement contracts

Contracts on UBS AG shares that require net cash settlement, or provide the counterparty or UBS with a settlement option which includes a choice of settling net in cash, are classified as held for trading, with changes in fair value reported in the income statement as *Net trading income*.

Contracts with mandatory gross physical settlement

UBS issues contracts with mandatory gross physical settlement in UBS AG shares where a fixed amount of shares is exchanged against a fixed amount of cash or another financial asset.

Written put options and forward share purchase contracts with gross physical settlement, including contracts where gross physical settlement is a settlement alternative, result in the recognition of a financial liability booked against *Equity*. The financial liability is subsequently accreted, using the EIR method, over the life of the contract to the nominal purchase obligation with the amount recognized in *Interest expense*. Upon settlement of the contract, the liability is derecognized against the consideration paid, and the amount of equity originally recognized as a liability is reclassified within *Equity* to *Treasury shares*. The premium received for writing such put options is recognized directly in *Share premium*.

All other contracts with mandatory gross physical settlement in UBS AG shares are presented in *Equity* as *Share premium* and accounted for at cost, which is added to or deducted from *Equity* as appropriate. Upon settlement of such contracts, the difference between the proceeds received and their cost (net of tax, if any) is reported as *Share premium*.

Preferred notes issued to non-consolidated preferred securities entities

On 1 January 2013, UBS deconsolidated certain entities that issued preferred securities which resulted in UBS recognizing the subordinated notes (that is, the preferred notes) issued to these entities rather than the preferred securities issued by them. Except for one preferred note, which is presented as a liability, these are presented as *Equity attributable to preferred noteholders*. UBS AG has fully and unconditionally guaranteed all contractual payments on the preferred securities. UBS's obligations under these guarantees are subordinated to the full prior payment of the deposit liabilities of UBS and all other liabilities of UBS. Depending on whether the preferred notes include a contractual obligation to deliver cash, the preferred notes represent equity instruments or liabilities which are held by third parties. For instruments classified as equity, once a coupon payment becomes mandatory, that is, when it is triggered by a contractually defined event, the full dividend payment obligation on these preferred notes is reclassified from *Equity* to a corresponding liability. In the income statement the full dividend payment is reclassified from *Net profit attributable to UBS shareholders* to *Net profit attributable to preferred noteholders* at that time. For instruments classified as liabilities, interest is accrued through the income statement and presented within *Net interest income*.

29) Non-current assets held for sale

UBS classifies individual non-current assets and disposal groups as held for sale if such assets or disposal groups are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups and their sale is considered highly probable. For a sale to be highly probable, management must be committed to a plan to sell such assets and must be actively looking for a buyer. Furthermore, the assets must be actively marketed at a reasonable sales price in relation to their fair value and the sale must be expected to be completed within one year. The assets held for sale and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell and are presented in *Other assets* and *Other liabilities*. Non-current assets and liabilities of subsidiaries are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Refer to Note 18 for more information on non-current assets held for sale.

30) Leasing

UBS enters into lease contracts, or contracts that include lease components, predominantly of premises and equipment, primarily as lessee. Leases that transfer substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. All other leases are classified as operating leases.

Assets leased pursuant to finance leases are recognized on the balance sheet in *Property and equipment* and are amortized over the lesser of the useful life of the asset or the lease term, with corresponding amounts payable included in *Due to banks/customers*. Finance charges payable are recognized in *Net interest income* over the period of the lease based on the interest rate implicit in the lease on the basis of a constant yield.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 33. These contracts include non-cancellable long-term leases of office buildings in most UBS locations.

Note 1 Summary of significant accounting policies (continued)

Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences with control of the physical use of the property. Lease incentives are treated as a reduction of rental expense and are recognized on a consistent basis over the lease term.

Certain arrangements do not take the legal form of a lease but convey a right to use an asset in return for a payment or series of payments. For such arrangements, UBS determines at the inception of the arrangement whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and, if so, the arrangement is accounted for as a lease.

31) Fee income

UBS earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories: fees earned from services that are provided over a certain period of time (for example, investment fund fees, portfolio management and advisory fees) and fees earned from providing transaction-type services (for example, underwriting fees, corporate finance fees and brokerage fees). Fees earned from services that are provided over a certain period of time are recognized ratably over the service period, with the exception of performance-linked fees or fee components with specific performance criteria. Such fees are recognized when the performance criteria are fulfilled and when collectability is reasonably assured. Fees earned from providing transaction-type services are recognized when the service has been completed. Generally, fees are presented in the income statement in line with the balance sheet classification of the underlying instruments.

Loan commitment fees on lending arrangements, where there is an initial expectation that the facility will be drawn down, are deferred until the loan is drawn down and are then recognized as an adjustment to the effective yield over the life of the loan. If the commitment expires and the loan is not drawn down, the fees are recognized as revenue when the commitment expires. Where the initial expectation that the facility will be drawn down is remote, the loan commitment fees are recognized on a straight-line basis over the commitment period. If, subsequently, the commitment is actually exercised, the unamortized component of the loan commitment fees are amortized as an adjustment to the effective yield over the life of the loan.

Refer to Note 4 for more information on net fee and commission income.

32) Foreign currency translation

Transactions denominated in foreign currency are translated into the functional currency of the reporting unit at the spot exchange rate on the date of the transaction. At the balance sheet date, all monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the closing exchange rate. Non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction. Foreign exchange differences on financial investments available-for-sale are recorded directly in *Equity* until the asset is sold or becomes impaired, with the exception of translation differences on the amortized cost of monetary financial investments available-for-sale which are reported in *Net trading income,* along with all other foreign exchange differences on monetary assets and liabilities.

Upon consolidation, assets and liabilities of foreign operations are translated into Swiss francs (CHF) – UBS's presentation currency – at the closing exchange rate on the balance sheet date, and income and expense items are translated at the average rate for the period. The resulting foreign exchange differences are recognized directly in *Foreign currency translation* within *Equity*.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, or the operation is liquidated, the cumulative amount in *Foreign currency translation* within *Equity* related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When UBS disposes of a portion of its interest in a subsidiary that includes a foreign operation but retains control, the related portion of the cumulative currency translation balance is reclassified to *Non-controlling interests*. When UBS disposes of a portion of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the related portion of the cumulative currency translation balance is reclassified to profit or loss.

Refer to Note 36 for more information on currency translation rates.

33) Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated using the same method as for basic EPS and adjusting the net profit or loss for the period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding to reflect the potential dilution that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

Refer to Note 9 for more information on earnings per share.

34) Segment reporting

UBS's businesses are organized globally into five business divisions: Wealth Management, Wealth Management Americas, Retail & Corporate, Global Asset Management and the Investment Bank, supported by the Corporate Center. The five business divisions qualify as reportable segments for the purpose of segment reporting and, together with the Corporate Center and its components, reflect the management structure of the Group. Additionally, the non-core activities and positions formerly in the Investment Bank are managed and reported in the Corporate

Note 1 Summary of significant accounting policies (continued)

Center. Together with the Legacy Portfolio and the option to acquire the equity of the SNB StabFund, which was exercised on 7 November 2013, these non-core activities and positions are reported as a separate reportable segment within the Corporate Center called "Non-core and Legacy Portfolio." Financial information about the five business divisions and the Corporate Center (with its components) is presented separately in internal management reports to the Group Executive Board, which is considered the "chief operating decision maker" within the context of IFRS 8 *Operating Segments*.

The operating expenses of Corporate Center – Core Functions are allocated, based on internally determined allocation bases, to the reportable segments and presented under the appropriate line items, that is, *Personnel expenses, General and administrative expenses, Depreciation and impairment of property and equipment* and *Amortization and impairment of intangible assets.* These allocations are adjusted on a periodic basis and differences may arise between actual costs incurred and amounts recharged. These differences, together with own credit gains and losses on financial liabilities designated at fair value which are excluded from the measurement of performance of the business divisions, are considered reconciling differences to UBS Group results and are reported collectively under Corporate Center – Core Functions. UBS's internal accounting policies, which include management accounting policies and service level agreements, determine the revenues and expenses directly attributable to each reportable segment. Internal charges and transfer pricing adjustments are reflected in operating results of the reportable segments. Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are also reflected in the operating results of the reportable segments.

Revenue-sharing agreements are used to allocate external client revenues to reportable segments where several reportable segments are involved in the value-creation chain. Commissions are credited to the reportable segments based on the corresponding client relationship.

Net interest income is generally allocated to the reportable segments based on their balance sheet positions. Assets and liabilities of the reportable segments are funded through and invested with Group Treasury, and the net interest margin is reflected in the results of each reportable segment. Interest income earned from managing UBS's consolidated equity is allocated to the reportable segments based on average attributed equity.

In line with internal management reporting, segment assets are reported without intercompany balances on a third-party view basis. For the purpose of segment reporting under IFRS 8, the non-current assets consist of investments in associates and joint ventures, goodwill, other intangible assets and property and equipment.

Refer to Note 2 for more information on segment reporting.

35) Netting

UBS nets financial assets and liabilities on its balance sheet if it has a currently enforceable legal right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Netted positions include, for example, over-the-counter interest rate swaps transacted with the London Clearing House, netted by currency and across maturity dates, repurchase and reverse repurchase transactions entered into with both the London Clearing House and the Fixed Income Clearing Corporation, netted by counterparty, currency, central securities depository and maturity, as well as transactions with various other counterparties, exchanges and clearing houses.

Refer to Note 26 for more information on offsetting financial assets and financial liabilities.

b) Changes in accounting policies, comparability and other adjustments

Effective in 2013

IFRS 7 Financial Instruments: Disclosures

In December 2011, the IASB issued revised IFRS 7 *Financial Instruments: Disclosures,* requiring the disclosure of new information in respect of an entity's use of enforceable netting arrangements. The amendments to IFRS 7 are intended to enable users of financial statements to better evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments require entities to disclose both gross and net amounts of recognized financial assets and liabilities associated with master netting agreements and similar arrangements, including the effects of financial collateral, whether or not presented net on the face of the balance sheet.

UBS adopted the revisions to IFRS 7 as of 1 January 2013 in accordance with the transitional provisions set out in the standard and the resultant disclosures are reflected in Note 26.

IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements.* In October 2012, the IASB issued *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* which provide an exception to consolidation for certain "investment entities." IFRS 10 establishes a single control-based model for assessing whether one entity should consolidate another, applying to all types of entities and replacing SIC 12 *Consolidation – Special Purpose Entities,* and the consolidation principles within IAS 27 *Consolidated and Separate Financial Statements,* which has been renamed IAS

Note 1 Summary of significant accounting policies (continued)

IFRS 10: Effect on Total comprehensive income

	Effect on net profit								Effect on other comprehensive income			
CHF million	Net interest income	Net fee and commission income	Net trading income	Other income	**Net profit**	Net profit attributable to preferred noteholders	Net profit attributable to non-controlling interests	Net profit attributable to UBS shareholders	Unrealized gains / (losses) on financial investments available-for-sale, net of tax	Foreign curency translation movement, net of tax	**Other comprehensive income**	**Total comprehensive income**
As previously reported for the year ended 31 December 2012	5,994	15,405	3,480	682	(2,235)	0	276	(2,511)	14	(544)	469	(1,766)
Changes in reported figures for the year	(16)	(8)	46	(41)	(20)	220	(271)	31	12	7	18	(2)
Restated amount for the year ended 31 December 2012	5,978	15,396	3,526	641	(2,255)	220	5	(2,480)	26	(537)[1]	487	(1,767)

1 Of which CHF (511) million was attributable to UBS shareholders, CHF (41) million attributable to preferred noteholders and CHF 15 million attributable to non-controlling interests.

27 *Separate financial Statements*. Refer to Note 1a) 3) for further information.

On 1 January 2013, UBS adopted IFRS 10, resulting in a change in the consolidation status of certain entities. The Group consolidated certain investment funds where UBS's exposure to variability indicates that its power as fund manager is in a principal capacity. In addition, UBS deconsolidated certain entities that were previously consolidated due to UBS's exposure to a majority of risk and rewards, but where UBS does not have the ability to direct the relevant activities. UBS also deconsolidated certain entities where UBS's involvement does not expose it to variable returns from the entity. This includes entities that issue preferred securities, the deconsolidation of which results in UBS recognizing the preferred notes issued to these entities instead of the preferred securities which were presented as equity attributable to non-controlling interests. Except for one preferred note issuance of CHF 1.2 billion which is classified as a liability, UBS presents the preferred notes as equity attributable to preferred noteholders.

UBS adopted IFRS 10 on a limited retrospective basis. The comparative 31 December 2012 balance sheet and other primary statements for the period ending 2012 have been restated to reflect the effects of adopting IFRS 10. The transition effects on the opening equity balance as of 1 January 2012 are presented in the *Statement of changes in equity*. No balance sheet as of the beginning of 2012 has been presented under IFRS 10 as adoption was not deemed to have a material impact on the Financial Statements. In addition, periods prior to 2012 are not required to be restated and are therefore presented on the basis of IAS 27 and SIC 12. Where a change in consolidation status was warranted, the financial results in 2012 have been restated to reflect the appropriate consolidation status as of the date that UBS obtained or lost control of the respective entity. No adjustments have been

IFRS 10: Effect on the balance sheet

CHF million	Balance as of 31 December 2012 previously reported	Change in reported figures	Restated balance as of 31 December 2012
Total assets	**1,259,232**	**565**	**1,259,797**
of which: Positive replacement values	*418,029*	*928*	*418,957*
Total liabilities	**1,208,983**	**1,714**	**1,210,697**
of which: Due to customers	*371,892*	*1,567*	*373,459*
of which: Repurchase agreements	*37,639*	*918*	*38,557*
of which: Financial liabilities designated at fair value	*92,878*	*(977)*	*91,901*
Total equity	**50,249**	**(1,149)**	**49,100**
of which: equity attributable to UBS shareholders	*45,895*	*54*	*45,949*
of which: equity attributable to preferred noteholders	*0*	*3,109*	*3,109*
of which: equity attributable to non-controlling interests	*4,353*	*(4,311)*	*42*
Total liabilities and equity	**1,259,232**	**565**	**1,259,797**

Note 1 Summary of significant accounting policies (continued)

made for entities where, at the date of initial application, the consolidation status is unchanged from that under IAS 27 or SIC 12. The effect of adoption is shown in the tables on the previous page. There was no material impact on earnings per share.

The October 2012 amendments for investment entities had no impact on the Financial Statements as UBS Group does not itself meet the definition of an investment entity.

IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint arrangements,* which supersedes IAS 31 *Interests in Joint Ventures,* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The standard provides guidance on how to account for joint operations and joint ventures, considering the rights, obligations and legal form of the arrangement, with both defined as types of joint arrangements. The standard also addresses inconsistencies in the reporting of joint ventures by eliminating the proportionate consolidation approach and requiring that an investment be accounted for under the equity method under IAS 28. UBS adopted IFRS 11 on its mandatory effective date of 1 January 2013. As UBS already applies the equity method to account for its interests in joint ventures, the new standard had no impact on the Financial Statements.

IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities,* which provides new and comprehensive annual disclosure requirements about entities with which a reporting entity is involved. IFRS 12 replaces the disclosure requirements previously included in IAS 27 *Consolidated and Separate Financial Statements,* IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures.* The standard requires entities to disclose information that helps users to evaluate the nature, risks and financial effects associated with a reporting entity's interests in subsidiaries, associates, joint arrangements and, in particular, unconsolidated SE. UBS adopted the revised standard on its mandatory effective date of 1 January 2013 in accordance with the transitional provisions of the standard and the resultant disclosures are reflected in Note 30.

IAS 27 Separate Financial Statements

In May 2011, the IASB issued IAS 27 *Separate Financial Statements,* which amended and renamed IAS 27 *Consolidated and Separate Financial Statements.* The amendments resulted from the issuance of IFRS 10 *Consolidated Financial Statements* as stated above. As a result, IAS 27 now contains requirements relating to separate financial statements only. UBS adopted the IAS 27 amendments on their mandatory effective date of 1 January 2013 and the new standard had no impact on the Financial Statements.

IAS 28 Investments in Associates and Joint Ventures

In May 2011, the IASB issued IAS 28 *Investments in Associates and Joint Ventures,* which amended and renamed IAS 28 *Investments in Associates* by incorporating the accounting for joint ventures. UBS adopted the IAS 28 amendments on the mandatory effective date of 1 January 2013 and the new standard had no impact on the Financial Statements.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement,* which establishes a single source of guidance for all fair value measurements under IFRS. It 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, i.e., an exit price. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies that the unit of measurement is generally a particular asset or liability unless an entity manages and reports its net risk exposures on a portfolio basis, in which case it may elect to apply portfolio-level price adjustments under limited circumstances. It also introduces new disclosure requirements and enhancements to existing disclosures, which are reflected in Note 24.

IFRS 13 became effective for the Group on 1 January 2013 and has been applied prospectively from that date. As a result of implementing the unit of measurement guidance of the standard, the Group's valuation reserves increased by approximately CHF 25 million as of 1 January 2013, decreasing operating profit before tax in 2013. In conjunction with the implementation of IFRS 13, the Group has refined its methodologies for estimating the sensitivity of fair value measurements to changes in unobservable valuation input assumptions. As a result, the 31 December 2012 comparative figures in Note 24i have been restated from CHF 1.2 billion to CHF 1.8 billion for favorable changes and from CHF 1.2 billion to CHF 1.4 billion for unfavorable changes.

IAS 1 Presentation of Financial Statements

In June 2011, the IASB issued the revised IAS 1 *Presentation of Financial Statements*. The revised standard requires the grouping together for presentation purposes of items within other comprehensive income (OCI) into those that may be reclassified to profit or loss in subsequent periods and those that may not be. The revised standard reaffirms existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. UBS adopted the revised standard on its mandatory effective date of 1 January 2013 and continues to provide two consecutive statements. The presentation in the statement of comprehensive income was revised in line with the new requirements.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36 Impairment of Assets)

In May 2013, the IASB published *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36, Impairment of Assets)* requiring disclosure, for a non-financial asset or a cash

Note 1 Summary of significant accounting policies (continued)

generating unit for which an impairment loss was recognized or reversed, of its recoverable amount and, if this was determined based on fair value less costs of disposal, additional fair value information. UBS early adopted the narrow-scope amendments as of 31 December 2013, ahead of their mandatory effective date of 1 January 2014, in accordance with the transitional provisions of the amendments, with no material impact on the Financial Statements. Refer to Notes 16 and 17 for more information.

Annual Improvements to IFRSs 2009–2011

In May 2012, the IASB issued six amendments to five IFRSs as part of its annual improvements project. Of these amendments, UBS adopted the amendment to IAS 1 in 2012, ahead of its mandatory effective date of 1 January 2013 in accordance with the transitional provisions of the standard. UBS adopted the remaining amendments as of 1 January 2013 with no material impact on the Financial Statements.

IAS 1 Comparative Information

In line with the IAS 1 comparative period requirements which UBS adopted in 2012, UBS will no longer present a second comparative balance sheet unless it is required to do so as a consequence of a retrospective restatement or reclassification. For the year ended 31 December 2013, the Group is not required to present an additional balance sheet and therefore only one comparative balance sheet is disclosed as of 31 December 2012.

Corporate Center – Non-core and Legacy Portfolio

In line with our strategy to focus the Investment Bank's business on its traditional strengths, UBS is exiting many business lines which are capital- and balance sheet-intensive or are in areas with high operational complexity or long tail risks. In 2013, these non-core activities and positions formerly in the Investment Bank were transferred to and are now managed and reported in the Corporate Center. Together with the Legacy Portfolio and the option to acquire the equity of the SNB StabFund, which was exercised on 7 November 2013, these non-core activities and positions are reported as a separate reportable segment within the Corporate Center called "Non-core and Legacy Portfolio." Prior period segment information was restated for this change. As a result, total assets of the Investment Bank as of 31 December 2012 decreased by CHF 390 billion, full year 2012 operating income decreased by CHF 1,147 million and full year 2012 operating expenses decreased by CHF 4,341 million, resulting in an overall increase in full year 2012 operating profit before tax of CHF 3,194 million, with corresponding movements in Corporate Center – Non-core and Legacy Portfolio. This restated information is not representative of the way the business was managed during those prior periods and as such is an estimate of such periods' performance. Amounts were determined reflecting a number of assumptions and allocations in order to achieve comparability with how the business would be managed in the future.

Other transfers between reporting segments

The repurchase agreement and short-term interest rate cash units were transferred from the Investment Bank to the Asset Liability Management unit of Group Treasury within Corporate Center – Core Functions in 2013. Following this transfer, the Asset Liability Management unit oversees all financing, portfolio, and structural risk management activities for the Group. Revenues associated with the ongoing business activities of Asset Liability Management are allocated to the business divisions and Non-core and Legacy Portfolio, with the exception of excess funding costs. Prior period segment information was restated for this change. As a result, total assets of the Investment Bank as of 31 December 2012 decreased by CHF 20 billion, full year 2012 operating income decreased by CHF 314 million and full year operating expenses decreased by CHF 113 million, resulting in an overall decrease in full year operating profit before tax of CHF 201 million, with corresponding increases in Corporate Center – Core Functions. This restated information is only an estimate of such periods' performance.

In 2013, the risk management responsibility for a portfolio of financial investments available-for-sale and associated cash and balances with central banks was transferred from Wealth Management Americas to Group Treasury within Corporate Center – Core Functions. Following this transfer, net interest income associated with that portfolio has been allocated back to Wealth Management Americas, whereas realized gains and losses arising from the sales and impairments of individual financial investments are retained by Group Treasury. Prior period segment information was restated for this change. As a result, total assets of Wealth Management Americas as of 31 December 2012 decreased by CHF 20 billion and full year 2012 non-interest income decreased by CHF 220 million, with corresponding increases in Corporate Center – Core Functions.

Definition of restructuring charges

In 2013, UBS expanded its definition of restructuring charges to include non-recurring and other temporary costs necessary to effect its restructuring programs. Refer to Note 32 for more information.

Accrued income and prepaid expenses, accrued expenses and deferred income

Starting with the fourth quarter of 2013, *Accrued income and prepaid expenses* as well as *Accrued expenses and deferred income* are no longer presented as separate line items in the balance sheet but under *Other assets* and *Other liabilities,* respectively. Comparative information was adjusted accordingly. Refer to Notes 18 and 23 for more information. This change in presentation did not impact net profit, total assets or total liabilities.

Note 1 Summary of significant accounting policies (continued)

c) International Financial Reporting Standards and Interpretations to be adopted in 2014 and later and other adjustments

IFRS 9 Financial Instruments
In November 2009, the IASB issued IFRS 9 *Financial Instruments,* which includes revised guidance on the classification and measurement of financial assets. In October 2010, the IASB updated IFRS 9 to include guidance on financial liabilities and derecognition of financial instruments. The publication of IFRS 9 represented the completion of the first part of a multi-stage project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The standard requires all financial assets, except equity instruments, to be classified at fair value through profit or loss or amortized cost on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option if doing so would significantly reduce or eliminate an accounting mismatch. Equity instruments that are not held for trading may be accounted for at fair value through other comprehensive income (OCI).

The accounting guidance for financial liabilities is unchanged with one exception: any gain or loss arising on a financial liability designated at fair value through profit or loss that is attributable to changes in the credit risk of that liability (own credit) is presented in OCI and not recognized in profit or loss. There is no subsequent recycling of realized gains or losses from OCI to profit or loss.

In November 2013, the IASB issued IFRS 9 *Financial Instruments (Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39).* This standard contains guidance on hedge accounting that will replace the existing requirements of IAS 39, introducing substantial changes to hedge effectiveness and eligibility requirements as well as new disclosures. The amendments also remove the previous mandatory effective date of 1 January 2015 for all of the IFRS 9 requirements, with a final effective date to be decided upon when the project is closer to completion. Subsequently, the IASB has tentatively decided that the mandatory effective date will be for annual periods beginning on or after 1 January 2018. The standard further amends IFRS 9 to permit entities to early adopt the own credit presentation changes without having to apply any of the other requirements of IFRS 9.

UBS is currently assessing the impact of the new requirements on the Financial Statements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
In December 2011, the IASB issued *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32, Financial Instruments: Presentation).* The amendments to IAS 32 restrict offsetting on the balance sheet to only those arrangements in which an offsetting right exists that is unconditional and legally enforceable, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all of the counterparties. The amendments also provide incremental guidance for determining when gross settlement systems result in the functional equivalent of net settlement.

Upon adoption as of 1 January 2014, UBS expects, based on current assumptions, that certain derivative arrangements will no longer qualify for offset. Consequently, had the amendments been effective as of 31 December 2013, total assets and liabilities would increase by approximately CHF 10 billion, with no impact on total equity or net profit. UBS's Basel III capital, capital ratios and Swiss SRB leverage ratio are not expected to be significantly impacted. Some application issues are in the process of being resolved, hence, the actual impact may be different from that currently estimated.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39, Financial Instruments: Recognition and Measurement)* to provide relief from discontinuing hedge accounting when a derivative designated as a hedging instrument is novated to effect clearing with a central counterparty as a result of laws and regulations, provided certain criteria are met. The amendment is applicable retrospectively and is effective on 1 January 2014. Adoption of the amendment will not have a material impact on the Financial Statements.

IFRIC Interpretation 21, Levies
In May 2013, the IASB issued IFRIC *Interpretation 21, Levies.* IFRIC 21 sets out the accounting for an obligation to pay a government levy that is not within the scope of IAS 12, *Income Taxes*. The interpretation specifies that liabilities for levies should not be recognized prior to the occurrence of a specified triggering event, regardless of whether an entity has no realistic ability to avoid the triggering event. The interpretation is applicable retrospectively and is effective on 1 January 2014. Adoption of the interpretation will not have a material impact on the Financial Statements.

Narrow-scope amendments to IAS 19 Employee Benefits
In December 2013, the IASB issued *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19, Employee Benefits).* The amendments offer an alternative, simplified treatment for considering contributions from employees or third parties in the calculation of the defined benefit obligation if the amount of employee or third-party contributions is independent of the num-

Note 1 Summary of significant accounting policies (continued)

ber of years of service. Under the alternative treatment, an entity may recognize such contributions as a reduction in service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. This is applicable for the Swiss pension plan, whereby UBS currently attributes employee contributions to the periods of service in accordance with the plan's benefit formula. The amendments to IAS 19 are applicable retrospectively, for UBS on 1 January 2015, with earlier adoption permitted. UBS does not expect to apply the alternative treatment introduced by this amendment to IAS 19.

Annual Improvements to IFRSs 2010 – 2012 Cycle and Annual Improvements to IFRSs 2011 – 2013 Cycle

In December 2013, the IASB issued *Annual Improvements to IFRSs 2010 – 2012 Cycle* and *Annual Improvements to IFRSs 2011 – 2013 Cycle* that resulted in 12 amendments to nine IFRSs. Generally, the amendments are effective for UBS on 1 January 2015, with early adoption permitted. UBS is currently assessing the impact of the amendments on the Financial Statements.

Fair value measurements – funding valuation adjustments

UBS and, more broadly, other major dealers in derivatives, are currently analyzing how the costs and benefits of funding associated with uncollateralized derivative receivables and payables can be incorporated into their valuation techniques. Those costs and benefits (referred to as "funding valuation adjustments") differ from credit valuation adjustments (CVA) and debit valuation adjustments (DVA) (refer to "Note 24 Fair value measurement"), and theoretically represent a spread over LIBOR to compensate for the inherent cost of funding those uncollateralized derivative positions. Currently, there are diverse views within the industry as to how such inputs should be quantified and applied. We expect to incorporate funding valuation adjustments into our fair value measurements, prospectively, as a change in accounting estimate, possibly during 2014, when our analysis is completed and the related financial effects can be validated. Notably, our exposure to uncollateralized derivatives continues to reduce in line with the accelerated implementation of our strategy to exit many of the businesses with which they are associated.

Note 2a Segment reporting

UBS AG is the parent company of the UBS Group (Group). The operational structure of the Group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Retail & Corporate, Global Asset Management and the Investment Bank.

Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services.

Wealth Management Americas

Wealth Management Americas provides advice-based solutions and banking services through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US business, the domestic Canadian business and international business booked in the US.

Retail & Corporate

Retail & Corporate maintains a leading position across retail, corporate and institutional client segments in Switzerland and constitutes a central building block of UBS Switzerland's pre-eminent universal bank model. It provides comprehensive financial products and services embedded in a true multi-channel experience, offering clients convenient access. It continues to enhance the range of life-cycle products and services offered to clients, while pursuing additional growth in advisory and execution services.

Global Asset Management

Global Asset Management is a large-scale asset manager with diversified businesses across investment capabilities, regions and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services including fund set-up, accounting and reporting for both traditional investment funds and alternative funds.

Investment Bank

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative financial solutions, outstanding execution and comprehensive access to the world's capital markets. It offers financial advisory and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through its two business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

Corporate Center

The Corporate Center comprises Corporate Center – Core Functions and Corporate Center – Non-core and Legacy Portfolio. Corporate Center – Core Functions provides Group-wide control functions including finance, risk control (including compliance) and legal. In addition, it provides all logistics and support functions, including operations, information technology, human resources, corporate development, regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical security, information security, offshoring and treasury services such as funding, balance sheet and capital management. Corporate Center – Core Functions allocates most of its treasury income, operating expenses and personnel associated with the above-mentioned activities to the businesses based on capital and service consumption levels. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions previously part of the Investment Bank.

Note 2a Segment reporting[1] (continued)

CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	Corporate Center – Core Functions[2]	Corporate Center – Non-core and Legacy Portfolio	UBS
For the year ended 31 December 2013								
Net interest income	2,061	936	2,144	(20)	886	(31)	(191)	5,786
Non-interest income	5,512	5,629	1,630	1,954	7,712	(976)	535	21,997
Income[3, 4, 5]	7,573	6,565	3,774	1,935	8,599	(1,007)	344	27,782
Credit loss (expense) / recovery	(10)	(27)	(18)	0	2	0	3	(50)
Total operating income	7,563	6,538	3,756	1,935	8,601	(1,007)	347	27,732
Personnel expenses	3,371	4,574	1,442	873	3,984	424	515	15,182
General and administrative expenses	1,650	924	875	448	2,040	422	2,022	8,380
Services (to) / from other business divisions	97	13	(162)	(17)	3	1	65	0
Depreciation and impairment of property and equipment	190	121	143	47	260	0	55	816
Amortization and impairment of intangible assets[6]	8	49	0	8	14	0	3	83
Total operating expenses[7]	5,316	5,680	2,298	1,359	6,300	847	2,660	24,461
Operating profit / (loss) before tax	**2,247**	**858**	**1,458**	**576**	**2,300**	**(1,854)**	**(2,312)**	**3,272**
Tax expense / (benefit)								(110)
Net profit / (loss)								**3,381**
Additional Information								
Total assets[8]	109,758	45,491	141,369	14,223	241,103	247,407	210,508	1,009,860
Additions to non-current assets	5	1	17	1	81	1,236	0	1,341

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for information on changes to reporting segments. 2 Certain cost allocations to the business divisions and Corporate Center – Non-core and Legacy Portfolio are based on periodically agreed standard rates. This could lead to a difference between costs actually incurred by Corporate Center – Core Functions and charges to the business divisions and Corporate Center – Non-core and Legacy Portfolio. 3 Impairments of financial investments available-for-sale for the year ended 31 December 2013 were as follows: Wealth Management CHF 10 million, Global Asset Management CHF 3 million, Investment Bank CHF 20 million, Corporate Center – Non-core and Legacy Portfolio CHF 8 million. 4 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the segments by means of revenue-sharing agreements. 5 Refer to "Note 24 Fair value measurement" for more information on own credit in Corporate Center – Core Functions. 6 Refer to "Note 17 Goodwill and intangible assets" for more information on goodwill and other intangible assets by segment. 7 Refer to "Note 32 Changes in organization" for information on restructuring charges. 8 The segment assets are based on a third-party view and this basis is in line with the internal reporting to management, i.e., the amounts do not include intercompany balances. Certain assets managed centrally by Corporate Center – Core Functions (including property and equipment and certain financial assets) are allocated to the segments on a basis different to which the corresponding costs and / or revenues are allocated. Specifically, certain assets are reported in Corporate Center – Core Functions, whereas the corresponding costs and / or revenues are entirely or partially allocated to the segments based on various internally determined allocations. Similarly, certain assets are reported in the business divisions, whereas the corresponding costs and / or revenues are entirely or partially allocated to Corporate Center – Core Functions.

Note 2a Segment reporting[1] (continued)

CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	Corporate Center		UBS
						Core Functions[2]	Non-core and Legacy Portfolio	
For the year ended 31 December 2012								
Net interest income	1,951	792	2,186	(21)	834	47	189	5,978
Non-interest income	5,089	5,099	1,569	1,904	6,310	(1,737)	1,327	19,563
Income[3, 4, 5]	7,040	5,891	3,756	1,883	7,144	(1,689)	1,516	25,541
Credit loss (expense) / recovery	1	(14)	(27)	0	0	0	(78)	(118)
Total operating income	7,041	5,877	3,728	1,883	7,144	(1,689)	1,439	25,423
Personnel expenses	2,865	4,252	1,287	885	4,539	282	628	14,737
General and administrative expenses	1,360	893	857	395	2,312	1,696[6]	1,141	8,653
Services (to) / from other business divisions	243	(15)	(370)	(10)	(202)	21	335	0
Depreciation and impairment of property and equipment	159	100	128	37	214	9	41	689
Impairment of goodwill[7]	0	0	0	0	0	0	3,030	3,030
Amortization and impairment of intangible assets[7]	7	51	0	8	13	0	28	106
Total operating expenses[8]	4,634	5,281	1,901	1,314	6,877	2,008	5,202	27,216
Operating profit / (loss) before tax	**2,407**	**597**	**1,827**	**569**	**267**	**(3,698)**	**(3,764)**	**(1,794)**
Tax expense / (benefit)								461
Net profit / (loss)								**(2,255)**
Additional Information								
Total assets[9]	104,620	43,948	145,320	12,916	261,511	262,857	428,625	1,259,797
Additions to non-current assets	4	1	45	12	62	1,032	0	1,158

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for information on the adoption of IFRS 10 and changes to reporting segments. 2 Certain cost allocations to the business divisions and Corporate Center – Non-core and Legacy Portfolio are based on periodically agreed standard rates. This could lead to a difference between costs actually incurred by Corporate Center – Core Functions and charges to the business divisions and Corporate Center – Non-core and Legacy Portfolio. 3 Impairments of financial investments available-for-sale for the year ended 31 December 2012 were as follows: Global Asset Management CHF 4 million, Investment Bank CHF 12 million, Corporate Center – Core Functions CHF 2 million, Corporate Center – Non-core and Legacy Portfolio CHF 67 million. 4 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the segments by means of revenue-sharing agreements. 5 Refer to "Note 24 Fair value measurement" for more information on own credit in Corporate Center – Core Functions. 6 Includes charges of approximately CHF 1.4 billion arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. Refer to "Note 22 Provisions and contingent liabilities" for more information. 7 Refer to "Note 17 Goodwill and intangible assets" for more information. 8 Refer to "Note 32 Changes in organization" for information on restructuring charges. 9 The segment assets are based on a third-party view and this basis is in line with the internal reporting to management, i.e., the amounts do not include intercompany balances. Certain assets managed centrally by Corporate Center – Core Functions (including property and equipment and certain financial assets) are allocated to the segments on a basis different to which the corresponding costs and / or revenues are allocated. Specifically, certain assets are reported in Corporate Center – Core Functions, whereas the corresponding costs and / or revenues are entirely or partially allocated to the segments based on various internally determined allocations.

Note 2a Segment reporting[1] (continued)

CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	Corporate Center – Core Functions[2]	Corporate Center – Non-core and Legacy Portfolio	UBS
For the year ended 31 December 2011								
Net interest income	1,968	729	2,328	(15)	974	208	634	6,826
Non-interest income	5,666	4,490	1,858	1,817	5,838	1,724	(347)	21,046
Income[3, 4, 5]	7,634	5,219	4,186	1,803	6,813	1,932	286	27,872
Credit loss (expense) / recovery	11	(6)	(101)	0	(10)	(1)	22	(84)
Total operating income	7,645	5,213	4,085	1,803	6,802	1,931	309	27,788
Personnel expenses	3,300	3,830	1,702	954	5,026	116	706	15,634
General and administrative expenses	1,192	783	834	375	2,129	161	486	5,959
Services (to) / from other business divisions	318	(9)	(470)	(1)	(358)	19	503	0
Depreciation and impairment of property and equipment	165	99	136	38	208	73	43	761
Amortization and impairment of intangible assets[6]	37	48	0	8	15	0	19	127
Total operating expenses[7]	5,012	4,750	2,201	1,373	7,019	369	1,756	22,482
Operating profit / (loss) before tax	**2,633**	**463**	**1,884**	**430**	**(217)**	**1,562**	**(1,448)**	**5,307**
Tax expense / (benefit)								901
Net profit / (loss)								**4,406**
Additional Information								
Total assets[8]	100,352	42,159	147,117	15,239	403,512	183,761	524,823	1,416,962
Additions to non-current assets	5	25	22	18	90	1,013	19	1,192

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for information on changes to reporting segments. 2 Certain cost allocations to the business divisions and Corporate Center – Non-core and Legacy Portfolio are based on periodically agreed standard rates. This could lead to a difference between costs actually incurred by Corporate Center – Core Functions and charges to the business divisions and Corporate Center – Non-core and Legacy Portfolio. 3 Impairments of financial investments available-for-sale for the year ended 31 December 2011 were as follows: Wealth Management CHF 28 million, Corporate Center – Non-core and Legacy Portfolio CHF 12 million. 4 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the segments by means of revenue-sharing agreements. 5 Refer to "Note 24 Fair value measurement" for more information on own credit in Corporate Center – Core Functions. 6 Refer to "Note 17 Goodwill and intangible assets" for more information on goodwill and other intangible assets by segment. 7 Refer to "Note 32 Changes in organization" for information on restructuring charges. 8 The segment assets are based on a third-party view and this basis is in line with the internal reporting to management, i.e., the amounts do not include intercompany balances. Certain assets managed centrally by Corporate Center – Core Functions (including property and equipment and certain financial assets) are allocated to the segments on a basis different to which the corresponding costs and / or revenues are allocated. Specifically, certain assets are reported in Corporate Center – Core Functions, whereas the corresponding costs and / or revenues are entirely or partially allocated to the segments based on various internally determined allocations.

Note 2b Segment reporting by geographic location

The geographic analysis of operating income and non-current assets is based on the location of the entity in which the transactions and assets are recorded. This geographical information does not reflect the way the Group is managed. The segments of the Group are managed globally with a focus on cross-divisional collaboration and the interest of our clients to yield the maximum possible profitability by product line for the Group. The geographic analysis of operating income and non-current assets is provided in order to comply with IFRS.

For the year ended 31 December 2013

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	9,319	34	6,072	46
of which: USA	*9,002*	*32*	*5,637*	*43*
Asia Pacific	4,313	16	353	3
Europe, Middle East and Africa	3,373	12	1,455	11
of which: United Kingdom	*2,189*	*8*	*628*	*5*
of which: Rest of Europe	*1,121*	*4*	*821*	*6*
of which: Middle East and Africa	*63*	*0*	*6*	*0*
Switzerland	10,728	39	5,261	40
Total	**27,732**	**100**	**13,141**	**100**

For the year ended 31 December 2012

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	9,678	38	6,171	46
of which: USA	*9,214*	*36*	*5,752*	*43*
Asia Pacific	3,094	12	367	3
Europe, Middle East and Africa	1,609	6	1,494	11
of which: United Kingdom	*118*	*0*	*647*	*5*
of which: Rest of Europe	*1,426*	*6*	*840*	*6*
of which: Middle East and Africa	*66*	*0*	*7*	*0*
Switzerland	11,041	43	5,292	40
Total	**25,423**	**100**	**13,324**	**100**

For the year ended 31 December 2011

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	9,491	34	9,038	56
of which: USA	*9,324*	*34*	*8,617*	*53*
Asia Pacific	3,689	13	407	3
Europe, Middle East and Africa	3,115	11	1,687	10
of which: United Kingdom	*1,385*	*5*	*653*	*4*
of which: Rest of Europe	*1,638*	*6*	*1,026*	*6*
of which: Middle East and Africa	*92*	*0*	*8*	*0*
Switzerland	11,494	41	5,045	31
Total	**27,788**	**100**	**16,177**	**100**

Income statement notes

Note 3 Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Net interest and trading income				
Net interest income	**5,786**	5,978	6,826	(3)
Net trading income	**5,130**	3,526	4,343	45
Total net interest and trading income	**10,915**	9,504	11,169	15
Wealth Management	**2,868**	2,728	2,846	5
Wealth Management Americas	**1,323**	1,265	1,179	5
Retail & Corporate	**2,485**	2,467	2,661	1
Global Asset Management	**9**	9	8	0
Investment Bank	**5,015**	3,574	2,831	40
of which: Corporate Client Solutions	***1,035***	*575*	*399*	*80*
of which: Investor Client Services	***3,980***	*2,999*	*2,432*	*33*
Corporate Center	**(784)**	(540)	1,645	45
of which: Core Functions	***(1,045)***	*(1,992)*	*1,765*	*(48)*
of which: own credit on financial liabilities designated at fair value[1]	***(283)***	*(2,202)*	*1,537*	*(87)*
of which: Non-core and Legacy Portfolio	***261***	*1,452*	*(121)*	*(82)*
Total net interest and trading income	**10,915**	9,504	11,169	15
Net interest income				
Interest income				
Interest earned on loans and advances[2]	**8,686**	9,323	9,925	(7)
Interest earned on securities borrowed and reverse repurchase agreements	**852**	1,413	1,716	(40)
Interest and dividend income from trading portfolio	**2,913**	4,482	5,466	(35)
Interest income on financial assets designated at fair value	**364**	369	248	(1)
Interest and dividend income from financial investments available-for-sale	**322**	381	615	(15)
Total	**13,137**	15,968	17,969	(18)
Interest expense				
Interest on amounts due to banks and customers	**893**	1,433	2,040	(38)
Interest on securities lent and repurchase agreements	**829**	1,208	1,352	(31)
Interest expense from trading portfolio[3]	**1,846**	2,442	2,851	(24)
Interest on financial liabilities designated at fair value	**1,197**	1,744	1,993	(31)
Interest on debt issued	**2,586**	3,163	2,907	(18)
Total	**7,351**	9,990	11,143	(26)
Net interest income	**5,786**	5,978	6,826	(3)

1 Refer to "Note 24 Fair value measurement" for more information on own credit. 2 Includes interest income on impaired loans and advances of CHF 15 million for 2013, CHF 16 million for 2012 and CHF 20 million for 2011. 3 Includes expense related to dividend payment obligations on trading liabilities.

Note 3 Net interest and trading income (continued)

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Net trading income				
Investment Bank Corporate Client Solutions	**545**	389	355	40
Investment Bank Investor Client Services	**3,584**	2,351	1,502	52
Other business divisions and Corporate Center	**1,002**	786	2,487	27
Net trading income	**5,130**	3,526	4,343	45
of which: net gains / (losses) from financial assets designated at fair value	***99***	*420*	*419*	*(76)*
of which: net gains / (losses) from financial liabilities designated at fair value[1, 2]	***(2,056)***	*(6,493)*	*7,437*	*(68)*

1 Refer to "Note 24 Fair value measurement" for more information on own credit. 2 Fair value changes of hedges related to financial liabilities designated at fair value are also reported in Net trading income.

Net trading income in 2013 included a gain of CHF 431 million from the valuation of the option to acquire the SNB StabFund's equity, reflected in the line *Other business divisions and Corporate Center,* compared with a gain of CHF 526 million in 2012 and a CHF 133 million loss in 2011.

Net trading income in 2011 included a loss of CHF 1,849 million due to the unauthorized trading incident, reflected in the line *Investment Bank Investor Client Services.*

Note 4 Net fee and commission income

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Equity underwriting fees	**850**	807	626	5
Debt underwriting fees	**524**	732	554	(28)
Total underwriting fees	**1,374**	1,539	1,180	(11)
M&A and corporate finance fees	**613**	679	992	(10)
Brokerage fees	**4,035**	3,836	4,169	5
Investment fund fees	**3,803**	3,626	3,577	5
Portfolio management and advisory fees	**6,625**	5,895	5,551	12
Insurance-related and other fees	**485**	451	368	8
Total securities trading and investment activity fees	**16,935**	16,026	15,837	6
Credit-related fees and commissions	**367**	414	438	(11)
Commission income from other services	**873**	833	827	5
Total fee and commission income	**18,176**	17,273	17,102	5
Brokerage fees paid	**839**	871	933	(4)
Other	**1,050**	1,006	933	4
Total fee and commission expense	**1,889**	1,876	1,866	1
Net fee and commission income	**16,287**	15,396	15,236	6
of which: net brokerage fees	***3,196***	*2,965*	*3,236*	*8*

Note 5 Other income

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Associates and subsidiaries				
Net gains / (losses) from disposals of subsidiaries[1]	**111**	(7)	(18)	
Net gains / (losses) from disposals of investments in associates	**0**	0	20	
Share of net profits of associates	**49**	88	42	(44)
Total	**160**	81	44	98
Financial investments available-for-sale				
Net gains / (losses) from disposals	**209**	393	926	(47)
Impairment charges	**(41)**	(85)	(39)	(52)
Total	**168**	308	887	(45)
Net income from properties[2]	**35**	35	38	0
Net gains / (losses) from investment properties[3]	**(16)**	4	9	
Other	**233**	213	490	9
Total other income	**580**	641	1,467	(10)

1 Includes foreign exchange gains / losses reclassified from other comprehensive income related to disposed or dormant subsidiaries. 2 Includes net rent received from third parties and net operating expenses. 3 Includes unrealized and realized gains / losses from investment properties at fair value and foreclosed assets.

Net gains from disposals of financial investments available-for-sale in 2013 included a gain of CHF 74 million resulting from the divestment of the Group's participation in Euroclear Plc., of which CHF 27 million was allocated to Retail & Corporate, CHF 25 million to Wealth Management and CHF 22 million to the Investment Bank. Further, it included net gains of CHF 61 million in Corporate Center – Core Functions. 2012 included net gains of CHF 272 million in Corporate Center – Core Functions, as well as gains of CHF 101 million in Corporate Center – Non-core and Legacy Portfolio, mainly related to the sale of an equity investment. 2011 included a gain of CHF 722 million from the sale of the strategic investment portfolio, of which CHF 433 million was allocated to Wealth Management and CHF 289 million to Retail & Corporate, as well as net gains of CHF 141 million in Corporate Center – Core Functions.

The line *Other* included net gains of CHF 53 million on sales of loans and receivables in 2013, compared with net losses of CHF 11 million in 2012 and net gains of CHF 344 million in 2011. Additionally, it included gains on sales of real estate of CHF 288 million in 2013, CHF 112 million in 2012 and CHF 78 million in 2011. 2013 further included losses of CHF 194 million related to the buyback of debt in public tender offers.

Note 6 Personnel expenses

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Salaries	**6,268**	6,814	6,859	(8)
Variable compensation – performance awards[1]	**2,986**	3,000	3,516	0
of which: guarantees for new hires	***76***	*134*	*173*	*(43)*
Variable compensation – other[1]	**288**	367	191	(22)
of which: replacement payments[2]	***78***	*109*	*121*	*(28)*
of which: forfeiture credits	***(146)***	*(174)*	*(215)*	*(16)*
of which: severance payments[3]	***114***	*303*	*239*	*(62)*
of which: retention plan and other payments	***242***	*128*	*46*	*89*
Contractors	**190**	214	217	(11)
Social security	**792**	768	743	3
Pension and other post-employment benefit plans[4]	**887**	18	831	
Wealth Management Americas: Financial advisor compensation[1, 5]	**3,140**	2,873	2,518	9
Other personnel expenses	**631**	682	758	(7)
Total personnel expenses[6]	**15,182**	14,737	15,634	3

1 Refer to "Note 29 Equity participation and other compensation plans" for more information. 2 Replacement payments are payments made to compensate employees for deferred awards forfeited as a result of joining UBS. 3 Includes legally obligated and standard severance payments. 4 2012 included a credit of CHF 730 million related to changes to the Swiss pension plan and a credit of CHF 116 million related to changes to retiree medical and life insurance benefit plans in the US. Refer to "Note 28 Pension and other post-employment benefit plans" for more information. 5 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. 6 Included net restructuring charges of CHF 156 million, CHF 358 million and CHF 261 million for the years ended 31 December 2013, 31 December 2012 and 31 December 2011, respectively. Refer to "Note 32 Changes in organization" for more information.

Note 7 General and administrative expenses

	For the year ended			% change from
CHF million	**31.12.13**	31.12.12	31.12.11	31.12.12
Occupancy	**1,044**	1,074	1,059	(3)
Rent and maintenance of IT and other equipment	**458**	473	429	(3)
Communication and market data services	**609**	632	616	(4)
Administration	**638**	636	621	0
Marketing and public relations	**478**	528	393	(9)
Travel and entertainment	**451**	450	470	0
Professional fees	**1,032**	908	822	14
Outsourcing of IT and other services	**1,340**	1,357	1,151	(1)
Provisions for litigation, regulatory and similar matters[1, 2]	**1,701**	2,549	276	(33)
Other[3]	**628**	47	122	
Total general and administrative expenses[4]	**8,380**	8,653	5,959	(3)

1 Reflects the net increase / release of provisions for litigation, regulatory and similar matters recognized in the income statement. In addition, it includes recoveries from third parties of CHF 15 million, CHF 12 million and CHF 33 million for the years ended 31 December 2013, 31 December 2012 and 31 December 2011, respectively. A portion (CHF 21 million release) of the net increase / release recognized in the income statement for provisions for certain litigation, regulatory and similar matters for 2013 as presented in "Note 22a Provisions" was recorded as other income rather than as general and administrative expenses. 2 Refer to "Note 22 Provisions and contingent liabilities" for more information. 3 2013 included a charge of CHF 110 million related to the Swiss-UK tax agreement and an impairment charge of CHF 87 million related to certain disputed receivables. 4 Included net restructuring charges of CHF 548 million, CHF 0 million and CHF 93 million for the years ended 31 December 2013, 31 December 2012 and 31 December 2011, respectively. Refer to "Note 32 Changes in organization" for more information.

Note 8 Income taxes

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Tax expense / (benefit)			
Swiss			
Current	**93**	95	23
Deferred	**455**	23	1,041
Foreign			
Current	**342**	72	83
Deferred	**(1,000)**	271	(246)
Total income tax expense / (benefit)	**(110)**	461	901

The Swiss current tax expense of CHF 93 million related to taxable profits, against which no losses were available to offset, earned by Swiss subsidiaries and also from the sale of real estate. The Swiss deferred tax expense of CHF 455 million mainly reflected the amortization of deferred tax assets previously recognized in relation to tax losses carried forward used to offset taxable profits for the year.

The foreign current tax expense of CHF 342 million related to a tax expense in respect of taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset. The foreign net deferred tax benefit of CHF 1,000 million reflected a net upward revaluation of deferred tax assets based on a reassessment of future profitability taking into account updated business plan forecasts. This was partially offset by the amortization of deferred tax assets, as tax losses were used against taxable profits.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Swiss tax rate, are shown in the table below.

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Operating profit / (loss) before tax	**3,272**	(1,794)	5,307
of which: Swiss	***3,323***	*4,040*	*4,652*
of which: Foreign	***(51)***	*(5,834)*	*654*
Income tax at Swiss tax rate of 21% for both 2013 and 2012, and 21.5% for 2011	**687**	(377)	1,141
Increase / (decrease) resulting from:			
Foreign tax rates differing from Swiss tax rate	**(305)**	(680)	98
Tax effects of losses not recognized	**58**	184	939
Previously unrecognized tax losses now utilized	**(419)**	(1,342)	(8)
Non-taxable and lower taxed income	**(624)**	(417)	(1,189)
Non-deductible expenses and additional taxable income	**1,245**	2,205	674
Adjustments related to prior years – current tax	**(32)**	(216)	(171)
Adjustments related to prior years – deferred tax	**6**	1	17
Change in deferred tax valuation allowances	**(859)**	1,071	(680)
Adjustments to deferred tax balances arising from changes in tax rates	**107**	7	42
Other items	**28**	25	39
Income tax expense / (benefit)	**(110)**	461	901

The following is an explanation of the items included as differences between group operating profit before tax at the Swiss tax rate and the actual income tax expense.

Foreign tax rates differing from Swiss tax rate

To the extent that Group profits or losses arise outside Switzerland, the applicable local tax rate may differ from the Swiss tax rate. This item reflects, for such profits or losses, an adjustment from the tax expense/benefit that would arise at the Swiss tax rate and the tax expense/benefit that would arise at the applicable local tax rate. A tax benefit arises in the year in relation to entities which have losses and also local tax rates in excess of the Swiss tax rate.

Tax effects of losses not recognized

This item relates to tax losses of entities arising in the year, which are not recognized as deferred tax assets. Consequently, no tax benefit arises in relation to those losses. Therefore, the tax benefit calculated by applying the local tax rate to those losses as described above is reversed.

Note 8 Income taxes (continued)

Previously unrecorded tax losses now utilized
This item relates to taxable profits for the year, which are offset by tax losses from previous years, for which no deferred tax assets were previously recorded. Consequently, no current tax or deferred tax expense arises in relation to those taxable profits. Therefore, the tax expense calculated by applying the local rate on those profits is reversed.

Non-taxable and lower taxed income
This item relates to profits for the year, which are either permanently not taxable or are taxable, but at a lower rate of tax than the local tax rate. It also includes any permanent deductions made for tax purposes, which are not reflected in the accounts thereby effectively ensuring that profits covered by the deduction are not taxable.

Non-deductible expenses and additional taxable income
This item mainly relates to income for the year, which is imputed for tax purposes for an entity, but is not included in its operating profit. In addition, it includes expenses for the year, which are permanently non-deductible.

Adjustments related to prior years – current tax
This item relates to adjustments to current tax expenses for prior years, for example, if the tax payable for a year agreed with the tax authorities is expected to differ from the amount previously reflected in the accounts.

Adjustments related to prior years – deferred tax
This item relates to adjustments to deferred tax recognized in prior years, for example, if a tax loss for a year is fully recognized and the amount of the tax loss agreed with the tax authorities is expected to differ from the amount previously recognized as deferred tax assets in the accounts.

Change in deferred tax valuation allowances
This item includes revaluations of deferred tax assets previously recognized resulting from reassessments of expected future profits. It also includes changes in temporary differences in the year, for which deferred tax is not recognized. The amount in the year mainly relates to the upward revaluation of deferred tax assets referred to above.

Adjustments to deferred tax balances arising from changes in tax rates
This item relates to remeasurement of deferred tax assets and liabilities recognized due to changes in tax rates. These have the effect of changing the future tax savings that are expected from tax losses or deductible tax differences and therefore the amount of deferred tax assets recognized or, alternatively, changing the tax cost of additional taxable income from taxable temporary differences and therefore the deferred tax liability.

Other items
Other items include other differences between profit or losses at the local tax rate and the actual local tax expense or benefit, including increases in provisions for uncertain positions in relation to the current year, interest accruals for such provisions in relation to prior years and other items.

CHF million	**31.12.13**			31.12.12		
Deferred tax assets	**Gross**	**Valuation allowance**	**Recognized**	Gross	Valuation allowance	Recognized
Compensation and benefits	**1,290**	**(415)**	**875**	1,698	(1,047)	651
Tax loss carry-forwards	**28,801**	**(22,534)**	**6,267**	29,022	(23,276)	5,746
Trading assets	**831**	**(84)**	**747**	1,067	(131)	936
Other	**1,729**	**(773)**	**956**	1,235	(425)	809
Total deferred tax assets	**32,651**	**(23,807)**	**8,845**	33,021	(24,879)	8,143
Deferred tax liabilities						
Goodwill and intangible assets			**37**			17
Financial investments			**0**			2
Investments in associates and other			**21**			33
Total deferred tax liabilities			**59**			52

Note 8 Income taxes (continued)

Certain deferred tax asset and liability movements are recognized directly in equity. In 2013, these include tax benefits of CHF 230 million recognized in *Other comprehensive income* (2012: charges of CHF 581 million), which mainly relate to the reduction in temporary difference deferred tax liabilities. In addition, they include tax benefits of CHF 91 million recognized in *Share premium* (2012: charges of CHF 457 million), which mainly relate to an increase in deferred tax assets for net Swiss tax losses arising in previous periods.

In addition, there were net foreign currency translation losses related to the effects of exchange rate movements on tax assets and liabilities denominated in currencies other than Swiss francs. In the table on the previous page, the valuation allowance represents amounts that are not expected to provide a future tax benefit due to insufficient projected future taxable profits. UBS AG Switzerland and certain overseas branches and subsidiaries of the Group have deferred tax assets related to tax loss carry-forwards and other items as shown in the table on the previous page. For entities that incurred losses in either the current or preceding year, deferred tax assets of CHF 4,484 million were recognized as of 31 December 2013 (CHF 3,487 million as of 31 December 2012).

The deferred tax assets recognized as of 31 December 2013 in respect of tax loss carry-forwards were based on expected profitability using business plan assumptions, as adjusted to take into account the recognition criteria of IAS 12, *Income Taxes.* If the business plan earnings and assumptions in future periods substantially deviate from the current assumptions, the amount of deferred tax assets may need to be adjusted in the future.

As of 31 December 2013, tax loss carry-forwards totaling CHF 69,962 million, which were not recognized as deferred tax assets, were available to be offset against future taxable profits. These tax losses expire as follows:

CHF million	**31.12.13**	31.12.12
Within 1 year	**0**	0
From 2 to 5 years	**10,683**	7,912
From 6 to 10 years	**189**	461
From 11 to 20 years	**40,579**	43,866
No expiry	**18,512**	15,886
Total	**69,962**	68,125

In general, Swiss tax losses can be carried forward for seven years, US federal tax losses for 20 years and UK and Jersey tax losses for an unlimited period. The Group provides for deferred income tax on undistributed earnings of subsidiaries except to the extent that those earnings are indefinitely invested. As of 31 December 2013, no such earnings were considered indefinitely invested.

Note 9 Earnings per share (EPS) and shares outstanding

	As of or for the year ended			% change from
	31.12.13	31.12.12	31.12.11	31.12.12
Basic earnings (CHF million)				
Net profit / (loss) attributable to UBS shareholders	**3,172**	(2,480)	4,138	
Diluted earnings (CHF million)				
Net profit / (loss) attributable to UBS shareholders	**3,172**	(2,480)	4,138	
Less: (profit) / loss on UBS equity derivative contracts	**0**	(1)	(3)	(100)
Net profit / (loss) attributable to UBS shareholders for diluted EPS	**3,172**	(2,481)	4,135	
Weighted average shares outstanding				
Weighted average shares outstanding for basic EPS	**3,763,076,788**	3,754,112,403	3,774,036,437	0
Effect of dilutive potential shares resulting from notional shares, in-the-money options and warrants outstanding	**81,111,217**	126,261	61,259,378	
Weighted average shares outstanding for diluted EPS	**3,844,188,005**	3,754,238,664	3,835,295,815	2
Earnings per share (CHF)				
Basic	**0.84**	(0.66)	1.10	
Diluted	**0.83**	(0.66)	1.08	
Shares outstanding				
Shares issued	**3,842,002,069**	3,835,250,233	3,832,121,899	0
Treasury shares	**73,800,252**	87,879,601	84,955,551	(16)
Shares outstanding	**3,768,201,817**	3,747,370,632	3,747,166,348	1
Exchangeable shares	**246,042**	418,526	509,243	(41)
Shares outstanding for EPS	**3,768,447,859**	3,747,789,158	3,747,675,591	1

The table below outlines the potential shares which could dilute basic earnings per share in the future, but were not dilutive for the periods presented.

				% change from
Number of shares	**31.12.13**	31.12.12	31.12.11	31.12.12
Potentially dilutive instruments				
Employee share-based compensation awards	**117,623,624**	233,256,208	219,744,203	(50)
Other equity derivative contracts	**16,517,384**	15,386,605	24,407,443	7
SNB warrants[1]	**0**	100,000,000	100,000,000	(100)
Total	**134,141,008**	348,642,813	344,151,646	(62)

1 These warrants related to the SNB transaction. The SNB provided a loan to a fund owned and controlled by the SNB (the SNB StabFund), to which UBS transferred certain illiquid securities and other positions in 2008 and 2009. As part of this arrangement, UBS granted warrants on shares to the SNB, which would have been exercisable if the SNB incurred a loss on its loan to the SNB StabFund. In 2013, these warrants were terminated following the full repayment of the loan in the third quarter of 2013.

Balance sheet notes: assets

Note 10 Due from banks and loans (held at amortized cost)

CHF million	31.12.13	31.12.12
By type of exposure		
Due from banks, gross	17,232	21,242
of which: due from central banks	*2,407*	*638*
Allowance for credit losses	(15)	(22)
Other allowances	(47)	0
Due from banks, net	17,170	21,220
Loans, gross		
Residential mortgages	137,370	132,033
Commercial mortgages	22,716	22,421
Lombard loans	86,820	77,579
Other loans[1, 2]	35,945	40,407
Securities[3]	4,813	8,166
Subtotal	287,665	280,606
Allowance for credit losses	(671)	(706)
Other allowances	(35)	0
Loans, net	286,959	279,901
Total due from banks and loans, net[4]	**304,128**	**301,121**

1 Includes corporate loans. 2 Includes leveraged finance loans reclassified from held-for-trading. Refer to Note 1a) 10) and "Note 27c Reclassification of financial assets" for more information. 3 Includes securities reclassified from held-for-trading. Refer to Note 1a) 10) and "Note 27c Reclassification of financial assets" for more information. 4 Refer to "Maximum exposure to credit risk" in the "Risk management and control" section of this report for information on collateral and other credit enhancements.

Note 11 Cash collateral on securities borrowed and lent, reverse repurchase and repurchase agreements, and derivative instruments

The Group enters into collateralized reverse repurchase and repurchase agreements, securities borrowing and securities lending transactions and derivative transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group manages credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

Balance sheet assets

	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivables on derivative instruments	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivables on derivative instruments
CHF million	**31.12.13**	**31.12.13**	**31.12.13**	31.12.12	31.12.12	31.12.12
By counterparty						
Banks	**10,495**	**34,729**	**9,052**	15,977	56,775	12,393
Customers	**17,001**	**56,834**	**18,955**	21,396	74,165	18,021
Total	**27,496**	**91,563**	**28,007**	37,372	130,941	30,413

Balance sheet liabilities

	Cash collateral on securities lent	Repurchase agreements	Cash collateral payables on derivative instruments	Cash collateral on securities lent	Repurchase agreements	Cash collateral payables on derivative instruments
CHF million	**31.12.13**	**31.12.13**	**31.12.13**	31.12.12	31.12.12	31.12.12
By counterparty						
Banks	**8,805**	**3,953**	**27,236**	8,572	13,727	46,101
Customers	**686**	**9,858**	**21,902**	630	24,830	25,047
Total	**9,491**	**13,811**	**49,138**	9,203	38,557	71,148

Note 12 Allowances and provisions for credit losses

CHF million

By movement	Specific allowances	Collective allowances	Total allowances	Provisions[1]	Total 31.12.13	Total 31.12.12
Balance at the beginning of the year	616	114	730	64	794	938
Write-offs / usage of provisions	(127)	(1)	(128)	0	(128)	(313)
Recoveries	45	0	45	0	45	63
Increase / (decrease) recognized in the income statement[2]	145	(93)	52	(2)	50	118
Reclassifications	1	0	1	(1)	0	0
Foreign currency translation	(8)	0	(8)	0	(9)	(8)
Other	(3)	0	(3)	0	(3)	(3)
Balance at the end of the year	669	20	688	61	750	794

1 Represents provisions for loan commitments and guarantees. Refer to "Note 22 Provisions and contingent liabilities" for more information. Refer to "Off-balance sheet" in the "Financial and operating performance" section of this report for the maximum irrevocable amount of loan commitments and guarantees. 2 Does not include an impairment charge of CHF 87 million related to certain disputed receivables. Including this, total impairment charges related to financial instruments were CHF 137 million in 2013.

By balance sheet line	Specific allowances	Collective allowances	Total allowances	Provisions	Total 31.12.13	Total 31.12.12
Due from banks	15	0	15		15	22
Loans	651	20	671		671	706
Cash collateral on securities borrowed	2	0	2		2	2
Provisions[1]				61	61	64
Balance at the end of the year	669	20	688	61	750	794

1 Represents provisions for loan commitments and guarantees.

Note 13 Trading portfolio

CHF million	31.12.13	31.12.12
Trading portfolio assets by issuer type		
Debt instruments		
Government and government agencies	16,073	37,594
of which: Switzerland	*352*	*492*
of which: USA	*3,657*	*16,377*
of which: Singapore	*1,631*	*1,222*
of which: Italy	*1,603*	*1,430*
of which: South Korea	*1,482*	*1,701*
of which: Australia	*1,312*	*2,249*
of which: Germany	*1,192*	*1,930*
Banks	5,039	8,547
Corporates and other	25,407	34,064
Total debt instruments	46,519	80,205
Equity instruments	51,881	48,035
Financial assets for unit-linked investment contracts	15,849	15,230
Financial assets held for trading	114,249	143,471
Precious metals and other physical commodities	8,599	17,093
Total trading portfolio assets	122,848	160,564
Trading portfolio liabilities by issuer type		
Debt instruments		
Government and government agencies	8,222	16,115
of which: Switzerland	*173*	*280*
of which: USA	*2,508*	*7,387*
of which: Singapore	*1*	*1*
of which: Italy	*1,140*	*527*
of which: South Korea	*15*	*8*
of which: Australia	*573*	*568*
of which: Germany	*308*	*1,610*
Banks	823	1,475
Corporates and other	2,453	3,036
Total debt instruments	11,498	20,626
Equity instruments	15,111	13,621
Total trading portfolio liabilities	26,609	34,247

Note 13 Trading portfolio (continued)

CHF million	31.12.13	31.12.12
Trading portfolio assets by product type[1]		
Debt instruments		
Government bills / bonds	13,061	28,737
Corporate bonds and municipal bonds, including bonds issued by financial institutions	16,008	23,887
Loans	3,033	6,129
Investment fund units	11,137	12,895
Asset-backed securities	3,280	8,556
of which: mortgage-backed securities	*1,973*	*6,760*
Total debt instruments	46,519	80,205
Equity instruments	51,881	48,035
Financial assets for unit-linked investment contracts	15,849	15,230
Financial assets held for trading	114,249	143,471
Precious metals and other physical commodities	8,599	17,093
Total trading portfolio assets	122,848	160,564
Trading portfolio liabilities by product type[1]		
Debt instruments		
Government bills / bonds	7,327	14,741
Corporate bonds and municipal bonds, including bonds issued by financial institutions	3,635	5,479
Investment fund units	533	383
Asset-backed securities	3	22
of which: mortgage-backed securities	*3*	*22*
Total debt instruments	11,498	20,626
Equity instruments	15,111	13,621
Total trading portfolio liabilities	26,609	34,247

1 Refer to "Note 24 Fair value measurement" for more information on the fair value hierarchy categorization.

Note 14 Derivative instruments and hedge accounting

Derivatives: overview

A derivative is a financial instrument, the value of which is derived from the value of one or more variables ("underlyings"). Underlyings may be indices, exchanges or interest rates, or the value of shares, commodities, bonds or other financial instruments. A derivative commonly requires little or no initial net investment by either counterparty to the trade.

The majority of derivative contracts are negotiated with respect to notional amounts, tenor, price and settlement mechanisms, as is customary with other financial instruments.

Over-the-counter (OTC) contracts are usually traded under a standardized International Swaps and Derivatives Association (ISDA) master trading agreement (MTA) between UBS and its counterparties. Terms are negotiated directly with counterparties and the contracts will have industry-standard settlement mechanisms prescribed by ISDA. The industry continues to promote the use of central counterparties (CCP) to clear OTC trades. The trend toward CCP clearing and settlement will generally facilitate the reduction of systemic credit exposures. Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on organized exchanges. These are commonly referred to as exchange-traded derivatives (ETD) contracts. Exchanges offer the benefits of pricing transparency, standardized daily settlement of changes in value, and consequently reduced credit risk.

Derivative instruments are measured at fair value and generally classified as *Positive replacement values* and *Negative replacement values* on the face of the balance sheet. However, derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivable or payable on derivative instruments*. For presentation purposes, the Group is subject to the IFRS netting provisions for derivative contracts. Changes in the replacement values of derivatives are recorded in net trading income, unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships. Refer to Note 1a) 15) for more information.

Valuation principles and techniques applied in the measurement of derivative instruments are discussed in "Note 24 Fair value measurement." *Positive replacement values* represent the estimated amount the Group would receive if the derivative contract were sold on the balance sheet date. *Negative replacement values* indicate the value the Group would pay to transfer its obligations in respect of the underlying contract, were it required or entitled to do so on the balance sheet date.

Derivatives embedded in other financial instruments are not included in the table "Derivative instruments" within this Note. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract. In cases where UBS applies the fair value option to hybrid instruments, bifurcation of an embedded derivative component is not required and as such, also not included in the table "Derivative instruments." Refer to "Note 20 Financial liabilities designated at fair value" and "Note 24 Fair value measurement" for more information.

Types of derivative instruments

The Group uses the following derivative financial instruments for both trading and hedging purposes. Through the use of the products listed below, the Group is engaged in extensive high-volume market-making and client facilitation trading referred to as the flow business. Measurement techniques applied to determine the fair value of each product type are described in "Note 24 Fair value measurement."

The main types of derivative instruments used by the Group are:

- Swaps: Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.
- Cross-currency swaps: Cross-currency swaps involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start or end of the contract. Most cross-currency swaps are traded in the OTC market.
- Forwards and futures: Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardized contracts transacted on regulated exchanges.
- Options and warrants: options and warrants are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option), or to sell (put option) at, or before, a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded in the OTC market, or on a regulated exchange, and may be traded in the form of a security (warrant).

The main products and underlyings used by the Group are:

- Interest rate contracts: Interest rate products include interest rate swaps, forward rate agreements, swaptions and caps and floors.
- Credit derivative contracts: credit default swaps (CDS) are the most common form of a credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following the occurrence of a contractually defined credit event with respect to a specified third-party credit entity. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity, and is made regardless of whether the protection buyer has actually

Note 14 Derivative instruments and hedge accounting (continued)

suffered a loss. After a credit event and settlement, the contract is generally terminated. More information on credit derivatives is included in a separate section below. Total return swaps (TRS) are structured with one party making payments based on a set rate, either fixed or variable, plus any negative changes in fair value of an underlying asset, and the other party making payments based on the return of the asset, which includes both income it generates and any positive changes in its fair value.

- Foreign exchange contracts: Foreign exchange contracts include spot, forward and cross-currency swaps and options and warrants. Forward purchase and sale currency contracts are typically executed to meet client needs and for trading and hedging purposes.
- Equity/index contracts: The Group uses equity derivatives linked to single names, indices and baskets of single names and indices. The indices used may be based on a standard market index, or may be defined by UBS. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.
- Commodities contracts: The Group has an established commodity derivatives trading business, which includes the commodity index, the structured business and the flow business. The index and structured business are client facilitation businesses trading exchange-traded funds, OTC swaps and options on commodity indices. The underlying indices cover third-party and UBS defined indices such as the UBS Bloomberg Constant Maturity Commodity Index and the Dow Jones UBS Commodity indices. The flow business is client-centric and incorporates both ETD and vanilla OTC products, for which the underlying covers the agriculture, base metals and energy sectors. All of the flow trading is cash-settled with no physical delivery of the underlying. The Group also has an established precious metals ability in both flow and non-vanilla OTC products incorporating both physical and non-physical trading. The flow business is investor led and products include ETD, vanilla OTC and certain non-vanilla OTC. The vanilla OTC are in forwards, swaps and options.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is predominantly managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in the audited portions of "Market risk" in the "Risk management and control" section of this report.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in the audited portions of "Credit risk" in the "Risk management and control" section of this report. It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Group's credit exposure, the positive replacement values for a counterparty are rarely an adequate reflection of the Group's credit exposure in its derivatives business with that counterparty. This is, for example, because on one hand, replacement values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with other counterparties. Both the exposure measures used internally by the Group to control credit risk and the capital requirements imposed by regulators reflect these additional factors.

The replacement values presented on UBS's balance sheet include netting in accordance with IFRS requirements (refer to Note 1a) 35)), which is generally more restrictive than netting in accordance with Swiss federal banking law. Swiss federal banking law netting is generally based on close-out netting arrangements that are enforceable in case of insolvency. The positive and negative replacement values based on netting in accordance with Swiss federal banking law (factoring in cash collateral) are presented on the bottom of the table on the next pages.

The notional amount of a derivative is generally the quantity of the underlying instrument on which the derivative contract is based and is the reference against which changes in the value of the derivative are measured. Notional values, in themselves, are generally not a direct indication of the values which are exchanged between parties, and are therefore not a direct measure of risk or financial exposure, but are viewed as an indication of the scale of the different types of derivatives entered into by the Group.

Note 14 Derivative instruments and hedge accounting (continued)

Derivative instruments[1]

	31.12.13					31.12.12				
CHF billion	**Total PRV[2]**	**Notional values related to PRVs[3]**	**Total NRV[4]**	**Notional values related to NRVs[3]**	**Other notional values[3, 5]**	Total PRV[2]	Notional values related to PRVs[3]	Total NRV[4]	Notional values related to NRVs[3]	Other notional values[3, 5]
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts[6]	0.2	123.7	0.2	107.1	1,944.2	0.8	481.0	0.8	443.8	1,329.6
Swaps	104.3	2,243.5	91.7	2,098.5	14,162.8	223.3	3,933.5	196.1	3,789.2	14,276.3
Options[7]	25.2	928.8	25.3	900.3	0.0	41.8	1,193.7	42.2	1,181.5	0.0
Exchange-traded contracts										
Futures					492.0					759.0
Options	0.0	0.2	0.1	1.8	287.5	0.0	3.0	0.0	0.0	725.5
Agency transactions[8]	0.1		0.0			0.0		0.0		
Total	129.8	3,296.2	117.2	3,107.7	16,886.5	266.0	5,611.3	239.1	5,414.5	17,090.4
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	18.1	541.7	16.9	527.0	203.3	36.5	1,092.0	34.0	1,043.3	238.9
Total return swaps	0.2	3.1	0.2	3.1	0.0	0.4	2.4	0.4	3.3	0.0
Options and warrants	0.0	3.6	0.0	0.1	0.0	0.0	3.1	0.0	0.5	0.0
Total	18.3	548.4	17.0	530.1	203.3	36.9	1,097.6	34.4	1,047.1	238.9
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	12.4	661.2	13.4	667.9	0.0	12.3	690.8	12.5	689.6	0.0
Interest and currency swaps	54.2	1,924.0	57.4	1,858.1	0.0	76.9	2,382.0	80.9	2,193.2	0.0
Options[7]	9.3	494.0	9.4	455.5	0.0	6.8	411.8	7.6	348.0	0.0
Exchange-traded contracts										
Futures					7.2					13.8
Options	0.0	5.4	0.0	6.1	0.0	0.0	0.6	0.0	0.6	0.0
Agency transactions[8]	0.1		0.1			0.0		0.0		
Total	76.0	3,084.4	80.3	2,987.6	7.2	96.0	3,485.1	101.0	3,231.4	13.8
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forward contracts	3.2	45.9	4.6	59.2	0.0	2.7	41.7	3.3	47.0	0.0
Options	7.7	74.7	9.3	103.1	0.0	8.4	84.8	7.4	98.3	0.0
Exchange-traded contracts										
Futures					25.7					16.6
Options	3.1	110.8	4.0	112.4	7.2	2.4	94.9	3.3	106.8	17.7
Agency transactions[8]	4.0		4.0			2.4		2.4		
Total	18.1	231.4	21.9	274.7	32.9	15.9	221.4	16.4	252.1	34.3

Table continues on the next page.

Note 14 Derivative instruments (continued)

Derivative instruments[1] (continued)

Table continued from previous page.

CHF billion	31.12.13 Total PRV[2]	31.12.13 Notional values related to PRVs[3]	31.12.13 Total NRV[4]	31.12.13 Notional values related to NRVs[3]	31.12.13 Other notional values[3, 5]	31.12.12 Total PRV[2]	31.12.12 Notional values related to PRVs[3]	31.12.12 Total NRV[4]	31.12.12 Notional values related to NRVs[3]	31.12.12 Other notional values[3, 5]
Commodities contracts										
Over-the-counter (OTC) contracts										
Forward contracts	1.5	19.5	1.3	14.7	0.0	1.4	22.9	1.4	21.8	0.0
Options[7]	1.0	12.9	0.9	9.4	0.0	1.0	25.2	1.2	21.7	0.0
Exchange-traded contracts										
Futures					11.1					14.4
Forward contracts	0.0	9.7	0.1	8.2	0.0	0.4	23.3	0.4	21.2	0.0
Options	0.0	0.6	0.1	2.3	0.2	0.1	6.4	0.1	7.0	1.2
Agency transactions[8]	0.9		0.9			0.9		0.9		
Total	3.5	42.7	3.2	34.6	11.3	3.8	77.9	4.0	71.7	15.6
Unsettled purchases of non-derivative financial assets[9]	0.1	19.6	0.1	8.9	0.0	0.2	20.4	0.1	8.7	0.0
Unsettled sales of non-derivative financial assets[9]	0.1	12.7	0.2	15.2	0.0	0.1	8.9	0.2	19.0	0.0
Total derivative instruments, based on IFRS netting	245.8	7,235.5	240.0	6,958.7	17,141.2	419.0	10,522.6	395.3	10,044.4	17,392.9
Replacement value netting, based on capital adequacy rules	(185.0)		(185.0)			(327.3)		(327.3)		
Cash collateral netting, based on capital adequacy rules	(27.9)		(14.2)			(49.4)		(17.4)		
Total derivative instruments, based on capital adequacy netting[10]	32.9		40.7			42.3		50.5		

1 Bifurcated embedded derivatives are presented on the same balance sheet line as their host contracts and are excluded from this table. As of 31 December 2013, these derivatives amounted to a PRV of CHF 0.2 billion (related notional values of CHF 6.7 billion) and an NRV of CHF 0.4 billion (related notional values of CHF 12.8 billion). In 2013, comparative period figures were corrected. On a corrected basis, as of 31 December 2012, these derivatives amounted to a PRV of CHF 0.2 billion (related notional values of CHF 6.5 billion) and an NRV of CHF 0.3 billion (related notional values of CHF 13.2 billion). 2 PRV: Positive replacement value. 3 In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. 4 NRV: Negative replacement value. 5 Other notional values relate to derivatives which are cleared through either a central clearing counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivatives instruments, totaling as of 31 December CHF 0.8 billion (31 December 2012: CHF 0.9 billion) and CHF 0.0 billion (31 December 2012: CHF 0.0 billion), respectively. 6 Negative replacement values as of 31 December 2013 include CHF 0.0 billion related to derivative loan commitments (31 December 2012: CHF 0.1 billion). No notional amounts related to these replacement values are included the table. The maximum irrevocable amount related to these commitments was CHF 7.1 billion as of 31 December 2013 (31 December 2012: CHF 6.3 billion). 7 In 2013, the classification of certain PRV and NRV between OTC interest rate options and OTC foreign exchange options was corrected for 31 December 2012. As a result, for OTC interest rate options, PRV were reduced by CHF 1.8 billion (associated notional values: reduced by CHF 16.7 billion) and NRV were reduced by CHF 2.4 billion (associated notional values: reduced by CHF 18.7 billion) with corresponding increases made to OTC foreign exchange options. In addition, corrections were made to 31 December 2012 notional values for OTC commodities options. Respective notional values related to PRV were reduced by CHF 10.0 billion and notional values related to NRV were reduced by CHF 20.0 billion. 8 Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile. 9 Changes in the fair value of purchased and sold non-derivative financial assets between trade date and settlement date are recognized as replacement values. 10 Includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

The maturity profile of OTC interest rate contracts held as of 31 December 2013, based on notional values, was as follows: approximately 38% (31 December 2012: 37%) mature within one year, 38% (31 December 2012: 38%) within one to five years and 24% (31 December 2012: 25%) after five years. Notional values of interest rate contracts cleared with a clearing house are presented under "other notional values" and are categorized into maturity buckets on the basis of contractual maturities of the cleared underlying derivative contracts.

Derivatives transacted for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify, or reduce, current or expected risks. Trading activities include market making to directly support the facilitation and execution of client activity. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume.

Credit derivatives

UBS is an active dealer in the fixed income market, including CDS and related products, with respect to a large number of issuers' securities. The primary purpose of these activities is for the benefit of UBS's clients through market-making activities and for the ongoing hedging of trading book exposures.

Market-making activity, which is done within the Investment Bank, consists of buying and selling single-name CDS, index CDS, loan CDS and related referenced cash instruments to facilitate client trading activity. UBS also actively utilizes CDS to economically hedge specific counterparty credit risks in its accrual loan portfolio

Note 14 Derivative instruments and hedge accounting (continued)

and off-balance sheet loan portfolio (including loan commitments) with the aim of reducing concentrations in individual names, sectors or specific portfolios.

In addition, UBS actively utilizes CDS to economically hedge specific counterparty credit risks in its OTC derivative portfolios including financial instruments which are designated at fair value through profit or loss.

During 2012, UBS announced an Investment Bank strategy change which resulted in a focus on certain types of client facilitation business and resulted in reduced market-making activity. As a result, CDS were increasingly used for economic hedging purposes. In 2013, large portfolios of credit derivatives including structured credit products were transferred to and are now managed and reported in Corporate Center – Non Core. These positions are being actively unwound and CDS is used to continue to manage the underlying risk exposures.

The tables below provide further details on credit protection bought and sold, including replacement and notional value information by instrument type and counterparty type. The value of protection bought and sold is not, in isolation, a measure of UBS's credit risk. Counterparty relationships are viewed in terms of the total outstanding credit risk, which relates to other instruments in addition to CDS, and in connection with collateral arrangements in place. On a notional value basis, credit protection bought and sold as of 31 December 2013 matures in a range of approximately 22% (2012: 22%) within one year, approximately 72% (2012: 69%) within one to five years and approximately 6% (2012: 8%) after five years.

Credit derivatives – by type of instrument

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Single-name credit default swaps	5.1	9.2	488.2	8.7	4.1	450.3
Multi-name index linked credit default swaps	1.0	1.9	146.8	2.9	1.1	171.9
Multi-name other credit default swaps	0.4	0.4	9.4	0.1	0.2	5.3
Total rate of return swaps	0.2	0.1	5.4	0.0	0.1	0.8
Options and warrants	0.0	0.0	3.6	0.0	0.0	0.1
Total 31 December 2013	**6.6**	**11.6**	**653.4**	**11.7**	**5.5**	**628.4**
of which: credit derivatives related to economic hedges	*6.4*	*11.2*	*639.5*	*11.2*	*5.2*	*613.7*
of which: credit derivatives related to market-making	*0.3*	*0.4*	*13.9*	*0.4*	*0.3*	*14.8*

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Single-name credit default swaps	14.9	11.1	815.0	11.1	13.1	781.7
Multi-name index linked credit default swaps	6.1	1.5	376.7	2.7	6.0	369.4
Multi-name other credit default swaps	0.8	1.2	17.7	1.0	1.2	13.7
Total rate of return swaps	0.4	0.3	4.2	0.0	0.1	1.5
Options and warrants	0.0	0.0	3.1	0.0	0.0	0.5
Total 31 December 2012	22.1	14.0	1,216.8	14.8	20.4	1,166.7
of which: credit derivatives related to economic hedges	*22.0*	*13.5*	*1,167.9*	*14.3*	*20.3*	*1,117.3*
of which: credit derivatives related to market-making	*0.1*	*0.5*	*48.9*	*0.5*	*0.1*	*49.4*

Note 14 Derivative instruments and hedge accounting (continued)

Credit derivatives by counterparty

	Protection bought			Protection sold		
CHF billion	**Fair value: PRV**	**Fair value: NRV**	**Notional values**	**Fair value: PRV**	**Fair value: NRV**	**Notional values**
Broker-dealers	**1.6**	**2.9**	**146.9**	**3.0**	**1.5**	**138.0**
Banks	**3.7**	**8.0**	**377.0**	**8.1**	**3.7**	**370.7**
Central clearing counterparties	**0.0**	**0.0**	**101.5**	**0.0**	**0.0**	**101.8**
Other	**1.4**	**0.7**	**27.9**	**0.6**	**0.3**	**17.8**
Total 31 December 2013	**6.6**	**11.6**	**653.4**	**11.7**	**5.5**	**628.4**

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Broker-dealers	5.1	3.0	255.4	3.1	5.5	254.7
Banks	12.8	10.1	752.3	10.8	13.8	741.3
Central clearing counterparties	0.0	0.0	132.6	0.0	0.0	106.3
Other	4.2	1.0	76.4	0.8	1.1	64.5
Total 31 December 2012	22.1	14.0	1,216.8	14.8	20.4	1,166.7

UBS's credit derivatives are usually traded as OTC contracts. Since 2009, in line with the broader derivatives industry, a number of initiatives have been launched in both the US and Europe to establish CCP solutions for OTC CDS contracts with the aim of reducing counterparty risk. UBS, along with other dealer members, has continued to participate in these initiatives during 2013.

UBS's CDS trades are documented using industry standard forms of documentation published by ISDA or equivalent terms documented in a bespoke (i.e., tailored) agreement. Those forms and agreements use standardized terms that form the basis for market conventions related to the types of credit events that would trigger performance (i.e., payment default, bankruptcy, etc. – see below) under a CDS. Those agreements and forms do not contain recourse provisions that would enable UBS to recover from third parties any amounts paid out by UBS (i.e., this is the case where a credit event occurs and UBS is required to make payment under a CDS).

The types of credit events that would require UBS to perform under a CDS contract are subject to agreement between the parties at the time of the transaction. However, nearly all transactions are traded using credit events that are applicable under certain market conventions based on the type of reference entity to which the transaction relates. Applicable credit events by market conventions include bankruptcy, failure to pay, restructuring, obligation acceleration and repudiation/moratorium.

Contingent collateral features of derivative liabilities

Certain derivative payables contain contingent collateral or termination features triggered upon a downgrade of the published credit rating of the Group in the normal course of business. Based on UBS's credit ratings as of 31 December 2013, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately CHF 3.3 billion, CHF 5.0 billion and CHF 5.1 billion would have been required in the event of a one-notch, two-notch and three-notch reduction, respectively, in UBS's long-term credit ratings, and a corresponding reduction in short-term ratings. In evaluating UBS's liquidity requirements, UBS considers additional collateral or termination payments that would be required in the event of a reduction in UBS's long-term credit ratings, and a corresponding reduction in short-term ratings.

Derivatives transacted for hedging purposes

Derivatives used for structural hedging

The Group enters into derivative transactions for the purposes of hedging risks inherent in assets, liabilities and forecast transactions. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies as such for accounting purposes.

Derivative transactions that qualify and are designated as hedges for accounting purposes are described under the corresponding headings in this note (fair value hedges, cash flow hedges and hedges of net investments in foreign operations). The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1a) 15), under which terms used in the following sections are explained.

The Group has also entered into various hedging strategies utilizing derivatives for which hedge accounting has not been applied. These include interest rate swaps and other interest rate derivatives (e.g., futures) for day-to-day economic interest rate risk management purposes. In addition, the Group has used equity futures, options and, to a lesser extent, swaps for economic hedging in a variety of equity trading strategies to offset underly-

Note 14 Derivative instruments and hedge accounting (continued)

ing equity and equity volatility exposure. The Group has also entered into CDS that provide economic hedges for credit risk exposures (refer to the credit derivatives section). Fair value changes of derivatives that are part of economic relationships, but do not qualify for hedge accounting treatment, are reported in *Net trading income,* except for the forward points on certain short duration foreign exchange contracts which are reported in *Net interest income*.

Fair value hedges: interest rate risk related to debt issued

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments (e.g., non-structured fixed-rate bonds, covered bonds and subordinated debt) due to movements in market interest rates. The fair values of outstanding interest rate derivatives designated as fair value hedges were assets of CHF 1,588 million and liabilities of CHF 140 million as of 31 December 2013 and assets of CHF 3,028 million as of 31 December 2012.

Fair value hedges of interest rate risk

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Gains / (losses) on hedging instruments	**(1,123)**	537	1,203
Gains / (losses) on hedged items attributable to the hedged risk	**1,116**	(581)	(1,172)
Net gains / (losses) representing ineffective portions of fair value hedges	**(7)**	(44)	31

Fair value hedges: portfolio interest rate risk related to loans

The Group also applies fair value hedge accounting to mortgage loan portfolio interest rate risk. The change in fair value of the hedged items is recorded separately from the hedged item and is included within *Other assets* on the balance sheet. The fair values of outstanding interest rate derivatives designated for these hedges as of 31 December 2013 were assets of CHF 176 million and liabilities of CHF 716 million (31 December 2012: assets of CHF 1 million and liabilities of CHF 1,208 million).

Fair value hedge of portfolio of interest rate risk

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Gains / (losses) on hedging instruments	**636**	139	(461)
Gains / (losses) on hedged items attributable to the hedged risk	**(625)**	(159)	452
Net gains / (losses) representing ineffective portions of fair value hedges	**11**	(20)	(9)

Cash flow hedges of forecasted transactions

The Group is exposed to variability in future interest cash flows on non-trading financial assets, and liabilities that bear interest at variable rates or are expected to be refinanced or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, the maximum maturity of which is 14 years. The table below shows forecasted principal balances on which expected interest cash flows arise as of 31 December 2013. Amounts shown in the table below represent, by time bucket, average assets and liabilities subject to forecasted cash flows designated as hedged items in cash flow hedge accounting relationships.

As of 31 December 2013, the fair values of outstanding derivatives designated as cash flow hedges of forecasted transactions were CHF 4,770 million assets and CHF 2,275 million liabilities and as of 31 December 2012 the amounts were CHF 7,764 million assets and CHF 3,046 million liabilities. In 2013, a loss of CHF 80 million was recognized in *Net trading income* due to hedge ineffectiveness, compared with a gain of CHF 158 million in 2012 and a loss of CHF 38 million in 2011.

At the end of 2013 and 2012, losses of CHF 18 million and gains of CHF 3 million associated with terminated interest rate swaps were deferred in OCI, respectively. They will be removed from OCI when the previously hedged forecasted cash flows affect net profit or loss, or when the forecasted cash flows are no longer expected to occur. Amounts reclassified from OCI to *Net interest income* relating to de-designated swaps were a CHF 1 million net gain in 2013, a CHF 4 million net gain in 2012 and a net gain of CHF 11 million in 2011.

Note 14 Derivative instruments and hedge accounting (continued)

Principal balances subject to cash flow forecasts

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Assets	66	129	37	27	1
Liabilities	7	21	3	2	0
Net balance	**59**	**108**	**34**	**26**	**1**

Hedges of net investments in foreign operations

The Group applies hedge accounting for certain net investments in foreign operations. As of 31 December 2013, the positive replacement values and negative replacement values of FX derivatives (mainly FX swaps) designated as hedging instruments in net investment hedge accounting relationships were CHF 104 million and CHF 102 million, respectively (31 December 2012: positive replacement values of CHF 103 million and negative replacement values of CHF 45 million). As of 31 December 2013, the underlying hedged structural exposures in several currencies amounted to CHF 7.2 billion (31 December 2012: CHF 4.8 billion). Hedges of structural FX exposures in currencies other than the US dollar may be comprised of two jointly designated derivatives as the foreign currency risk may be hedged against the US dollar first and then converted into Swiss francs, the presentation currency of the Group, as part of a separate FX derivative transaction. The aggregated notional amount of designated hedging derivatives as of 31 December 2013 was CHF 13.8 billion in total (31 December 2012: CHF 9.2 billion) including CHF 7.2 billion notional values related to USD versus CHF swaps and CHF 6.7 billion notional values related to derivatives hedging foreign currencies (other than the US dollar) versus the US dollar. The effective portion of gains and losses of these FX swaps is transferred directly to OCI to offset foreign currency translation (FCT) gains and losses on the net investments in foreign branches and subsidiaries. As such, these FX swaps hedge the structural FX exposure resulting in the accumulation of FCT on the level of individual foreign branches and subsidiaries and hence on the total FCT OCI of the Group.

UBS designates certain non-derivative foreign currency financial assets and liabilities of foreign branches or subsidiaries as hedging instruments in net investment hedge accounting arrangements. The FX translation difference recorded in FCT OCI of the non-derivative hedging instrument of one foreign entity offsets the structural FX exposure of another foreign entity. Therefore, the aggregated FCT OCI of the Group is unchanged from this hedge designation. As of 31 December 2013, the nominal amount of non-derivative financial assets and liabilities designated as hedging instruments in such net investment hedges was CHF 15.5 billion and CHF 15.5 billion, respectively (31 December 2012: CHF 16.1 billion non-derivative financial assets and CHF 16.1 billion non-derivative financial liabilities). No material ineffectiveness of hedges of net investments in foreign operations was recognized in the income statement in 2013, 2012 and 2011.

Undiscounted cash flows

The table below provides undiscounted cash flows of all derivative instruments designated in hedge accounting relationships. Interest rate swap cash flows include cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS as of 31 December 2013. The table includes derivatives traded on an exchange or through a clearing house where the change in fair value is settled each day, either in fact or in substance, through cash payment of variation margin.

Derivatives designated in hedge accounting relationships (undiscounted cash flows)

CHF billion	On demand	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Interest rate swaps[1]							
Cash inflows		0	0	3	10	3	16
Cash outflows		0	0	1	7	3	13
FX swaps / forwards							
Cash inflows		14					14
Cash outflows		14					14
Net cash flows	**0**	**0**	**0**	**1**	**2**	**0**	**3**

1 The table includes gross cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS as of 31 December 2013.

Note 15 Financial investments available-for-sale

CHF million	31.12.13	31.12.12
Financial investments available-for-sale by issuer type		
Debt instruments		
Government and government agencies	50,761	58,973
of which: Switzerland	*44*	*156*
of which: USA	*17,876*	*31,740*
of which: United Kingdom	*8,089*	*5,042*
of which: Germany	*6,733*	*6,669*
of which: France	*5,601*	*3,593*
of which: Japan	*4,865*	*4,221*
Banks	4,983	4,200
Corporates and other	3,132	2,486
Total debt instruments	58,876	65,659
Equity instruments	649	572
Total financial investments available-for-sale	59,525	66,230
Unrealized gains – before tax	372	421
Unrealized (losses) – before tax	(196)	(17)
Net unrealized gains / (losses) – before tax	175	404
Net unrealized gains / (losses) – after tax	95	252

CHF million	31.12.13	31.12.12
Financial investments available-for-sale by product type[1]		
Debt instruments		
Government bills / bonds	39,233	47,031
Corporate bonds and municipal bonds, including bonds issued by financial institutions	15,324	10,940
Investment fund units	301	375
Asset-backed securities	4,017	7,313
of which: mortgage-backed securities	*4,017*	*7,313*
Total debt instruments	58,876	65,659
Equity instruments		
Shares	637	547
Private equity investments	12	24
Total equity instruments	649	572
Total financial investments available-for-sale	59,525	66,230

1 Refer to "Note 24 Fair value measurement" for more information on the fair value hierarchy categorization.

Note 16 Property and equipment

At historical cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improvements	IT hardware and communication	Software	Other machines and equipment	Projects in progress	31.12.13	31.12.12
Historical cost								
Balance at the beginning of the year	8,307	2,677	2,422	1,411	792	819	16,428	16,683
Additions	51	69	208	53	41	821	1,244	1,111
Disposals / write-offs[1]	(154)	(209)	(382)	(47)	(77)	(1)	(871)	(859)
Reclassifications	(225)	215	4	310	27	(818)	(488)[5]	(420)
Foreign currency translation	(10)	(76)	(46)	(8)	(15)	(23)	(178)	(88)
Balance at the end of the year	7,970	2,677	2,205	1,718	769	799	16,136	16,428
Accumulated depreciation								
Balance at the beginning of the year	4,660	1,912	2,071	1,306	574	0	10,524	11,005
Depreciation	202	178	191	108	55	0	734	653
Impairment[2]	0	59	0	15	7	0	81	36
Disposals / write-offs[1]	(51)	(201)	(381)	(47)	(77)	0	(756)	(850)
Reclassifications	(323)	4	0	0	0	0	(319)[5]	(255)
Foreign currency translation	(4)	(59)	(40)	(9)	(12)	0	(124)	(65)
Balance at the end of the year	4,485	1,894	1,841	1,374	547	0	10,140	10,524
Net book value at the end of the year[3, 4]	**3,485**	**783**	**364**	**344**	**222**	**799**	**5,996**	**5,905**

1 Includes write-offs of fully depreciated assets. 2 Impairment charges recorded in 2013 relate to assets for which the recoverable amount was determined based on value-in-use (recoverable amount of the impaired assets: CHF 36 million Leasehold improvements, CHF 0 million Software, CHF 1 million Other machines and equipment). 3 The fire insurance value of property and equipment was CHF 12,331 million as of 31 December 2013 (as of 31 December 2012: CHF 12,865 million), predominantly related to real estate. 4 As of 31 December 2013, contractual commitments to purchase property in the future amounted to approximately CHF 0.4 billion. 5 Reflects reclassifications to Properties held for sale (CHF 169 million on a net basis) reported within Other assets.

Investment properties at fair value

CHF million	31.12.13	31.12.12
Balance at the beginning of the year	99	10
Additions	7	6
Sales	0	0
Revaluations	(16)	9
Reclassifications	(81)	75
Foreign currency translation	0	0
Balance at the end of the year	10	99

Note 17 Goodwill and intangible assets

Introduction

UBS performs an impairment test on its goodwill assets on an annual basis, or when indicators of impairment exist. UBS considers the segments, as reported in "Note 2 Segment reporting," as separate cash-generating units (CGU). The impairment test is performed for each segment to which goodwill is allocated by comparing the recoverable amount, based on its value-in-use, to the carrying amount of the respective segment. An impairment charge is recognized if the carrying amount exceeds the recoverable amount. As of 31 December 2013, total goodwill recognized on the balance sheet was CHF 5.8 billion, of which CHF 1.3 billion, CHF 3.1 billion and CHF 1.4 billion was carried by Wealth Management, Wealth Management Americas and Global Asset Management, respectively. Based on the impairment testing methodology described below, UBS concluded that the goodwill balances as of 31 December 2013 allocated to these segments remain recoverable.

Methodology for goodwill impairment testing

The recoverable amounts are determined using a discounted cash flow model, which has been adapted to use inputs that consider features of the banking business and its regulatory environment. The recoverable amount of a segment is the sum of the discounted earnings attributable to shareholders from the first five forecasted years and the terminal value. The terminal value, which covers all periods beyond the fifth year, is calculated on the basis of the forecast of fifth-year profit, the discount rate and the long-term growth rate and is adjusted for the effect of the capital assumed to be needed to support the perpetual growth implied by the long-term growth rate. The carrying amount for each segment is determined by reference to the Group's equity attribution framework. Within this framework, which is described in the "Capital management" section of this report, the Board of Directors (BoD) attributes equity to the businesses after considering their risk exposure, risk-weighted assets and leverage ratio denominator usage, goodwill and intangible assets. The total amount of equity attributed to the business divisions can differ from the Group's actual equity during a given period. The framework is primarily used for purposes of measuring the performance of the businesses and includes certain management assumptions. Attributed equity equals the capital that a segment requires to conduct its business and is considered an appropriate starting point from which to determine the carrying value of the segments. From 1 January 2013, attributed equity underpinning goodwill and intangible assets that arose from the PaineWebber acquisition is reported in Corporate Center – Core Functions. For the purpose of the impairment test, the amount of goodwill and intangible assets related to this acquisition is allocated back to the respective business divisions when calculating the carrying amounts, such that the treatment is consistent with previous years. The attributed equity methodology is aligned with the business planning process, the inputs from which are used in calculating the recoverable amounts of the respective CGU.

➔ **Refer to the "Capital management" section of this report for more information on the equity attribution framework**

Assumptions

Valuation parameters used within the Group's impairment test model are linked to external market information, where applicable. The model used to determine the recoverable amount is most sensitive to changes in the forecast earnings available to shareholders in years one to five, to changes in the discount rates, and to changes in the long-term growth rate. The applied long-term growth rate is based on long-term economic growth rates for different regions worldwide. Earnings available to shareholders are estimated based on forecast results, which are part of the business plan approved by the BoD.

The discount rates are determined by applying a capital-asset-pricing-model-based approach, as well as considering quantitative and qualitative inputs from both internal and external analysts and the view of management. Based on this approach, discount rates for all CGU have decreased by 1% compared with last year.

Note 17 Goodwill and intangible assets (continued)

Key assumptions used to determine the recoverable amounts of each segment are tested for sensitivity by applying a reasonably possible change to those assumptions. Forecast earnings available to shareholders were changed by 10%, the discount rates were changed by 1% and the long-term growth rates were changed by 0.5%. Under all scenarios, the recoverable amounts for each segment exceeded the respective carrying amount, such that the reasonably possible changes in key assumptions would not result in impairment.

If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of our goodwill may become impaired in the future, giving rise to losses in the income statement. Recognition of any impairment of goodwill would reduce IFRS equity attributable to UBS shareholders and net profit. It would not impact cash flows and, as goodwill is required to be deducted from capital under the Basel capital framework, no impact would be expected on the Group total capital ratios.

In 2012, an impairment test was performed as of 30 September 2012 with respect to the Investment Bank because indicators of impairment were present for that cash-generating unit. These indicators included negative variances from planned performance, preliminary discussions regarding changes in strategy for the Investment Bank and revised business plan information taking into account changes in market conditions and the global economic outlook. The impairment test was based on the business plan approved by the Board of Directors on 29 October 2012. As a result of this impairment test, losses were recognized in the income statement relating to a full impairment of CHF 3,030 million for goodwill in 2012. Additional assets were examined to determine whether their carrying values exceeded their recoverable amounts. Impairment losses of CHF 15 million were recognized in the income statement for other intangible assets and CHF 19 million for property and equipment, both in 2012. These impairment losses were recognized in the Investment Bank's 2012 operating results as Impairment of goodwill, Amortization and impairment of intangible assets, and Depreciation and impairment of property and equipment. In 2013, these impairment losses were retrospectively allocated to Corporate Center – Non-core and Legacy Portfolio.

➔ Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information on the creation of Corporate Center – Non-core and Legacy Portfolio

Discount and growth rates

	Discount rates		Growth rates	
In %	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Wealth Management	**9.0**	10.0	**1.7**	1.7
Wealth Management Americas	**9.0**	10.0	**2.4**	2.4
Global Asset Management	**9.0**	10.0	**2.4**	2.4
Investment Bank	**12.0**	13.0	**2.4**	2.4

	Goodwill	Intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.13**	31.12.12
Historical cost						
Balance at the beginning of the year	5,949	696	773	1,469	**7,417**	10,641
Additions / adjustments[1]	41		38	38	**79**	11
Disposals	(6)		(28)	(28)	**(35)**	(1)
Write-offs					**0**	(3,110)
Foreign currency translation	(141)	(18)	(20)	(38)	**(179)**	(124)
Balance at the end of the year	5,842	678	763	1,441	**7,283**	7,417
Accumulated amortization and impairment						
Balance at the beginning of the year		424	532	956	**956**	946
Amortization		35	44	79	**79**	89
Impairment[2]			3	3	**3**	3,047
Disposals			(28)	(28)	**(28)**	0
Write-offs					**0**	(3,110)
Foreign currency translation		(12)	(9)	(21)	**(21)**	(17)
Balance at the end of the year	0	447	543	990	**990**	956
Net book value at the end of the year	5,842	231	220	451	**6,293**	6,461

1 Mainly related to the acquisition of Link Investimentos, which was completed in 2013. Refer to "Note 31 Business combinations" for more information. 2 Impairment charges recorded in 2013 relate to assets for which the recoverable amount was determined based on value-in-use (recoverable amount of the impaired assets: CHF 5 million).

Note 17 Goodwill and intangible assets (continued)

The following table presents the disclosure of goodwill and intangible assets by segment for the year ended 31 December 2013.

	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Corporate Center		UBS
CHF million					Core Functions	Non-core and Legacy Portfolio	
Goodwill							
Balance at the beginning of the year	1,304	3,213		1,432			5,949
Additions / adjustments	(11)[1]		52[2]				41
Disposals				(6)			(6)
Impairment							0
Foreign currency translation	(12)	(82)	(8)	(39)			(141)
Balance at the end of the year	**1,281**	**3,131**	**44**	**1,386**			**5,842**
Intangible assets							
Balance at the beginning of the year	55	323	90	34	6	4	513
Additions	2		23		13		38
Disposals			(1)				(1)
Amortization	(4)	(49)	(13)	(8)	(4)	(2)	(79)
Impairment	(3)						(3)
Foreign currency translation	1	(6)	(9)	(1)		0	(16)
Balance at the end of the year	**50**	**267**	**90**	**25**	**15**	**3**	**451**

1 Goodwill for an acquisition made prior to the adoption of IFRS 3 (revised 2009) was subsequently adjusted due to a change in the amount of contingent consideration. 2 Related to the acquisition of Link Investimentos, which was completed in 2013. Refer to "Note 31 Business combinations" for more information.

The estimated, aggregated amortization expenses for intangible assets are as follows.

CHF million	Intangible assets
Estimated, aggregated amortization expenses for:	
2014	79
2015	78
2016	68
2017	57
2018	50
2019 and thereafter	101
Not amortized due to indefinite useful life	19
Total	**451**

Note 18 Other assets[1]

CHF million	**31.12.13**	31.12.12
Prime brokerage receivables[2]	**11,175**	8,072
Recruitment loans to financial advisors	**2,733**	2,967
Other loans to financial advisors	**358**	487
Accrued interest income	**433**	753
Accrued income – other	**931**	761
Prepaid expenses	**985**	1,170
Net defined benefit pension and post-employment assets[3]	**952**	0
Settlement and clearing accounts	**466**	589
VAT and other tax receivables	**410**	214
Properties and other non-current assets held for sale	**119**	137
Other	**1,665**	2,094
Total other assets	**20,228**	17,244

1 In 2013, changes in the presentation of this Note were made. Accrued income and prepaid expenses are no longer presented as a separate line item on the balance sheet but under Other assets. Recruitment loans to financial advisors, Other loans to financial advisors, Accrued interest income, Accrued income – other and Prepaid expenses which were previously disclosed under Accrued income and prepaid expenses, are now presented separately in this Note in order to enhance transparency. Prior periods have been restated. As a result, Other assets as of 31 December 2012 increased by CHF 6,138 million. Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information. 2 Prime brokerage services include clearance, settlement, custody, financing and portfolio reporting services for corporate clients trading across multiple asset classes. The balance is mainly comprised of margin lending receivables. 3 Refer to "Note 28 Pension and other post-employment benefit plans" for more information.

Balance sheet notes: liabilities

Note 19 Due to banks and customers

CHF million	31.12.13	31.12.12
Due to banks	12,862	23,024
Due to customers: demand deposits	178,972	162,954
Due to customers: time deposits	47,326	51,266
Due to customers: fiduciary deposits	21,459	24,984
Due to customers: retail savings / deposits	143,068	134,255
Total due to customers	390,825	373,459
Total due to banks and customers	**403,686**	396,483

Note 20 Financial liabilities designated at fair value

CHF million	31.12.13	31.12.12
Non-structured fixed-rate bonds	3,664	4,845
Structured debt instruments issued:		
Equity-linked	32,835	35,259
Credit-linked	6,279	9,382
Rates-linked[1]	14,488	18,599
Other	2,698	4,241
Structured over-the-counter debt instruments:		
Equity-linked	3,478	7,959
Other	4,839	9,784
Repurchase agreements	1,572	1,672
Loan commitments[2]	49	161
Total	**69,901**	91,901
of which: own credit on financial liabilities designated at fair value	*577*	*292*

1 Also includes non-structured rates-linked debt instruments issued. 2 Loan commitments recognized as "Financial liabilities designated at fair value" until drawn and recognized as loans. See Note 1a) 8) for additional information.

As of 31 December 2013, the contractual redemption amount at maturity of *Financial liabilities designated at fair value* through profit or loss was CHF 0.3 billion higher than the carrying value. As of 31 December 2012, the contractual redemption amount at maturity of such liabilities was CHF 0.2 billion higher than the carrying value.

As of 31 December 2013 and 31 December 2012, the Group had CHF 69,901 million and CHF 91,901 million, respectively, of financial liabilities designated at fair value, comprised of both Swiss franc and non-Swiss franc-denominated fixed-rate and floating-rate debt.

The table on the following page shows the contractual maturity of the carrying value of financial liabilities designated at fair value, split between fixed-rate and floating-rate based on the contractual terms and ignoring any early redemption features. Interest rate ranges for future interest payments related to these financial liabilities designated at fair value have not been included in the table below as a majority of these liabilities are structured products, and therefore the future interest payments are highly dependent upon the embedded derivative and prevailing market conditions at the time each interest payment is made.

➔ **Refer to "Note 27b Maturity analysis of financial liabilities" for maturity information on an undiscounted cash flow basis**

Note 20 Financial liabilities designated at fair value (continued)

Contractual maturity of carrying value

CHF million, except where indicated	2014	2015	2016	2017	2018	2019–2023	Thereafter	**Total 31.12.13**	Total 31.12.12
UBS AG (Parent Bank)									
Non-subordinated debt									
Fixed-rate	3,556	1,881	1,361	2,637	933	2,275	2,788	**15,431**	22,344
Floating-rate	14,057	9,244	6,522	3,412	3,293	5,105	8,126	**49,760**	62,551
Subtotal	17,612	11,126	7,882	6,049	4,227	7,380	10,915	**65,191**	84,894
Subsidiaries									
Non-subordinated debt									
Fixed-rate	4	125	55	79	242	175	788	**1,468**	1,733
Floating-rate	779	511	211	656	264	557	264	**3,242**	5,273
Subtotal	783	636	267	735	506	732	1,052	**4,710**	7,006
Total	18,395	11,762	8,149	6,784	4,733	8,112	11,966	**69,901**	91,901

Note 21 Debt issued held at amortized cost

CHF million	**31.12.13**	31.12.12
Certificates of deposit	**15,811**	11,153
Commercial paper	**2,961**	7,792
Other short-term debt	**8,862**	13,548
Short-term debt	**27,633**	32,493
Non-structured fixed-rate bonds	**17,417**	31,341
Covered bonds	**14,341**	15,116
Subordinated debt	**11,040**	11,848
of which: Swiss SRB Basel III low-trigger loss absorbing capital	***4,710***	*3,656*
Debt issued through the central bond institutions of the Swiss regional or cantonal banks	**8,293**	7,585
Medium-term notes	**779**	1,341
Other long-term debt	**2,083**	5,113
Long-term debt	**53,953**	72,344
Total debt issued held at amortized cost[1]	**81,586**	104,837

1 Net of bifurcated embedded derivatives with a net negative fair value of CHF 160 million as of 31 December 2013. In 2013, the comparative period figure was corrected. On a corrected basis, as of 31 December 2012, these derivatives had a net negative fair value of CHF 118 million.

The Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt instruments held at amortized cost. In certain cases, the Group applies hedge accounting for interest rate risk as discussed in Note 1a) 15) and "Note 14 Derivative instruments and hedge accounting." As a result of applying hedge accounting, the carrying value of debt issued increased by CHF 1,119 million and by CHF 2,608 million as of 31 December 2013 and 31 December 2012, respectively, reflecting changes in fair value due to interest rate movements.

Subordinated debt are unsecured obligations of the Group that are subordinated in right of payment to all other present and future indebtedness and also to certain other obligations of the Group. As of 31 December 2013 and 31 December 2012, the Group had CHF 11,040 million and CHF 11,848 million, respectively, of subordinated debt, which included CHF 4,710 million and CHF 3,656 million of Swiss SRB Basel III low-trigger loss absorbing capital as of 31 December 2013 and 31 December 2012, respectively. The majority of the subordinated debt outstanding as of 31 December 2013 were fixed-rate issuances, with the remainder paying floating-rate interest based on three-month or six-month London Interbank Offered Rate (LIBOR). Both the fixed- and floating-rate instruments provide for a single principal payment upon maturity.

As of 31 December 2013 and 31 December 2012, the Group had CHF 70,546 million and CHF 92,989 million, respectively, of non-subordinated debt issued held at amortized cost, comprised of both Swiss franc- and non-Swiss franc-denominated fixed-rate and floating-rate debt.

Note 21 Debt issued held at amortized cost (continued)

The following table shows the contractual maturity of the carrying value of debt issued, split between fixed-rate and floating-rate based on the contractual terms and ignoring any early redemption features. The Group uses interest rate swaps to hedge the majority of fixed-rate debt issued, which changes their repricing characteristics into those similar to floating-rate debt.

➔ **Refer to "Note 27b Maturity analysis of financial liabilities" for maturity information on an undiscounted cash flow basis**

Contractual maturity dates of carrying value

CHF million, except where indicated	2014	2015	2016	2017	2018	2019–2023	Thereafter	**Total 31.12.13**	Total 31.12.12
UBS AG (Parent Bank)									
Non-subordinated debt									
Fixed-rate	25,023	6,154	5,332	7,484	5,753	8,250	1,384	**59,381**	77,511
Interest rates (range in %)	0–6.6	0.3–3.9	0–6.4	0–5.9	0.4–6.6	0–4.9	0–2.8		
Floating-rate	5,661	6	131				2,190	**7,988**	9,198
Subordinated debt									
Fixed-rate	383	889	1,305	653	0	5,207	2,368	**10,805**	11,157
Interest rates (range in %)	3.1	2.4–7.4	3.1–5.9	4.1–7.4	0	4.5–7.6	4.3–8.8		
Floating-rate						235		**235**	692
Subtotal	31,067	7,049	6,769	8,137	5,753	13,693	5,943	**78,409**	98,557
Subsidiaries									
Non-subordinated debt									
Fixed-rate	2,469	2	540	141	3	20	1	**3,175**	6,150
Interest rates (range in %)	0–8.0	0	0–8.3	0–8.0	0	0	0		
Floating-rate					1			**1**	129
Subtotal	2,469	2	540	141	4	20	1	**3,177**	6,280
Total	33,536	7,050	7,309	8,277	5,757	13,713	5,944	**81,586**	104,837

Note 22 Provisions and contingent liabilities

a) Provisions

CHF million	Operational risks[1]	Litigation, regulatory and similar matters[2]	Restructuring	Loan commitments and guarantees	Real estate	Employee benefits	Other	**Total 31.12.13**	Total 31.12.12
Balance at the beginning of the year	53	1,432	511	64	178	244	53	**2,536**	1,626
Additions from acquired companies	0	8[3]	0	0	0	0	0	**8**	0
Increase in provisions recognized in the income statement	34	1,788	601	4	9	29	134[4]	**2,599**	3,350
Release of provisions recognized in the income statement	(10)	(93)	(95)	(6)	(2)	(27)	(6)	**(238)**	(273)
Provisions used in conformity with designated purpose	(31)	(1,417)	(349)	0	(32)	(22)	(4)	**(1,855)**	(2,102)
Capitalized reinstatement costs	0	0	0	0	5	0	0	**5**	(4)
Reclassifications	0	(6)	0	(1)	0	0	28	**21**	(47)
Foreign currency translation / unwind of discount	(1)	(89)	(9)	0	(2)	(2)	(1)	**(104)**	(14)
Balance at the end of the year	45	1,622	658[5]	61	157[6]	222[7]	205	**2,971**	2,536

1 Comprises provisions for losses resulting from security risks and transaction processing risks. 2 Comprises provisions for losses resulting from legal, liability and compliance risks. 3 Related to the acquisition of Link Investimentos. Refer to "Note 31 Business combinations" for more information. 4 Included a charge of CHF 110 million related to the Swiss-UK tax agreement. 5 Includes personnel-related restructuring provisions of CHF 104 million as of 31 December 2013 (31 December 2012: CHF 243 million) and provisions for onerous lease contracts of CHF 554 million as of 31 December 2013 (31 December 2012: CHF 267 million). 6 Includes reinstatement costs for leasehold improvements of CHF 95 million as of 31 December 2013 (31 December 2012: CHF 97 million) and provisions for onerous lease contracts of CHF 62 million as of 31 December 2013 (31 December 2012: CHF 81 million). 7 Includes provisions for sabbatical and anniversary awards as well as provisions for severance which are not part of restructuring provisions.

Restructuring provisions primarily relate to onerous lease contracts and severance amounts. The utilization of onerous lease provisions is driven by the maturities of the underlying lease contracts, which cover a period of up to 11 years. Severance related provisions are utilized within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces the number of people affected by a restructuring and therefore the estimated costs.

Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in Note 22b. Further information on the nominal principal amount of Loan commitments and guarantees, representing our maximum exposure to credit risk, is disclosed in the "Credit risk" section of this report. There are no material contingent liabilities associated with the other classes of provisions.

b) Litigation, regulatory and similar matters

The Group operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this note may refer to UBS AG and/or one or more of its subsidiaries, as applicable) is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. If any of those conditions is not met, such matters result in contingent liabilities.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

In the case of certain matters below, we state that we have established a provision, and for the other matters we make no such statement. When we make this statement and we expect disclosure of the amount of a provision to prejudice seriously our position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, we do not disclose that amount. In some cases we are subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which we do not state whether we have established a provision, either (a) we have not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard or (b) we have established a provision but expect disclosure of that fact to prejudice seriously our position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

With respect to certain litigation, regulatory and similar matters as to which we have established provisions, we are able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which we are able to estimate expected timing is immaterial relative to our current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 22a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, we can confirm that we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining our capital requirements. Information concerning our capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" and "Risk management and control" sections of this report.

Note 22 Provisions and contingent liabilities (continued)

Provisions for litigation, regulatory and similar matters by segment[1]

CHF million	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	Corporate Center – Core Functions	Corporate Center – Non-core and Legacy Portfolio	**Total 31.12.2013**	Total 31.12.2012
Balance at the beginning of the year	130	170	29	7	28	338	732	**1,432**	482
Additions from acquired companies					8[2]			**8**	
Increase in provisions recognized in the income statement	114	65	55	1	16	203	1,334	**1,788**	2,686
Release of provisions recognized in the income statement	(18)	(25)	(2)		(7)	(34)	(7)	**(93)**	(81)
Provisions used in conformity with designated purpose	(53)	(149)	(7)	(5)	(16)	(4)	(1,184)	**(1,417)**	(1,685)
Reclassifications	(7)		7		(6)	0		**(6)**	43
Foreign currency translation / unwind of discount	(1)	(5)			(2)	(14)	(67)	**(89)**	(13)
Balance at the end of the year	165	56	82	3	22	488	808	**1,622**	1,432

1 Provisions, if any, for the matters described in (a) item 5 of this Note 22b are recorded in Wealth Management, (b) items 2 and 8 of this Note 22b are recorded in Wealth Management Americas, (c) item 12 of this Note 22b are recorded in the Investment Bank, (d) items 4, 9 and 11 of this Note 22b are recorded in Corporate Center – Core Functions and (e) items 3 and 7 of this Note 22b are recorded in Corporate Center – Non-core and Legacy Portfolio. Provisions for the matters described in items 1 and 10 of this Note 22b are allocated between Wealth Management and Retail & Corporate, and provisions for the matter described in item 6 of this Note 22b are allocated between the Investment Bank and Corporate Center – Non-core and Legacy Portfolio. 2 Related to the acquisition of Link Investimentos. Refer to "Note 31 Business combinations" for more information.

1. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. As a result of investigations in France, in May and June 2013, respectively, UBS (France) S.A. and UBS AG were put under formal examination *("mise en examen")* for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance *("témoin assisté")* regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In June 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and "know your customer" obligations. It imposed a penalty of EUR 10 million, and a provision in that amount is reflected on our balance sheet at 31 December 2013. In Germany, several authorities have been conducting investigations against UBS Deutschland AG, UBS AG, and against certain employees of these entities concerning certain matters relating to our cross-border business. UBS is cooperating with these authorities within the limits of financial privacy obligations under Swiss and other applicable laws. Settlement discussions have commenced with respect to the German investigations.

2. Lehman principal protection notes

From March 2007 through September 2008, UBS Financial Services Inc. (UBSFS) sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. (Lehman), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. Based on its role as an underwriter of Lehman structured notes, UBSFS was named as a defendant in a putative class action asserting violations of disclosure provisions of the federal securities laws. In August 2013, UBSFS agreed to a proposed USD 120 million settlement of the case, which was approved by the Court in December 2013. Previously, certain of the other underwriter defendants and the former officers and directors of Lehman reached separate settlements regarding the same case. UBSFS also has been named in numerous individual civil suits and customer arbitrations, a small number of which were pending as of 31 December 2013. The individual customer claims, some of which have resulted in awards payable by UBSFS, relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers.

Our balance sheet at 31 December 2013 reflected a provision with respect to pending arbitration matters described in this item 2 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

3. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter of US residential mortgage-backed securities (RMBS) and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. (UBS RESI), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into securitization trusts. In this manner, from 2004 through 2007, UBS RESI sponsored approximately USD

Note 22 Provisions and contingent liabilities (continued)

80 billion in RMBS, based on the original principal balances of the securities issued.

UBS RESI also sold pools of loans acquired from originators to third-party purchasers. These whole loan sales during the period 2004 through 2007 totaled approximately USD 19 billion in original principal balance.

We were not a significant originator of US residential loans. A subsidiary of UBS originated approximately USD 1.5 billion in US residential mortgage loans during the period in which it was active from 2006 to 2008, and securitized less than half of these loans.

Securities lawsuits concerning disclosures in RMBS offering documents: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits related to approximately USD 13 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the USD 13 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans (UBS-sponsored RMBS). The remaining USD 10 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS).

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights. A class action settlement announced in April 2013 by a third-party issuer received final approval by the district court in December 2013. The settlement, which is subject to appeal, reduced the original face amount of RMBS at issue in these cases from USD 37 billion to USD 13 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 34 billion to USD 10 billion, as noted above. The third-party issuer will fund the settlement at no cost to UBS. In January 2014, certain objectors to the settlement filed a notice of appeal from the district court's approval of the settlement.

In 2012, a federal court in New Jersey dismissed with prejudice on statute of limitations grounds a putative class action lawsuit that asserted violations of the federal securities laws against various UBS entities, among others, in connection with USD 2.6 billion in original face amount of UBS-sponsored RMBS. In September 2013, the US Court of Appeals for the Third Circuit affirmed the district court's dismissal with prejudice, and in October 2013 the Court of Appeals denied plaintiffs' petition for en banc review.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, we generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, we were in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. We have been notified by certain institutional purchasers and insurers of mortgage loans and RMBS of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table below summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 5 March 2014. In the table, repurchase demands characterized as Demands resolved in litigation and Demands rescinded by counterparty are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

Loan repurchase demands by year received – original principal balance of loans[1]

USD million	2006–2008	2009	2010	2011	2012	**2013**	**2014, through 5 March**	Total
Resolved demands								
Actual or agreed loan repurchases / make whole payments by UBS	12	1						13
Demands rescinded by counterparty	110	104	19	304	237			774
Demands resolved in litigation	1	21						21
Demands expected to be resolved by third parties								
Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators		77	2	45	128	**99**		351
Demands in dispute								
Demands in litigation			346	732	1,041			2,118
Demands in review by UBS				2	2	**3**		8
Demands rebutted by UBS but not yet rescinded by counterparty		1	2	1	17	**515**	**3**	540
Total	122	205	368	1,084	1,424	**618**	**3**	3,825

1 Loans submitted by multiple counterparties are counted only once.

Payments that UBS has made or agreed to make to date to resolve repurchase demands equate to approximately 62% of the original principal balance of the related loans. Most of the payments that UBS has made or agreed to make to date have related to so-called "Option ARM" loans; severity rates may vary for other types of loans or for Option ARMs with different characteristics. Actual losses upon repurchase will reflect the estimated value of the loans in question at the time of repurchase as well as, in some cases, partial repayment by the borrowers or advances by servicers prior to repurchase. It is not possible to predict future losses upon repurchase for reasons including timing and market uncertainties.

In most instances in which we would be required to repurchase loans due to misrepresentations, we would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. We estimate that, of the total original principal balance of loans sold or securitized by UBS from 2004 through 2007, less than 50% was purchased from surviving third-party originators. In connection with approximately 60% of the loans (by original principal balance) for which UBS has made payment or agreed to make payment in response to demands received in 2010, UBS has asserted indemnity or repurchase demands against originators. Since 2011, UBS has advised certain surviving originators of repurchase demands made against UBS for which UBS would be entitled to indemnity, and has asserted that such demands should be resolved directly by the originator and the party making the demand.

We cannot reliably estimate the level of future repurchase demands, and do not know whether our rebuttals of such demands will be a good predictor of future rates of rebuttal. We also cannot reliably estimate the timing of any such demands.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In 2012, certain RMBS trusts filed an action in the Southern District of New York (Trustee Suit) seeking to enforce UBS RESI's obligation to repurchase loans with an original principal balance of approximately USD 2 billion for which Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, had previously demanded repurchase. The case is in discovery. Related litigation brought by Assured Guaranty was resolved in May 2013. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. At this time, UBS does not expect that it will be required to make payment for the majority of loan repurchase demands at issue in the Trustee Suit for at least the following reasons: (1) we reviewed the origination file and/or servicing records for the loan and concluded that the allegations of breach of representations and warranties are unfounded, or (2) a surviving originator is contractually liable for any breaches of representations and warranties with respect to loans that it originated. UBS has indemnification rights in connection with approximately half of the USD 2 billion in original principal balance of loans at issue in this suit (reflected in the "Demands in litigation" category in the table above).

In 2012, the FHFA, on behalf of Freddie Mac, filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach of contract and declaratory relief arising from alleged breaches of representations and warranties in connection with certain mortgage loans and UBS RESI's alleged failure to repurchase such mortgage loans. The complaint for this suit was filed in September 2012. The lawsuit seeks, among other relief, specific performance of UBS RESI's alleged loan repurchase obligations for at least USD 94 million in original principal balance of loans for which Freddie Mac had previously demanded repurchase; no damages are specified. In June 2013, the Court dismissed the complaint for lack of standing, on the basis that only the RMBS trustee could assert the claims in the complaint, and the complaint was unclear as to whether the trustee was the plaintiff and had proper authority to bring suit. The trustee filed an amended complaint in June 2013, which UBS moved to dismiss in July 2013. The motion remains pending.

In December 2013, Residential Funding Company LLC (RFC) filed a complaint in New York Supreme Court against UBS RESI asserting claims for breach of contract and indemnification in connection with loans purchased from UBS RESI with an original principal balance of USD 460 million that were securitized by an RFC affiliate. This is the first case filed against UBS seeking damages allegedly arising from the securitization of whole loans purchased from UBS. Damages are unspecified.

We also have tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

As reflected in the table below, our balance sheet at 31 December 2013 reflected a provision of USD 807 million with respect to matters described in this item 3. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

UBS has received requests from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the US Department of Justice, Criminal Division, Fraud Section) and the SEC for information relating to its practices in connection with purchases and sales of mortgage-backed securities. We are cooperating with the authorities in these matters, which are in an early stage. Numerous other banks reportedly have received similar requests.

Note 22 Provisions and contingent liabilities (continued)

Provision for claims related to sales of residential mortgage-backed securities and mortgages

USD million	31.12.13	31.12.12
Balance at the beginning of the year	658	104
Increase in provision recognized in the income statement	1,359	554
Release of provision recognized in the income statement	(1)	0
Provision used in conformity with designated purpose	(1,208)	0
Balance at the end of the year	807	658

4. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US cross-border business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, in 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary shares made in the US for failure to state a claim. Plaintiffs have appealed the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In 2012, the court denied plaintiffs' motion for leave to file an amended complaint. On appeal, the Second Circuit upheld the dismissal of all counts relating to one of the retirement plans. With respect to the second retirement plan, the Court upheld the dismissal of some of the counts, and vacated and remanded for further proceedings with regard to the counts alleging that defendants had violated their fiduciary duty to prudently manage the plan's investment options, as well as the claims derivative of that duty.

In 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. In December 2013, the district court granted UBS's motion to dismiss the complaint in its entirety. Plaintiffs have filed a notice of appeal.

5. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and

various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011, the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In June 2013, the Second Circuit Court of Appeals rejected the BMIS Trustee's appeal against that ruling and upheld the District Court's decision. The BMIS Trustee has sought leave to appeal to the US Supreme Court, which has invited the Solicitor General of the United States to file a brief expressing the views of the United States as to whether review should be granted. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

6. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In Milan, in 2012, civil claims brought by the City of Milan against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007 were settled without admission of liability. In 2012, the criminal court in Milan issued a judgment convicting two current UBS employees and one former employee, together with employees from the three other banks, of fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. In the same proceedings, the Milan criminal court also found UBS Limited and three other banks liable for the administrative offense of failing to have in place a business organizational model capable of preventing the criminal offenses of which its employees were convicted. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and payment of legal fees. UBS has previously provided for this potential exposure in the amount of EUR 18.5 million. UBS Limited and the individuals appealed that judgment, and in March 2014, the Milan Court of Appeal handed down its judgment in short form. It overturned all findings of liability against UBS Limited and convictions of the UBS individuals and acquitted them, stating that the conduct did not occur. The court indicated that it would issue a full judgment within 90 days.

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy, Lazio and Campania, and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2012, UBS AG and UBS Limited settled all civil disputes with the Regions of Tuscany, Lombardy and Lazio without any admission of liability. In August 2013, a settlement of all civil and administrative disputes was reached with the City of Florence. Provisions were booked in respect of these settlements.

7. Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of Credit Default Swap (CDS) transactions with bank swap counterparties, including UBS. UBS entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (Depfa) and Landesbank Baden-Württemberg (LBBW), in relation to their respective swaps with KWL. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS and UBS Limited are owed a total amount of approximately USD 319.8 million, plus interest, which remains unpaid. Specifically, under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 137.6 million, plus interest, has fallen due from KWL but not been paid. Earlier in 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL. The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS has added its monetary claim to the proceedings. KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited. Both KWL and Depfa make mutually exclusive claims for payment of USD 32.6 million which has previously been paid by Depfa to UBS Limited. The trial is due to start in April 2014.

In 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW, claiming that the swap transactions are void and not binding on the basis of KWL's allegation that KWL did not have the capacity or the necessary internal authorization to enter into the transactions and that the banks knew this. Upon and as a consequence of KWL withdrawing its appeal on jurisdiction in England, KWL also withdrew its civil claims against UBS and Depfa in the German courts, and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against LBBW have continued in Leipzig, and in June 2013,

Note 22 Provisions and contingent liabilities (continued)

the court in Leipzig ruled in LBBW's favor. KWL has filed an appeal against that ruling. A hearing is fixed for late March 2014. The Leipzig court has also ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

The back-to-back CDS transactions were terminated in 2010. In 2010, UBS and UBS Limited issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS Limited contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW are defending against the claims and have also issued counterclaims. Additionally Depfa added a claim against KWL to the proceedings against it and KWL served a defense.

In 2011, the former managing director of KWL and two financial advisers were convicted on criminal charges related to certain KWL transactions, including swap transactions with UBS and other banks. Following further criminal proceedings brought against them in Dresden relating to the same transactions, they were each convicted of embezzlement in December 2013 and given longer sentences. They have indicated that they will appeal.

Since 2011, the SEC has been conducting an investigation focused on, among other things, the suitability of the KWL transactions, and information provided by UBS to KWL. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC.

8. Puerto Rico

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico (UBS PR) and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In March 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim. That dismissal was overturned by the Puerto Rico Court of Appeals in September 2013. In February 2014, UBS's petition for appeal was denied by the Supreme Court of Puerto Rico, and UBS is filing motions for reconsideration. Also, in October 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives following a hearing that took place in late 2012, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in May 2012. Additionally, declines in Puerto Rico municipal bond and closed-end fund prices since August 2013 have led to multiple regulatory inquiries, customer complaints and arbitrations filed by clients in Puerto Rico who own those securities. A shareholder derivative action also was filed in February 2014 against various UBS entities and current and certain former directors of the closed-end funds, alleging hundreds of millions in losses in the funds. An internal review also disclosed that certain clients, many of whom acted at the recommendation of one financial advisor, invested proceeds of non-purpose loans in closed-end fund securities in contravention of their loan agreements.

Our balance sheet at 31 December 2013 reflected a provision with respect to the matters described in this item 8 in an amount that UBS believes to be appropriate under the applicable accounting standards. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may prove to be substantially greater (or may be less) than the provision that we have recognized.

9. LIBOR, foreign exchange, and benchmark rates

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the US Commodity Futures Trading Commission (CFTC), the US Department of Justice (DOJ), the UK Financial Conduct Authority (FCA) (to which certain responsibilities of the UK Financial Services Authority (FSA) have passed), the UK Serious Fraud Office (SFO), the Monetary Authority of Singapore (MAS), the Hong Kong Monetary Authority (HKMA), FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to British Bankers' Association LIBOR (London Interbank Offered Rate) and other benchmark rates, including HIBOR (Hong Kong Interbank Offered Rate) and ISDAFIX. These investigations focus on whether there were improper attempts by UBS (among others), either acting on our own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, and CHF 59 million in disgorgement to FINMA. Under a non-prosecution agreement (NPA) that UBS entered into with the DOJ, UBS agreed to pay a fine of USD 500 million. Pursuant to a separate plea agreement between the DOJ and UBS Securities Japan Co. Ltd. (UBSSJ), UBSSJ entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. The NPA required UBS to pay the USD 500 million fine to DOJ after the sentencing of UBSSJ, and provides that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. At the sentencing hearing held in September 2013,

Note 22 Provisions and contingent liabilities (continued)

the court approved the proposed plea agreement and imposed a USD 100 million fine against UBSSJ, as agreed to by the DOJ and UBSSJ under the plea agreement. Since the sentencing, UBS has paid a fine of USD 400 million to the DOJ, and UBSSJ has paid the USD 100 million fine imposed by the sentencing court. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by one or more of these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). We have ongoing obligations to cooperate with authorities with which we have reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. Investigations by the CFTC and other government authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ, and the Swiss Competition Commission (WEKO), in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for Swiss franc LIBOR and certain transactions related to Swiss franc LIBOR. The Canadian Competition Bureau (Bureau) had granted UBS conditional immunity in connection with potential competition law violations related to submissions for Yen LIBOR, but in January 2014, the Bureau announced the discontinuation of its investigation into Yen LIBOR for lack of sufficient evidence to justify prosecution under applicable laws. As a result of these conditional grants, we will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where we have conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to our continuing cooperation. However, the conditional leniency and conditional immunity grants we have received do not bar government agencies from asserting other claims and imposing sanctions against us, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, we are eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to our satisfying the DOJ and the court presiding over the civil litigation of our cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against us.

In December 2013, the European Commission (EC) announced a decision adopted in the Commission's Yen Interest Rate Derivatives (YIRD) investigation, under which UBS has received full immunity from fines for disclosing to the Commission the existence of infringements relating to YIRD.

In June 2013, the MAS announced the results of its investigation of benchmark submissions by 20 banks, including UBS. The investigation related to various benchmark submissions, including the Singapore Interbank Offered Rates and the Swap Offered Rates, and covered the period from 2007 to 2011. The MAS found deficiencies in the governance, risk management, internal controls and surveillance systems for the banks' benchmark submission processes and directed the banks to correct the deficiencies and set aside additional statutory reserves with MAS at zero interest for one year. The MAS also announced proposed changes to its regulatory framework for financial benchmarks that are designed to enhance the integrity of the process for setting benchmarks.

In December 2013, UBS entered into an enforceable undertaking in relation to an investigation by the Australian Securities and Investments Commission (ASIC) into conduct relating to Australian Bank Bill Swap Rate (BBSW) submissions. An independent expert engaged by UBS at ASIC's request concluded that, to the extent there may have been any impact of such conduct on the market as a whole, it would have been insignificant. The enforceable undertaking requires UBS to ensure that its participation in relation to the setting of Australian interest rate benchmarks upholds the integrity and reliability of those benchmarks and is in accordance with its obligations under the CFTC order. UBS also agreed to make a voluntary contribution of AUD 1 million to fund independent financial literacy projects in Australia. ASIC has the power to investigate, conduct further surveillance or pursue criminal prosecution of UBS or its representatives in relation to any contravention. ASIC acknowledged UBS's cooperation and the fact that it was the first bank to report this conduct to it. ASIC's inquiries in relation to the BBSW rate set are ongoing.

In 2011, the Japan Financial Services Agency (JFSA) commenced administrative actions and issued orders against UBS Securities Japan Ltd (UBS Securities Japan) and UBS AG, Tokyo Branch in connection with their investigation of Yen LIBOR and Euroyen TIBOR. These actions were based on findings by the Japan Securities and Exchange Surveillance Commission (SESC), and, in the case of UBS AG, Tokyo Branch, the JFSA, that a former UBS Securities Japan trader engaged in inappropriate conduct relating to Euroyen TIBOR and Yen LIBOR, including approaching UBS AG, Tokyo Branch, and other banks to ask them to submit TIBOR rates taking into account requests from the trader for the purpose of benefiting trading positions.

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR and EURIBOR. Also pending are actions as-

Note 22 Provisions and contingent liabilities (continued)

serting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR or EURIBOR rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act, the federal racketeering statute, federal and state antitrust and securities laws and other state laws. In March 2013, a federal court in New York dismissed the federal antitrust and racketeering claims of certain US dollar LIBOR plaintiffs and a portion of their claims brought under the Commodity Exchange Act (CEA) and state common law. In August 2013, the same court denied the parties' requests for reconsideration and plaintiffs' motion for interlocutory appeal and to amend the complaints to include additional antitrust and Commodity Exchange Act allegations. It granted certain plaintiffs permission to assert claims for unjust enrichment and breach of contract. Motions to dismiss these unjust enrichment and breach of contract claims are pending, as is a renewed motion to dismiss by UBS and other defendants that seeks dismissal of further CEA claims. Certain plaintiffs have also appealed the dismissal of their antitrust claims, but in October 2013 the appellate court denied these appeals as premature, without prejudice to bringing the appeals again after final disposition of the LIBOR actions. UBS and other defendants in other lawsuits including the one related to Euroyen TIBOR have filed motions to dismiss.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 31 December 2013 reflected a provision of an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

Foreign exchange-related regulatory matters: Following an initial media report in June 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes our precious metals business. Since then, various authorities reportedly have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, WEKO, the DOJ, the CFTC, and the FCA. UBS and other financial institutions have received requests from various authorities relating to their foreign exchange businesses, and UBS is cooperating with the authorities. A number of authorities also are reportedly investigating potential manipulation of precious metal prices. UBS has taken and will take appropriate action with respect to certain personnel as a result of its ongoing review.

Foreign exchange-related civil litigation: Several putative class actions have been filed since November 2013 in US federal courts against UBS and other banks. These actions are on behalf of putative classes of persons who engaged in foreign currency transactions. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. The defendants (including UBS) have not yet filed responsive pleadings.

10. Swiss retrocessions

The Swiss Supreme Court ruled in 2012, in a test case against UBS, that distribution fees paid to a bank for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the bank, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients.

It is expected that the Supreme Court decision will result in a significant number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are being assessed on a case-by-case basis. Considerations to be taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

Our balance sheet at 31 December 2013 reflected a provision with respect to matters described in this item 10 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence as in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

11. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006

Note 22 Provisions and contingent liabilities (continued)

through March 2009, when UBS owned Pactual. These assessments are being or will be challenged in administrative proceedings. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts. In November and December 2013, approximately BRL 128 million in tax claims relating to the period for which UBS has indemnification obligations were submitted for settlement through amnesty programs announced by the Brazilian government in October 2013.

Our balance sheet at 31 December 2013 reflected a provision with respect to matters described in this item 11 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

12. Matters relating to the CDS market

In July 2013 the EC issued a Statement of Objections against thirteen credit default swap (CDS) dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association (ISDA). The Statement of Objections broadly alleges that the dealers infringed EU antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. We have submitted our response to the Statement of Objections. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. Between May 2013 and November 2013, several putative class action complaints were filed against twelve dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act. In January 2014, after the cases were consolidated for pretrial purposes in the Southern District of New York, plaintiffs filed a consolidated amended complaint. Plaintiffs allege that the defendants, Markit and ISDA unlawfully conspired to restrain competition in and/or monopolize the market for CDS trading in the US in order to protect the dealers' profits from trading CDS in the over-the-counter market. Plaintiffs assert claims under the Sherman Act and common law on behalf of all purchasers and sellers of CDS that transacted directly with any of the dealer defendants since January 1, 2008, and seek unspecified trebled compensatory damages and other relief.

Note 23 Other liabilities[1]

CHF million	31.12.13	31.12.12
Prime brokerage payables[2]	32,543	35,620
Amounts due under unit-linked investment contracts	16,155	15,299
Accrued expenses – compensation related	2,631	2,043
Accrued expenses – interest expense	1,199	1,955
Accrued expenses – other	2,465	2,628
Deferred compensation plans	1,919	1,541
Net defined benefit pension and post-employment liabilities[3]	1,048	1,284
Third-party interest in consolidated investment funds	953	965
Settlement and clearing accounts	946	991
Current and deferred tax liabilities[4]	667	586
VAT and other tax payables	570	606
Deferred income	264	291
Other	1,417	2,713
Total other liabilities	**62,777**	**66,523**

1 In 2013, changes in the presentation of this Note were made. Accrued expenses and deferred income are no longer presented as a separate line item on the balance sheet but under Other liabilities. Accrued expenses – compensation related, Accrued expenses – interest expense, Accrued expenses – other and Deferred income, which were previously disclosed under Accrued expenses and deferred income, are now presented separately in this Note in order to enhance transparency. Prior periods have been restated. As a result, Other liabilities as of 31 December 2012 increased by CHF 6,917 million. Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information. 2 Prime brokerage services include clearance, settlement, custody, financing and portfolio reporting services for corporate clients trading across multiple asset classes. The balance is mainly comprised of client securities financing and deposit liabilities. 3 Refer to "Note 28 Pension and other post-employment benefit plans" for more information. 4 Deferred tax liabilities were CHF 59 million and CHF 52 million for 31 December 2013 and 31 December 2012, respectively. Refer to "Note 8 Income taxes" for more information.

Additional information

Note 24 Fair value measurement

This note provides fair value measurement information for both financial and non-financial instruments and is structured as follows:
a) Valuation principles
b) Valuation governance
c) Valuation techniques
d) Valuation adjustments
e) Fair value measurements and classification within the fair value hierarchy
f) Transfers between Level 1 and Level 2 in the fair value hierarchy
g) Movements of Level 3 instruments
h) Valuation of assets and liabilities classified as Level 3
i) Sensitivity of fair value measurements to changes in unobservable input assumptions
j) Deferred day-1 profit or loss
k) Financial instruments not measured at fair value

a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. In measuring fair value, the Group utilizes various valuation approaches and applies a hierarchy for prices and inputs that maximizes the use of observable market data, if available.

All financial and non-financial assets and liabilities measured or disclosed at fair value are categorized into one of three fair value hierarchy levels. In certain cases, the inputs used to measure fair value may fall within different levels of the fair value hierarchy. For disclosure purposes, the level in the hierarchy within which the instrument is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurement:
– Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
– Level 2 – valuation techniques for which all significant inputs are, or are based on, observable market data or
– Level 3 – valuation techniques for which significant inputs are not based on observable market data

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price multiplied by the number of units of the instrument held.

Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when forming a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability's classification within the fair value hierarchy.

Many cash instruments and over-the-counter (OTC) derivative contracts have bid and offer prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Offer prices represent the lowest price that a party is willing to accept for an asset. In general, long positions are measured at a bid price and short positions at an offer price, reflecting the prices at which the instruments could be transferred under normal market conditions. Offsetting positions in the same financial instrument are marked at the mid-price within the bid-offer spread.

Generally, the unit of account for a financial instrument is the individual instrument, and UBS applies valuation adjustments at an individual instrument level, consistent with that unit of account. However, if certain conditions are met, UBS may estimate the fair value of a portfolio of financial assets and liabilities with substantially similar and offsetting risk exposures on the basis of the net open risks.

For transactions where the valuation technique used to measure fair value requires significant inputs that are not based on observable market data, the financial instrument is initially recognized at the transaction price. This initial recognition amount may differ from the fair value obtained using the valuation technique. Any such difference is deferred and not recognized in the income statement and referred to as deferred day-1 profit or loss. Refer to "Note 24j Deferred day-1 profit or loss" for more information.

Note 24 Fair value measurement (continued)

b) Valuation governance

UBS's fair value measurement and model governance framework includes numerous controls and other procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders from risk and finance control functions. Responsibility for the ongoing measurement of financial and non-financial instruments at fair value resides with the business divisions, but is validated by risk and finance control functions, which are independent of the business divisions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market data and to provide justification and rationale for their fair value estimates.

Independent price verification is performed by the finance function to evaluate the business divisions' pricing input assumptions and modeling approaches. By benchmarking the business's fair value estimates with observable market prices and other independent sources, the degree of valuation uncertainty embedded in these measurements is assessed and managed as required in the governance framework. Fair value measurement models are assessed for their ability to value specific products in the principal market of the product itself, as well as the principal market for the main valuation input parameters to the model.

An independent model review group evaluates UBS's valuation models on a regular basis, or when established triggers occur, and approves them for valuation of specific products. As a result of the valuation controls employed, valuation adjustments may be made to the business's estimate of fair value to align with independent market data and accounting standards (refer to "Note 24d Valuation adjustments" for more information).

c) Valuation techniques

Valuation techniques are used to value positions for which a market price is not available from market sources. This includes certain less liquid debt and equity instruments and all derivatives transacted in the OTC market. UBS uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include discounted value of expected cash flows, relative value and option pricing methodologies.

Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

Option pricing models incorporate assumptions regarding the behavior of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed-form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation).

Where available, valuation techniques use market-observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, UBS selects the non-market-observable inputs to be used in its valuation techniques, based on a combination of historical experience, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches.

For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services. UBS also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry.

Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation, (refer to "Note 24h Valuation of assets and liabilities classified as Level 3"). The discount curves used by the Group incorporate the funding and credit characteristics of the instruments to which they are applied.

Note 24 Fair value measurement (continued)

d) Valuation adjustments

The output of a valuation technique is always an estimate or approximation of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted, where appropriate, to reflect close-out costs, credit exposure, model-driven-valuation uncertainty, trading restrictions and other factors, when such factors would be considered by market participants in measuring fair value. Valuation adjustments are an important component of fair value for assets and liabilities that are measured using valuation techniques. Such adjustments are applied to reflect uncertainties within the fair value measurement process, to adjust for an identified model simplification or to incorporate an aspect of fair value that requires an overall portfolio assessment rather than an evaluation based on an individual instrument level characteristic.

The major classes of valuation adjustments are discussed in further detail below.

Reflection of market bid-offer levels

Instruments that are measured as part of a portfolio of combined long and short positions are valued at mid-market levels to ensure consistent valuation of the long and short component risks. A valuation adjustment is then made to the overall net long or short exposure to move the fair value to bid or offer as appropriate, reflecting current levels of market liquidity. The bid-offer spreads used in the calculation of the valuation adjustment are obtained from market transactions and other relevant sources and are updated periodically.

Reflection of model uncertainty

Uncertainties associated with the use of model-based valuations are incorporated into the measurement of fair value through the use of model reserves. These reserves reflect the amounts that the Group estimates should be deducted from valuations produced directly by models to incorporate uncertainties in the relevant modeling assumptions, in the model and market inputs used, or in the calibration of the model output to adjust for known model deficiencies. In arriving at these estimates, the Group considers a range of market practices, including how it believes market participants would assess these uncertainties. Model reserves are re-assessed periodically in light of data from market transactions, consensus pricing services and other relevant sources.

Day-1 reserves

Day-1 profit or loss reserves are reflected, where appropriate, as valuation adjustments. Refer to "Note 24j Deferred day-1 profit or loss" for more information.

Counterparty credit risk in the valuation of derivatives

In order to measure fair value, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in OTC derivative instruments. This amount represents the estimated fair value of protection required to hedge the counterparty credit risk of such instruments. The CVA is determined for each counterparty considering all exposures to that counterparty and is dependent on the expected future value of exposures, default probabilities and recovery rates, applicable collateral or netting arrangements, break clauses and other contractual factors.

Own credit risk in the valuations of OTC derivative instruments

The Group estimates debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, effectively consistent with the CVA methodology. DVA represents the theoretical cost to counterparties of hedging, or the credit risk reserve that a counterparty could reasonably be expected to hold, against their credit risk exposure to UBS. DVA is determined for each counterparty considering all exposures with that counterparty and taking into account collateral netting agreements, expected future mark-to-market movements and UBS's credit default spreads.

CVA and DVA for derivative financial instruments

CHF billion	**31.12.13**	31.12.12
DVA		
Gain / (loss) for the year ended	**(0.1)**	(0.4)
Life-to-date gain / (loss)	**0.3**	0.4
CVA[1]		
Gain / (loss) for the year ended[2]	**0.4**	1.1
of which: Monoline credit protection	***0.2***	*0.3*
of which: Other instruments	***0.2***	*0.8*
Life-to-date gain / (loss)	**(0.5)**	(0.9)
of which: Monoline credit protection	***(0.1)***	*(0.4)*
of which: Other instruments	***(0.4)***	*(0.6)*

1 Amounts do not include reserves against defaulted counterparties. 2 Amounts do not include commutations.

Note 24 Fair value measurement (continued)

UBS's own credit risk in the valuations of financial liabilities designated at fair value

In addition to considering the valuation of the derivative risk component, the valuation of fair value option liabilities also requires consideration of the funded component and specifically the own credit component of fair value. Own credit risk is reflected if this component would be considered for valuation purposes by market participants. Consequently, own credit risk is not reflected for those contracts that are fully collateralized and for other contracts for which it is established market practice not to include an own credit component. The own credit component is estimated using a funds transfer price (FTP) curve to derive a single, market-based level of discounting for uncollateralized funded instruments. UBS senior debt curve spreads are discounted in order to arrive at the FTP curve, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS debt and the levels at which UBS MTN are currently issued. The FTP curve is generally a Level 2 pricing input. However, certain long-dated exposures that are beyond the tenors that are actively traded are classified as Level 3.

The effects of own credit adjustments related to financial liabilities designated at fair value (predominantly issued structured products) as of 31 December 2013 and 2012, respectively, are summarized in the table below.

Year-to-date amounts represent the change during the year, and life-to-date amounts reflect the cumulative change since initial recognition. The change in own credit for the period consists of changes in fair value that are attributable to the change in UBS's credit spreads as well as the effect of changes in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay and changes in interest and other market rates.

Own credit on financial liabilities designated at fair value

	As of or for the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Gain / (loss) for the year ended	**(283)**	(2,202)	1,537
Life-to-date gain / (loss)	**(577)**	(292)	1,934

Note 24 Fair value measurement (continued)

e) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Group's financial and non-financial assets and liabilities measured at fair value is summarized in the table below. The narrative that follows describes the significant valuation inputs and assumptions for each class of assets and liabilities measured at fair value, the valuation techniques, where applicable, used in measuring their fair value, and the factors determining their classification within the fair value hierarchy.

Determination of fair values from quoted market prices or valuation techniques[1]

	31.12.13				31.12.12			
CHF billion	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis								
Financial assets held for trading[2]	79.9	30.1	4.3	114.2	91.4	46.4	5.7	143.5
of which:								
Government bills / bonds	7.9	5.1	0.0	13.1	22.2	6.4	0.1	28.7
Corporate bonds and municipal bonds, including bonds issued by financial institutions	1.1	13.3	1.7	16.0	0.8	21.4	1.6	23.9
Loans	0.0	2.0	1.0	3.0	0.0	4.1	2.0	6.1
Investment fund units	4.8	6.0	0.3	11.1	2.6	10.2	0.1	12.9
Asset-backed securities	0.0	2.3	1.0	3.3	3.6	3.4	1.5	8.6
Equity instruments	50.7	1.0	0.2	51.9	47.6	0.3	0.1	48.0
Financial assets for unit-linked investment contracts	15.4	0.4	0.1	15.8	14.5	0.4	0.3	15.2
Positive replacement values	3.0	237.4	5.5	245.8	2.9	408.0	8.1	419.0
of which:								
Interest rate contracts	0.0	129.4	0.3	129.8	0.0	265.6	0.4	266.0
Credit derivative contracts	0.0	15.3	3.0	18.3	0.0	33.2	3.6	36.9
Foreign exchange contracts	0.5	74.6	0.9	76.0	0.3	94.5	1.2	96.0
Equity / index contracts	2.2	14.6	1.2	18.1	2.2	10.9	2.9	15.9
Commodities contracts	0.0	3.5	0.0	3.5	0.1	3.8	0.0	3.8
Financial assets designated at fair value	0.1	2.9	4.4	7.4	0.1	4.1	4.9	9.1
of which:								
Loans (including structured loans)	0.0	1.4	1.1	2.5	0.0	1.4	1.4	2.8
Structured reverse repurchase and securities borrowing agreements	0.0	1.1	3.1	4.2	0.0	2.2	3.3	5.5
Other	0.1	0.5	0.2	0.7	0.1	0.5	0.2	0.8
Financial investments available-for-sale	39.7	19.0	0.8	59.5	48.5	16.9	0.7	66.2
of which:								
Government bills / bonds	38.0	1.2	0.0	39.2	46.4	0.6	0.0	47.0
Corporate bonds and municipal bonds, including bonds issued by financial institutions	1.6	13.6	0.1	15.3	2.1	8.8	0.1	10.9
Investment fund units	0.0	0.0	0.2	0.3	0.0	0.1	0.2	0.4
Asset-backed securities	0.0	4.0	0.0	4.0	0.0	7.3	0.0	7.3
Equity instruments	0.1	0.1	0.4	0.6	0.1	0.0	0.4	0.6
Non-financial assets								
Investment properties at fair value	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Precious metals and other physical commodities	8.6	0.0	0.0	8.6	17.1	0.0	0.0	17.1
Assets measured at fair value on a non-recurring basis								
Other assets[3]	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Total assets measured at fair value	131.3	289.4	15.0	435.7	160.0	475.4	19.6	655.1

Note 24 Fair value measurement (continued)

Determination of fair values from quoted market prices or valuation techniques[1] (continued)

	31.12.13				31.12.12			
CHF billion	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value on a recurring basis								
Trading portfolio liabilities	22.5	3.9	0.2	26.6	28.6	5.4	0.2	34.2
of which:								
Government bills / bonds	6.9	0.5	0.0	7.3	14.1	0.6	0.0	14.7
Corporate bonds and municipal bonds, including bonds issued by financial institutions	0.3	3.2	0.2	3.6	0.9	4.5	0.1	5.5
Investment fund units	0.4	0.1	0.0	0.5	0.1	0.2	0.0	0.4
Asset-backed securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity instruments	15.0	0.2	0.0	15.1	13.5	0.1	0.0	13.6
Negative replacement values[4]	3.0	232.5	4.4	240.0	2.9	385.9	6.5	395.3
of which:								
Interest rate contracts	0.0	116.8	0.4	117.2	0.0	238.7	0.4	239.1
Credit derivative contracts	0.0	15.1	2.0	17.0	0.0	31.1	3.3	34.4
Foreign exchange contracts	0.5	79.3	0.5	80.3	0.3	99.2	1.5	101.0
Equity / index contracts	2.3	18.1	1.5	21.9	2.2	12.9	1.3	16.4
Commodities contracts	0.0	3.2	0.0	3.2	0.1	3.9	0.0	4.0
Financial liabilities designated at fair value	0.0	57.8	12.1	69.9	0.0	77.2	14.7	91.9
of which:								
Non-structured fixed-rate bonds	0.0	2.4	1.2	3.7	0.0	4.2	0.8	5.0
Structured debt instruments issued	0.0	48.4	7.9	56.3	0.0	57.4	10.0	67.4
Structured over-the-counter debt instruments	0.0	6.5	1.8	8.3	0.0	15.5	2.2	17.7
Structured repurchase agreements	0.0	0.4	1.2	1.6	0.0	0.0	1.7	1.7
Loan commitments	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
Other liabilities – amounts due under unit-linked investment contracts	0.0	16.2	0.0	16.2	0.0	15.3	0.0	15.3
Total liabilities measured at fair value	25.5	310.3	16.8	352.6	31.5	483.8	21.4	536.7

1 Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 31 December 2013, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.2 billion (of which CHF 0.2 billion were net Level 2 assets and CHF 0.4 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. In 2013, comparative period figures were corrected. On a corrected basis, as of 31 December 2012, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.1 billion (of which CHF 0.2 billion were net Level 2 assets and CHF 0.3 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. 2 Financial assets held for trading do not include precious metals and commodities. 3 Other assets primarily consist of assets held for sale, which are measured at the lower of their net carrying amount or fair value less costs to sell. 4 Includes a life-to-date debit valuation adjustment gain on derivatives of CHF 256 million as of 31 December 2013 (31 December 2012: CHF 384 million).

Financial assets and liabilities held for trading, financial assets designated at fair value and financial investments available-for-sale

Government bills and bonds

Government bills and bonds include fixed-rate, floating-rate and inflation-linked bills and bonds issued by sovereign governments, as well as interest and principal strips based on these bonds. Such instruments are generally traded in active markets and prices can be obtained directly from these markets, resulting in classification as Level 1, while the majority of the remaining positions are classified as Level 2. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques that incorporate market data for similar government instruments converted into yield curves. These yield curves are used to project future index levels, and to discount expected future cash flows. The main inputs to valuation techniques for these instruments are bond prices and inputs to estimate the future index levels for floating or inflation index-linked instruments. Instruments classified as Level 3 are limited and are generally classified as such due to the requirement to extrapolate yield curve inputs outside the range of active market trading.

Corporate and municipal bonds

Corporate bonds include senior, junior and subordinated debt issued by corporate entities. Municipal bonds are issued by state and local governments. While most instruments are standard fixed or floating-rate securities, some may have more complex

Note 24 Fair value measurement (continued)

coupon or embedded option features. Corporate and municipal bonds are generally valued using prices obtained directly from the market. In cases where no directly comparable price is available, instruments may be valued using yields derived from other securities by the same issuer or benchmarked against similar securities, adjusted for seniority, maturity and liquidity. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques incorporating the credit spread of the issuer, which may be derived from other issuances or CDS data for the issuer, estimated with reference to other equivalent issuer price observations or from credit modeling techniques. Corporate bonds are typically classified as Level 2 because, although market data is readily available, there is often insufficient third-party trading transaction data to justify an active market and corresponding Level 1 classification. Municipal bonds are generally classified as Level 1 or Level 2 depending on the depth of trading activity behind price sources. Level 3 instruments have no suitable price available for the security held or by reference to other securities issued by the same issuer. Therefore, these instruments are measured based on price levels for similar issuers adjusted for relative tenor and issuer quality.

Convertible bonds are generally valued using prices obtained directly from market sources. In cases where no directly comparable price is available, issuances may be priced using a convertible bond model, which values the embedded equity option and debt components and discounts these amounts using a curve that incorporates the credit spread of the issuer. Although market data is readily available, convertible bonds are typically classified as Level 2 because there is insufficient third-party trading transaction data to justify a Level 1 classification.

Traded loans and loans designated at fair value

Traded loans and loans designated at fair value are valued directly using market prices that reflect recent transactions or quoted dealer prices where available. For illiquid loans where no market price data is available, alternative valuation techniques are used, which include relative value benchmarking using pricing derived from debt instruments in comparable entities or different products in the same entity. The corporate lending portfolio is valued using either directly observed market prices typically from consensus providers or by using a credit default swap valuation technique, which requires inputs for credit spreads, credit recovery rates and interest rates. The market for these instruments is not actively traded and even though price data is available it may not be directly observable, and therefore corporate loans typically do not meet Level 1 classification. Instruments with suitably deep and liquid price data available will be classified as Level 2, while any positions requiring the use of valuation techniques or for which the price sources have insufficient trading depth are classified as Level 3. Recently originated commercial real estate loans which are classified as Level 3 are measured using a securitization approach based on rating agency guidelines. Future profit and loss from the securitization is not recognized, but overall spread moves are captured in the loan valuation.

Included within loans are various contingent lending transactions, for which valuations are dependent on actuarial mortality levels and actuarial life insurance policy lapse rates. Mortality and lapse rate assumptions are based on external actuarial estimations for large homogeneous pools, and contingencies are derived from a range relative to the actuarially expected amount. In addition, the pricing technique uses volatility of mortality as an input.

Investment fund units

Investment fund units are predominantly exchange traded, with quoted prices in liquid markets readily available. Where market prices are not available, fair value may be measured using net asset values (NAV), taking into account any restrictions imposed upon redemption. Listed units are classified as Level 1, provided there is sufficient trading to justify active market classification, while other positions are classified as Level 2. Positions where NAV is not available or which are not redeemable at the measurement date or in the near future are classified as Level 3.

Asset-backed securities

Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), other asset-backed securities (ABS) and collateralized debt obligations (CDO)

RMBS, CMBS, ABS and CDO are instruments generally issued through the process of securitization of underlying interest bearing assets. The underlying collateral for RMBS is residential mortgages, for CMBS, commercial mortgages, for ABS, other assets such as credit card, car or student loans and leases and for CDO, other securitized positions of RMBS, CMBS or ABS. The market for these securities is not active, and therefore a variety of valuation techniques are used to measure fair value. For more liquid securities, trade or quote data may be obtained periodically for the instrument held, and the valuation process will use this trade price data, updated for movements in market levels between the time of trading and the time of valuation. Less liquid instruments are measured using discounted expected cash flows incorporating price data for instruments or indices with similar risk profiles. Expected cash flow estimation involves the modeling of the expected collateral cash flows using input assumptions derived from proprietary models, fundamental analysis and/or market research based on management's quantitative and qualitative assessment of current and future economic conditions. The expected collateral cash flows thus estimated are then converted into the securities' projected performance under such conditions based on the credit enhancement and subordination terms of the securitization. Expected cash flow schedules are discounted using a rate or discount margin that reflects the discount levels required by the market for instruments with similar risk and liquidity profiles. Inputs to discounted expected cash flow techniques include asset prepayment rates, discount

margin or discount yields, asset default rates and asset loss on default severity, which may in turn be estimated using more fundamental loan and economic drivers such as, but not limited to, loan-to-value data, house price appreciation, foreclosure costs, rental income levels, void periods and employment rates. RMBS, CMBS and ABS are generally classified as Level 2. However, if significant inputs are unobservable, or if market or fundamental data is not available for instruments or collateral with a sufficiently similar risk profile to the positions held, they are classified as Level 3.

Equity instruments

The majority of equity securities are actively traded on public stock exchanges where quoted prices are readily and regularly available, resulting in their classification as Level 1. Units held in hedge funds are also classified as equity instruments. Fair value for these units is measured based on their published NAV, taking into account any restrictions imposed upon the redemption. These units are classified as Level 2, except for positions where published NAV is not available or which are not redeemable at the measurement date or in the near future, which are classified as Level 3.

Unlisted equity holdings, including private equity positions, are initially marked at their transaction price and are periodically revalued to the extent reliable evidence of price movements becomes available or the position is deemed to be impaired.

Financial assets underlying unit-linked investments

Unit-linked investment contracts allow investors to invest in a pool of assets through issued investment units. The unit holders receive all rewards and bear all risks associated with the reference asset pool. Assets held under unit-linked investment contracts are presented as Trading portfolio assets. The majority of assets are listed on exchanges and are classified as Level 1 if actively traded, or Level 2 if trading is not active. However, instruments for which prices are not readily available are classified as Level 3.

Structured repurchase agreements and structured reverse repurchase agreements

Structured repurchase agreements and structured reverse repurchase agreements designated at fair value are measured using discounted expected cash flow techniques. The discount rate applied is based on funding curves that are specific to the collateral eligibility terms for the contract in question. Collateral terms for these positions are not standard and therefore funding spread levels used for valuation cannot be observed in the market. As a result, these positions are mostly classified as Level 3.

Replacement values

Collateralized and uncollateralized instruments

The curves used for discounting expected cash flows in the valuation of collateralized derivatives reflect the funding terms associated with the relevant collateral arrangement for the instrument being valued. These collateral arrangements differ across counterparties with respect to the eligible currency and interest terms of the collateral. The majority of collateralized derivatives are measured using a discount curve that is based on funding rates derived from overnight interest in the cheapest eligible currency for the respective counterparty collateral agreement.

Uncollateralized derivatives are discounted using the LIBOR (or equivalent) curve for the currency of the instrument. As described in "Note 24d Valuation adjustments," the fair value of uncollateralized derivatives is adjusted using CVA or DVA processes to reflect an estimation of the impact of counterparty credit and UBS own credit risk on the fair value of assets and liabilities.

Interest rate contracts

Interest rate swap contracts include interest rate swaps, basis swaps, cross-currency swaps, inflation swaps and interest rate forwards, often referred to as forward rate agreements (FRA). These products are valued by estimating future interest cash flows and discounting those cash flows using a rate that reflects the appropriate funding rate for the position being measured. The yield curves used to estimate future index levels and discount rates are generated using market standard yield curve models using interest rates associated with current market activity. The key inputs to the models are interest rate swap rates, FRA rates, short-term interest rate futures prices, basis swap spreads and inflation swap rates. In most cases, the standard market contracts that form the inputs for yield curve models are traded in active and observable markets, resulting in the majority of these financial instruments being classified as Level 2.

Interest rate option contracts include caps and floors, swaptions, swaps with complex payoff profiles and other more complex interest rate options. These contracts are valued using various market standard option models, using inputs that include interest rate yield curves, inflation curves, volatilities and correlations. The volatility and correlation inputs within the models are implied from market data based on market observed prices for standard option instruments trading within the market. Option models used to value more exotic products have a number of model parameter inputs that require calibration to enable the exotic model to price standard option instruments to the price levels observed in the market. Although these inputs cannot be directly observed, they are generally treated as Level 2, as the calibration process enables the model output to be validated to active market levels. Models calibrated in this way are then used to revalue the portfolio of both standard options as well as more exotic products. In most cases, there are active and observable markets for the standard market instruments that form the inputs for yield curve models as well as the financial instruments from which volatility and correlation inputs are derived, resulting in the majority of these products being classified as Level 2. Within interest rate option contracts, exotic options for which appropriate volatility or correlation input levels cannot be implied from observable market data

Note 24 Fair value measurement (continued)

are classified as Level 3. These options are valued using volatility and correlation levels derived from non-market sources.

Interest rate swap and option contracts are classified as Level 3 when the maturity of the contract exceeds the term for which standard market quotes are observable for a significant input parameter. Such positions are valued by extrapolation from the last observable point using standard assumptions or by reference to another observable comparable input parameter to represent a suitable proxy for that portion of the term.

Balance guaranteed swaps (BGS) are interest rate or currency swaps that have a notional schedule based on a securitization vehicle, requiring the valuation to incorporate an adjustment for the unknown future variability of the notional schedule. Inputs to value BGS are those used to value the standard market risk on the swap and those used to estimate the notional schedule of the underlying securitization pool (i.e., prepayment, default and interest rates). BGS are classified as Level 3, as the correlation between unscheduled notional changes and the underlying market risk of the BGS does not have an active market and cannot be observed.

Credit derivative contracts

Credit derivative contracts based on a single credit name include credit default swaps (CDS) based on corporate and sovereign single names, CDS on loans and certain total return swaps (TRS). These contracts are valued by estimating future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using market standard discounted cash flow models and a discount rate that reflects the appropriate funding rate for that portion of the portfolio. TRS and certain single-name CDS contracts for which a derivative-based credit spread is not directly available are valued using a credit spread derived from the price of the cash bond that is referenced in the credit derivative, adjusted for any funding differences between the cash and synthetic product. Loan CDS for which a credit spread cannot be observed directly may be valued, where possible, using the corporate debt curve for the entity, adjusted for differences between loan and debt default definitions and recovery rate assumptions. Inputs to the valuation models used to value single-name and loan CDS include single-name credit spreads and upfront pricing points, recovery rates and funding curves. In addition, corporate bond prices are used as inputs to the valuation model for TRS and certain single-name or loan CDS as described. Many single-name credit default swaps are classified as Level 2 because the credit spreads and recovery rates used to value these contracts are actively traded and observable market data is available. Where the underlying reference name is not actively traded, these contracts are classified as Level 3.

Credit derivative contracts based on a portfolio of credit names include credit default swaps on a credit index, credit default swaps based on a bespoke portfolio or first to default swaps (FTD). The valuation of these contracts is similar to that described above for single-name CDS and includes an estimation of future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using market standard discounted cash flow models based on an estimation of the funding rate for that portion of the portfolio. Tranche products and FTD are valued using industry standard models that, in addition to default and recovery assumptions as above, incorporate implied correlations to be applied to the credits within the portfolio in order to apportion the expected credit loss at a portfolio level across the different tranches or names within the overall structure. These correlation assumptions are derived from prices of actively traded index tranches or other FTD baskets. Inputs to the valuation models used for all portfolio credit default swaps include single-name or index credit spreads and upfront pricing points, recovery rates and funding curves. In addition, models used for tranche and FTD products have implied credit correlations as inputs. Credit derivative contracts based on a portfolio of credit names are classified as Level 2 when credit spreads and recovery rates are determined from actively traded observable market data, and when the correlation data used to value bespoke and index tranches is based on actively traded index tranche instruments. This correlation data undergoes a mapping process that takes into account both the relative tranche attachment/detachment points in the overall capital structure of the portfolio and portfolio composition. Where the mapping process requires extrapolation beyond the range of available and active market data, the position is classified as Level 3. This relates to a small number of index and all bespoke tranche contracts. FTD are classified as Level 3, as the correlations between specific names in the FTD portfolio are not actively traded. Also classified as Level 3 are several older credit index positions, referred to as "off the run" indices, due to the lack of any active market for the index credit spread.

Credit derivative contracts on securitized products have an underlying reference asset that is a securitized product (RMBS, CMBS, ABS or CDO) and include credit default swaps and certain TRS. These credit default swaps (typically referred to as "pay-as-you-go" or "PAYG CDS") and TRS are valued using a similar valuation technique to the underlying security (by reference to equivalent securities trading in the market, or through cash flow estimation and discounted cash flow techniques as described in the Asset-backed securities section above), with an adjustment made to reflect the funding differences between cash and synthetic form. Inputs to the PAYG CDS and TRS are those used to value the underlying security (prepayment rates, default rates, loss severity, discount margin/rate and other inputs) and those used to capture the funding basis differential between cash and synthetic form. The classification of PAYG CDS and these TRS follow the characteristics of the underlying security and are therefore distributed across Level 2 and Level 3.

Note 24 Fair value measurement (continued)

Foreign exchange (FX) contracts

Open spot FX contracts are valued using the FX spot rate observed in the market. Forward FX contracts are valued using the FX spot rate adjusted for forward pricing points observed from standard market-based sources. As the markets for both FX spot and FX forward pricing points are both actively traded and observable, FX contracts are generally classified as Level 2.

OTC FX option contracts include standard call and put options, options with multiple exercise dates, path-dependent options, options with averaging features, options with discontinuous pay-off characteristics and options on a number of underlying FX rates. OTC FX option contracts are valued using market standard option valuation models. The models used for shorter-dated options (i.e., maturities of five years or less) tend to be different than those used for longer-dated options because the models needed for longer-dated OTC FX contracts require additional consideration of interest rate and FX rate interdependency. Inputs to the option valuation models include spot FX rates, FX forward points, FX volatilities, interest rate yield curves, interest rate volatilities and correlations. The inputs for volatility and correlation are implied through the calibration of observed prices for standard option contracts trading within the market.

As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of OTC FX option contracts are classified as Level 2. OTC FX option contracts classified as Level 3 include long-dated FX exotic option contracts for which there is no active market from which to derive volatility or correlation inputs. The inputs used to value these OTC FX option contracts are calculated using consensus pricing services without an underlying principal market, historical asset prices or by extrapolation.

Cross currency balance guaranteed swaps (BGS) are classified as foreign exchange contracts. Details of the fair value classification can be found under interest rate contracts above.

Equity/index contracts

Equity/index contracts include equity forward contracts and equity option contracts. Equity forward contracts have a single stock or index underlying and are valued using market standard models. The key inputs to the models are stock prices, estimated dividend rates and equity funding rates (which are implied from prices of forward contracts observed in the market). Estimated cash flows are then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of equity forward contracts are classified as Level 2. Positions classified as Level 3 have no market data available for the instrument maturity and are valued by some form of extrapolation of available data, use of historical dividend data, or use of data for a related equity.

Equity option contracts include market standard single or basket stock or index call and put options as well as equity option contracts with more complex features including option contracts with multiple or continuous exercise dates, option contracts for which the payoff is based on the relative or average performance of components of a basket, option contracts with discontinuous payoff profiles, path-dependent options and option contracts with a payoff calculated directly upon equity features other than price (i.e., dividend rates, volatility or correlation). Equity option contracts are valued using market standard models that estimate the equity forward level as described above for equity forward contracts and incorporate inputs for stock volatility and for correlation between stocks within a basket. The probability-weighted expected option payoff generated is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. Positions for which inputs are derived from standard market contracts traded in active and observable markets are classified as Level 2. Level 3 positions are those for which volatility, forward or correlation inputs are not observable and are therefore valued using extrapolation of available data, historical dividend, correlation or volatility data, or the equivalent data for a related equity.

Commodity derivative contracts

Commodity derivative contracts include forward, swap and option contracts on individual commodities and on commodity indices. Commodity forward and swap contracts are measured using market standard models that use market forward levels on standard instruments. Commodity option contracts are measured using market standard option models that estimate the commodity forward level as described above for commodity forward and swap contracts, incorporating inputs for the volatility of the underlying index or commodity. The option model produces a probability-weighted expected option payoff that is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. For commodity options on baskets of commodities or bespoke commodity indices, the valuation technique also incorporates inputs for the correlation between different commodities or commodity indices. Individual commodity contracts are typically classified as Level 2 because active forward and volatility market data is available.

Financial liabilities designated at fair value

Structured and OTC debt instruments issued

Structured debt instruments issued are comprised of medium-term notes (MTN), which are held at fair value under the fair value option. These MTN are tailored specifically to the holder's risk or investment appetite with structured coupons or payoffs.

Note 24 Fair value measurement (continued)

The risk management and the valuation approaches for these MTN are closely aligned to the equivalent derivatives business and the underlying risk, and the valuation techniques used for this component are the same as the relevant valuation techniques described above. For example, equity-linked notes should be referenced to equity/index contracts in the replacement value section and credit-linked notes should be referenced to credit derivative contacts.

Other liabilities – amounts due under unit-linked contracts
Unit-linked investment contracts allow investors to invest in a pool of assets through issued investment units. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amounts due to unit holders and is equal to the fair value of the reference asset pool. The fair values of investment contract liabilities are determined by reference to the fair value of the corresponding assets. The liabilities themselves are not actively traded, but are mainly referenced to instruments which are and are therefore classified as Level 2.

f) Transfers between Level 1 and Level 2 in the fair value hierarchy

With the adoption of IFRS 13, UBS refined its methodology regarding disclosure of transfers between Level 1 and Level 2 in the fair value hierarchy. The amounts disclosed reflect transfers between Level 1 and Level 2 for instruments which were held for the entire reporting period.

Assets totaling approximately CHF 0.8 billion, which were mainly comprised of financial assets held for trading, and liabilities totaling approximately CHF 0.1 billion were transferred from Level 2 to Level 1 during 2013, generally due to increased levels of trading activity observed within the market.

Assets totaling approximately CHF 1.0 billion, which were mainly comprised of financial assets held for trading and positive replacement values, and liabilities totaling approximately CHF 0.3 billion, which were primarily comprised of negative replacement values, were transferred from Level 1 to Level 2 during 2013, generally due to diminished levels of trading activity observed within the market.

g) Movements of Level 3 instruments

Significant changes in Level 3 instruments
The table on the following pages presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis. Level 3 assets and liabilities may be hedged with instruments classified as Level 1 or Level 2 in the fair value hierarchy and, as a result, realized and unrealized gains and losses included in the table may not include the effect of related hedging activity. Further, the realized and unrealized gains and losses presented within the table are not limited solely to those arising from Level 3 inputs, as valuations are generally derived from both observable and unobservable parameters.

With the adoption of IFRS 13, the Group refined its methodology for determining transfers and movements of Level 3 instruments, resulting in increased disclosure granularity and alignment with industry best practices. Assets and liabilities transferred into or out of Level 3 are now presented as if those assets or liabilities had been transferred at the beginning of the annual reporting period. Prior to adopting IFRS 13, the Group presented transfers into or out of Level 3 on a quarterly basis, with the quarters then aggregated for the annual result. Comparative data has not been restated.

As of 31 December 2013, financial instruments measured with valuation techniques using significant non-market-observable inputs (Level 3) mainly comprised the following:
– structured debt instruments issued (equity- and credit-linked);
– structured reverse repurchase and securities borrowing agreements;
– credit derivative contracts and
– structured over-the-counter debt instruments.

Note 24 Fair value measurement (continued)

Significant movements in Level 3 instruments during the year ended 31 December 2013 were as follows.

Financial assets held for trading

Financial assets held for trading decreased from CHF 5.7 billion to CHF 4.3 billion during the year. Issuances of CHF 5.0 billion, comprised of traded loans, and purchases of CHF 2.1 billion, mainly comprised of corporate bonds and traded loans, were mostly offset by sales of CHF 6.8 billion, which were primarily comprised of traded loans. Transfers into Level 3 during the period amounted to CHF 2.2 billion and were mainly comprised of traded loans, mortgage-backed securities and corporate bonds due to decreased observability of credit spread inputs. Transfers out of Level 3 amounted to CHF 1.2 billion and were primarily comprised of asset-backed securities, traded loans and corporate bonds.

Financial assets designated at fair value

Financial assets designated at fair value decreased from CHF 4.9 billion to CHF 4.4 billion during the year. Settlements of CHF 3.3 billion, primarily comprised of structured reverse repurchase and securities borrowing agreements, were partly offset by issuances of CHF 2.6 billion, which were mainly comprised of structured reverse repurchase and securities borrowing agreements and structured loans.

Financial investments available-for-sale

Financial investments available-for-sale increased from CHF 0.7 billion to CHF 0.8 billion during the year. Sales of CHF 0.2 billion were more than offset by net gains of CHF 0.1 billion included in comprehensive income, purchases of CHF 0.1 billion and transfers into Level 3 of CHF 0.1 billion.

Positive replacement values

Positive replacement values decreased from CHF 8.1 billion to CHF 5.5 billion during the year. Settlements and issuances amounted to CHF 4.7 billion and CHF 2.2 billion, respectively, and were primarily comprised of credit derivative contracts. Transfers into Level 3 amounted to CHF 3.8 billion and were primarily comprised of credit derivative contracts and foreign exchange derivative contracts. These transfers resulted from both changes in the availability of observable inputs for credit spread and changes in correlation between the portfolio held and the representative market portfolio used to independently verify market data. Transfers out of Level 3 totaling CHF 2.7 billion included UBS's option to acquire the equity of the SNB StabFund, which was transferred from Level 3 to Level 2 during the third quarter of 2013 and exercised subsequently.

Negative replacement values

Negative replacement values decreased from CHF 6.5 billion to CHF 4.4 billion during the year. Settlements and issuances amounted to CHF 4.6 billion and CHF 1.4 billion, respectively. Settlements were primarily comprised of credit derivative contracts, and issuances were mainly comprised of equity/index contracts and credit derivative contracts. Transfers into and out of Level 3 amounted to CHF 3.0 billion and CHF 1.0 billion, respectively, and were primarily comprised of credit derivative contracts and equity/index contracts resulting from changes in the availability of observable inputs for credit spread and changes in correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Financial liabilities designated at fair value

Financial liabilities designated at fair value decreased from CHF 14.7 billion to CHF 12.1 billion during the year. Settlements of CHF 9.4 billion, mainly comprised of equity- and credit-linked structured debt instruments issued and structured over-the-counter debt instruments, were partly offset by issuances of CHF 6.4 billion, which were primarily comprised of equity-linked structured debt instruments issued, non-structured fixed-rate bonds, structured repurchase agreements and structured over-the-counter debt instruments. Financial liabilities designated at fair value transferred into and out of Level 3 amounted to CHF 2.9 billion and CHF 1.7 billion, respectively. Transfers into Level 3 were primarily comprised of rates- and equity-linked structured debt instruments issued as well as structured over-the-counter debt instruments, as a reduction in observable equity volatility inputs and credit correlation affected the embedded options in these structures. Transfers out of Level 3 were mainly comprised of equity-, credit- and rates-linked structured debt instruments issued, due to volatility inputs becoming observable for credit spread, equity volatility inputs and rates correlation used to determine the fair value of the embedded options in these structures.

Note 24 Fair value measurement (continued)

Movements of Level 3 instruments

CHF billion	Balance as of 31 December 2011	Total gains / losses included in comprehensive income: Net trading income	*of which: related to Level 3 instruments held at the end of the reporting period*	Net interest income and other income	*of which: related to Level 3 instruments held at the end of the reporting period*	Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation
Financial assets held for trading[1]	**7.8**	**(1.1)**	***(0.3)***	**0.0**	***0.0***	**0.0**	**1.0**	**(7.2)**	**6.1**	**0.0**	**2.4**	**(3.0)**	**(0.3)**
of which:													
Corporate bonds and municipal bonds, including bonds issued by financial institutions	*2.4*												
Loans	*1.4*												
Asset-backed securities	*3.7*												
Other	*0.3*												
Financial assets designated at fair value	**2.7**	**0.1**	***0.0***	**0.0**	***0.0***	**0.0**	**0.0**	**0.0**	**2.7**	**(1.0)**	**0.6**	**0.0**	**(0.3)**
of which:													
Loans (including structured loans)	*0.8*												
Structured reverse repurchase and securities borrowing agreements	*1.7*												
Other	*0.2*												
Financial investments available-for-sale	**0.6**	**0.1**	***(0.1)***	**0.0**	***0.0***	**0.0**	**0.1**	**(0.2)**	**0.1**	**(0.1)**	**0.2**	**(0.1)**	**0.0**
Positive replacement values	**13.9**	**(2.9)**	***(1.2)***	**0.0**	***0.0***	**0.0**	**0.0**	**0.0**	**1.2**	**(3.4)**	**2.1**	**(2.3)**	**(0.5)**
of which:													
Credit derivative contracts	*8.8*												
Foreign exchange contracts	*2.0*												
Equity / index contracts	*2.2*												
Other	*0.9*												
Negative replacement values	**10.8**	**(1.3)**	***(0.3)***	**0.0**	***0.0***	**0.0**	**0.0**	**0.0**	**1.1**	**(3.9)**	**2.7**	**(2.3)**	**(0.5)**
of which:													
Credit derivative contracts	*7.1*												
Foreign exchange contracts	*2.3*												
Equity / index contracts	*0.9*												
Other	*0.4*												
Financial liabilities designated at fair value	**12.1**	**1.9**	***1.1***	**(0.4)**	***0.0***	**0.0**	**0.0**	**0.0**	**5.9**	**(6.0)**	**5.9**	**(5.3)**	**0.6**
of which:													
Non-structured fixed-rate bonds	*0.1*												
Structured debt instruments issued	*8.9*												
Structured over-the-counter debt instruments	*2.7*												
Structured repurchase agreements	*0.4*												

1 Includes assets pledged as collateral which may be sold or repledged by counterparties. 2 Total Level 3 assets as of 31 December 2013 were CHF 15.0 billion (31 December 2012: CHF 19.6 billion). Total Level 3 liabilities as of 31 December 2013 were CHF 16.8 billion (31 December 2012: CHF 21.4 billion).

Balance as of 31 December 2012	Total gains / losses included in comprehensive income: Net trading income	*of which: related to Level 3 instruments held at the end of the reporting period*	Net interest income and other income	*of which: related to Level 3 instruments held at the end of the reporting period*	Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation	Balance as of 31 December 2013[2]
5.7	**(2.4)**	***(1.3)***	**0.0**	***0.0***	**0.0**	**2.1**	**(6.8)**	**5.0**	**0.0**	**2.2**	**(1.2)**	**(0.2)**	**4.3**
1.6	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.9*	*(0.8)*	*0.0*	*0.0*	*0.3*	*(0.2)*	*0.0*	*1.7*
2.0	*(2.1)*	*(1.2)*	*0.0*	*0.0*	*0.0*	*0.7*	*(4.9)*	*5.0*	*0.0*	*0.6*	*(0.2)*	*0.0*	*1.0*
1.5	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.2*	*(0.7)*	*0.0*	*0.0*	*0.6*	*(0.5)*	*(0.2)*	*1.0*
0.6	*(0.2)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.3*	*(0.4)*	*0.0*	*0.0*	*0.6*	*(0.2)*	*0.0*	*0.6*
4.9	**0.2**	***1.5***	**0.0**	***0.0***	**0.0**	**0.0**	**0.0**	**2.6**	**(3.3)**	**0.2**	**(0.2)**	**(0.1)**	**4.4**
1.4	*(0.6)*	*(0.6)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.2*	*(0.8)*	*0.1*	*(0.2)*	*0.0*	*1.1*
3.3	*0.8*	*2.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.3*	*(2.4)*	*0.2*	*0.0*	*(0.1)*	*3.1*
0.2	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.2*
0.7	**0.0**	***0.0***	**0.0**	***0.0***	**0.1**	**0.1**	**(0.2)**	**0.0**	**0.0**	**0.1**	**(0.1)**	**0.0**	**0.8**
8.1	**(0.8)**	***(0.5)***	**0.0**	***0.0***	**0.0**	**0.0**	**(0.1)**	**2.2**	**(4.7)**	**3.8**	**(2.7)**	**(0.3)**	**5.5**
3.6	*(0.8)*	*(0.6)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.9*	*(3.8)*	*2.4*	*(0.2)*	*(0.1)*	*3.0*
1.2	*(0.2)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*(0.4)*	*0.6*	*(0.1)*	*(0.2)*	*0.9*
2.9	*0.4*	*0.4*	*0.0*	*0.0*	*0.0*	*0.0*	*(0.1)*	*0.0*	*(0.1)*	*0.4*	*(2.3)*	*0.0*	*1.2*
0.4	*(0.2)*	*(0.3)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.3*	*(0.4)*	*0.4*	*(0.1)*	*0.0*	*0.3*
6.5	**(0.5)**	***(0.1)***	**0.0**	***0.0***	**0.0**	**0.0**	**0.0**	**1.4**	**(4.6)**	**3.0**	**(1.0)**	**(0.4)**	**4.4**
3.3	*(0.8)*	*(0.3)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.4*	*(3.3)*	*2.7*	*(0.3)*	*0.0*	*2.0*
1.5	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*(0.5)*	*0.0*	*0.0*	*(0.3)*	*0.5*
1.3	*0.5*	*0.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.7*	*(0.7)*	*0.1*	*(0.5)*	*0.0*	*1.5*
0.4	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.3*	*(0.1)*	*0.2*	*(0.2)*	*(0.1)*	*0.5*
14.7	**(0.4)**	***1.0***	**0.0**	***0.0***	**0.0**	**0.0**	**0.0**	**6.4**	**(9.4)**	**2.9**	**(1.7)**	**(0.2)**	**12.1**
0.8	*(0.1)*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.1*	*(0.8)*	*0.5*	*(0.1)*	*0.0*	*1.2*
10.0	*1.2*	*0.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*3.2*	*(6.7)*	*1.9*	*(1.4)*	*(0.1)*	*7.9*
2.2	*(0.4)*	*(0.3)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.0*	*(1.3)*	*0.5*	*(0.1)*	*(0.1)*	*1.8*
1.7	*(1.0)*	*0.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.1*	*(0.6)*	*0.0*	*0.0*	*0.0*	*1.2*

Note 24 Fair value measurement (continued)

h) Valuation of assets and liabilities classified as Level 3

The table on the following pages presents the Group's assets and liabilities recognized at fair value and classified as Level 3, together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values for those unobservable inputs.

The range of values represents the highest and lowest level input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities. The ranges will therefore vary from period to period and parameter to parameter based on characteristics of the instruments held at each balance sheet date. Further, the ranges of unobservable inputs may differ across other financial institutions due to the diversity of the products in each firm's inventory.

Valuation techniques and inputs used in the fair value measurement of Level 3 assets and liabilities

	Fair value as of 31.12.13				Range of inputs		
CHF billion	Assets	Liabilities	Valuation technique(s)	Significant unobservable input(s)[1]	low	high	unit[1]
Financial assets held for trading / Trading portfolio liabilities, Financial assets / liabilities designated at fair value and Financial investments available-for-sale							
Corporate bonds and municipal bonds, including bonds issued by financial institutions	***1.8***	***0.2***	Relative value to market comparable	Bond price equivalent	0	127	points
Traded loans, loans designated at fair value and loan commitments	***2.2***	***0.0***	Relative value to market comparable	Loan price equivalent	0	102	points
			Discounted expected cash flows	Credit spread	65	125	basis points
			Market comparable and securitization model	Discount margin / spread	1	15	%
			Mortality dependent cash flow	Volatility of mortality	21	128	%
Investment fund units[2]	***0.6***	***0.0***	Relative value to market comparable	Net asset value			
Asset-backed securities	***1.0***	***0.0***	Discounted cash flow projection	Constant prepayment rate	0	18	%
				Constant default rate	0	10	%
				Loss severity	0	100	%
				Discount margin / spread	1	39	%
			Relative value to market comparable	Bond price equivalent	0	102	points
Equity instruments[2]	***0.6***	***0.0***	Relative value to market comparable	Price			
Structured (reverse) repurchase agreements	***3.1***	***1.2***	Discounted expected cash flows	Funding spread	10	163	basis points
Financial assets for unit-linked investment contracts[2]	***0.1***		Relative value to market comparable	Price			
Structured debt instruments and non-structured fixed-rate bonds[3]		***11.0***					

Note 24 Fair value measurement (continued)

Valuation techniques and inputs used in the fair value measurement of Level 3 assets and liabilities (continued)

	Fair value as of 31.12.13				Range of inputs		
CHF billion	Assets	Liabilities	Valuation technique(s)	Significant unobservable input(s)[1]	low	high	unit[1]
Replacement values							
Interest rate contracts	*0.3*	*0.4*	Option model	Volatility of interest rates	13	73	%
				Rate to rate correlation	84	94	%
				Intra-curve correlation	50	84	%
			Discounted expected cash flows	Constant prepayment rate	0	3	%
Credit derivative contracts	*3.0*	*2.0*	Discounted expected cash flow based on modeled defaults and recoveries	Credit spreads	2	1,407	basis points
				Upfront price points	(12)	68	%
				Recovery rates	0	95	%
				Credit index correlation	10	90	%
				Discount margin / spread	0	39	%
				Credit pair correlation	42	92	%
			Discounted cash flow projection on underlying bond	Constant prepayment rate	0	15	%
				Constant default rate	0	12	%
				Loss severity	0	100	%
				Discount margin / spread	0	38	%
				Bond price equivalent	0	100	points
Foreign exchange contracts	*0.9*	*0.5*	Option model	Volatility of foreign exchange	7	20	%
				Rate to FX correlation	(71)	60	%
				FX to FX correlation	(83)	80	%
			Discounted expected cash flows	Constant prepayment rate	0	13	%
Equity / index contracts	*1.2*	*1.5*	Option model	Equity dividend yields	0	10	%
				Volatility of equity stocks, equity and other indices	1	88	%
				Equity – FX correlation	(52)	77	%
				Equity to equity correlation	17	99	%
Non-financial assets[2, 4]	*0.1*		Relative value to market comparable	Price			
			Discounted cash flow projection	Projection of cost and income related to the particular property			
				Discount rate			
				Assessment of the particular property's condition			

1 The ranges of significant unobservable inputs are represented in points, percentages and basis points. Points are a percentage of par. For example, 100 points would be 100% of par. 2 The range of inputs is not disclosed due to the dispersion of possible values given the diverse nature of the investments. 3 Valuation techniques, significant unobservable inputs and the respective input ranges for structured debt instruments and non-structured fixed-rate bonds are the same as the equivalent derivative or structured financing instruments presented elsewhere in this table. 4 Non-financial assets include investment properties at fair value and other assets which primarily consist of assets held for sale.

Note 24 Fair value measurement (continued)

Significant unobservable inputs in Level 3 positions

This section discusses the significant unobservable inputs identified in the table above and assesses the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown. Relationships between observable and unobservable inputs have not been included in the summary below.

Bond price equivalent: Where market prices are not available for a bond, fair value is measured by comparison with observable pricing data from similar instruments. Factors considered when selecting comparable instruments include credit quality, maturity and industry of the issuer. Fair value may be measured either by a direct price comparison or by conversion of an instrument price into a yield (either as an outright yield or as a spread to LIBOR). Bond prices are expressed as points of the nominal, where 100 represents a fair value equal to the nominal value (i.e., par).

For corporate and municipal bonds, the range of 0–127 represents the range of prices from reference issuances used in determining fair value. Bonds priced at 0 are distressed to the point that no recovery is expected, while prices significantly in excess of 100 or "par" relate to inflation-linked or structured issuances that pay a coupon in excess of the market benchmark as of the measurement date. The weighted average price is approximately 87 points, with a majority of positions concentrated around this price.

For asset-backed securities, the bond price range of 0–102 points represents the range of prices for reference securities used in determining fair value. An instrument priced at 0 is not expected to pay any principal or interest, while an instrument priced close to 100 points is expected to be repaid in full as well as pay a yield close to the market yield. More than 75% of the portfolio is priced at 80 points or higher, and the weighted average price for Level 3 assets within this portion of the Level 3 portfolio is 84 points.

For credit derivatives, the bond price range of 0–100 points disclosed within credit derivatives represents the range of prices used for reference instruments that are typically converted to an equivalent yield or credit spread as part of the valuation process. The range is comparable to that for corporate and asset-backed issuances described above.

Loan price equivalent: Where market prices are not available for a traded loan, fair value is measured by comparison with observable pricing data for similar instruments. Factors considered when selecting comparable instruments include industry segment, collateral quality, maturity and issuer-specific covenants. Fair value may be measured either by a direct price comparison or by conversion of an instrument price into a yield. The range of 0–102 points represents the range of prices derived from reference issuances of a similar credit quality used in measuring fair value for loans classified as Level 3. Loans priced at 0 are distressed to the point that no recovery is expected, while a current price of 102 represents a loan that is expected to be repaid in full, and also pays a yield marginally higher than market yield. The portfolio is distributed at both the very low end and the very high end of the disclosed range with a weighted average of approximately 90 points.

Credit spread: Valuation models for many credit derivatives require an input for the credit spread, which is a reflection of the credit quality of the associated referenced underlying. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either US Treasury or LIBOR, and is generally expressed in terms of basis points. An increase/(decrease) in credit spread will increase/(decrease) the value of credit protection offered by CDS and other credit derivative products. The impact on the results of the Group of such changes depend on the nature and direction of the positions held. Credit spreads may be negative where the asset is more creditworthy than the benchmark against which the spread is calculated. A wider credit spread represents decreasing creditworthiness. The ranges of 65–125 basis points in loans and 2–1407 basis points in credit derivatives represents a diverse set of underlyings, with the lower end of the range representing credits of the highest quality (e.g., approximating the risk of LIBOR) and the upper end of the range representing greater levels of credit risk.

Constant prepayment rate: A prepayment rate represents the amount of unscheduled principal repayment for a pool of loans. The prepayment estimate is based on a number of factors, such as historical prepayment rates for previous loans that are similar pool loans and the future economic outlook, considering factors including, but not limited to, future interest rates. In general, a significant increase (decrease) in this unobservable input in isolation would result in a significantly higher (lower) fair value for bonds trading at a discount. For bonds trading at a premium the reverse would apply, with a decrease in fair value when the constant prepayment rate increases. However, in certain cases the effect of a change in prepayment speed upon instrument price is more complicated and is dependent upon both the precise terms of the securitization and the position of the instrument within the securitization capital structure.

For asset-backed securities, the range of 0–18% represents inputs across various classes of asset-backed securities. Securities with an input of 0% typically reflect no current prepayment behavior within their underlying collateral with no expectation of this changing in the immediate future, while the high range of 18% relates to securities that are currently experiencing high prepayments. Different classes of asset-backed securities typically show different ranges of prepayment characteristics depending on a combination of factors, including the borrowers' ability to refinance, prevailing refinancing rates, and the quality or characteristics of the underlying loan collateral pools. The weighted average constant prepayment rate for the portfolio is 2%.

For credit derivatives, the range of 0–15% represents the input assumption for credit derivatives on asset-backed securities. The range is driven in a similar manner to that for asset-backed securities.

For FX contracts and interest rate contracts, the ranges of 0–13% and 0–3%, respectively, represent the prepayment assumptions on securitizations underlying the BGS portfolio. This portfolio is less diverse than other asset-backed securities portfolios and the range of prepayment speed is therefore narrower.

Constant default rate (CDR): The CDR represents the percentage of outstanding principal balances in the pool that are projected to default and liquidate and is the annualized rate of default for a group of mortgages or loans. The CDR estimate is based on a number of factors, such as collateral delinquency rates in the pool and the future economic outlook. In general, a significant increase (decrease) in this unobservable input in isolation would result in significantly lower (higher) cash flows for the deal (and thus lower (higher) valuations). However, different instruments within the capital structure can react differently to changes in the CDR rate. Generally, subordinated bonds will decrease in value as CDR increases, but for well-protected senior bonds an increase in CDR may cause an increase in price. In addition, the presence of a guarantor wrap on the collateral pool of a security may result in notes at the junior end of the capital structure experiencing a price increase with an increase in the default rate.

The ranges of 0–10% for asset-backed securities and 0–12% for credit derivatives represent the expected default percentage across the individual instruments' underlying collateral pools. For asset-backed securities, the weighted average CDR is 2%.

Loss severity / recovery rate: The projected loss severity / recovery rate reflects the estimated loss that will be realized given expected defaults. Loss severity is generally applied to collateral within asset-backed securities while the recovery rate is the analogous pricing input for corporate or sovereign credits. Recovery is the reverse of loss severity, so a 100% recovery rate is the equivalent of a 0% loss severity. Increases in loss severity levels / decrease in recovery rates will result in lower expected cash flows into the structure upon the default of the instruments. In general, a significant decrease (increase) in the loss severity in isolation would result in significantly higher (lower) fair value for the respective asset-backed securities. The impact of a change in recovery rate on a credit derivative position will depend upon whether credit protection has been bought or sold.

Loss severity is ultimately driven by the value recoverable from collateral held after foreclosure occurs relative to the loan principal and possibly unpaid interest accrued at that point. The range of 0–100% for asset-backed securities represents the different quality and nature of collateral within the asset-backed securities portfolio. The weighted average loss severity is 90%. For credit derivatives, the loss severity range of 0–100% applies to derivatives on asset-backed securities and is broadly similar to the range for cash positions held. The recovery rate range of 0–95% represents a wide range of expected recovery levels on credit derivative contracts within the Level 3 portfolio.

Discount margin (DM) spread: The DM spread represents the discount rates used to present value cash flows of an asset to reflect the market return required for uncertainty in the estimated cash flows. DM spreads are a rate or rates applied on top of a floating index (e.g., LIBOR) to discount expected cash flows. Generally, a decrease (increase) in the unobservable input in isolation would result in a significantly higher (lower) fair value.

The different ranges represent the different discount rates across loans (1–15%), asset-backed securities (1–39%) and credit derivatives (0–39%). The high end of the range relates to securities that are priced very low within the market relative to the expected cash flow schedule and there is significant discounting relative to the expected cash flow schedule. This indicates that the market is pricing an increased risk of credit loss into the security that is greater than what is being captured by the expected cash flow generation process. The low ends of the ranges are typical of funding rates on better quality instruments. For asset-backed securities, the weighted average DM is 5.5%. For loans, the average effective DM is 1.84% compared with the disclosed range of 1–15%.

Equity dividend yields: The derivation of a forward price for an individual stock or index is important both for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price, is based on a combination of expected future dividend levels and payment timings, and, to a lesser extent, the relevant funding rates applicable to the stock in question. Dividend yields are generally expressed as an annualized percentage of share price with the lowest limit of 0% representing a stock that is not expected to pay any dividend. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price. The range of 0–10% reflects the expected range of dividend rates for the portfolio.

Volatility: Volatility measures the variability of future prices for a particular instrument and is generally expressed as a percentage, where a higher number reflects a more volatile instrument for which future price movements are more likely to occur. The minimum level of volatility is 0% and there is no theoretical maximum. Volatility is a key input into option models, where it is used to derive a probability-based distribution of future prices for the underlying instrument. The effect of volatility on individual positions within the portfolio is driven primarily by whether the option contract is a long or short position. In most cases, the fair value of an option increases as a result of an increase in volatility and is reduced by a decrease in volatility. Generally, volatility used in the

Note 24 Fair value measurement (continued)

measurement of fair value is derived from active market option prices (referred to as "implied" volatility). A key feature of implied volatility is the volatility "smile" or "skew," which represents the effect of pricing options of different option strikes at different implied volatility levels.

- Volatility of interest rates – the range of 13–73% reflects the range of unobservable volatilities across different currencies and related underlying interest rate levels. Volatilities of low interest rates tend to be much higher than volatilities of high interest rates. In addition, different currencies may have significantly different implied volatilities.
- Volatility of foreign exchange – the range of 7–20% reflects differences across various FX rates.
- Volatility of equity stocks, equity and other indices – the range of 1–88% is reflective of the range of underlying stock volatilities.
- Volatility of mortality – the range of 21–128% represents mortality volatility assumptions for different components of the mortality contingent loan portfolio. The range in volatility inputs is driven by different characteristics of contracts within the portfolio. An increase in volatility will cause an increase in loan value as the notional drawn will tend to increase.

Correlation: Correlation measures the inter-relationship between the movements of two variables. It is expressed as a percentage between –100% and +100% where +100% are perfectly correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the same direction), and –100% are inversely correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the opposite direction). The effect of correlation on the measurement of fair value is dependent on the specific terms of the instruments being valued, due to the range of different payoff features within such instruments.

- Rate-to-rate correlation – the correlation between interest rates of two separate currencies. The range of 84–94% results from the different pairs of currency involved.
- Intra-curve correlation – the correlation between different tenor points of the same yield curve. Correlations are typically fairly high, as reflected by the range of 50–84%.
- Credit index correlation of 10–90% reflects the implied correlation derived from different indices across different parts of the benchmark index capital structure. The input is particularly important for bespoke and Level 3 index tranches.
- Credit pair correlation is particularly important for FTD credit structures. The range of 42–92% reflects the difference between credits with low correlation and similar highly correlated credits.
- Rate-to-FX correlation – captures the correlation between interest rates and FX rates. The range for the portfolio is (71)–60%, which represents the relationship between interest rates and foreign exchange levels. The signage on such correlations is dependent on the quotation basis of the underlying FX rate (e.g., EUR/USD and USD/EUR correlations to the same interest rate will have opposite signs).
- FX-to-FX correlation is particularly important for complex options that incorporate different FX rates in the projected payoff. The range of (83)–80% reflects the underlying characteristics across the main FX pairs to which the Group has exposures.
- Equity-to-equity correlation is particularly important for complex options that incorporate, in some manner, different equities in the projected payoff. The closer the correlation is to 100%, the more related one equity is to another. For example, equities with a very high correlation could be from different parts of the same corporate structure. The range of 17–99% is reflective of this.
- Equity-to-FX correlation is important for equity options based on a currency different to the currency of the underlying stock. The range of (52)–77% represents the range of the relationship between underlying stock and foreign exchange volatilities.

Funding spread: Structured financing transactions are valued using synthetic funding curves that best represent the assets that are pledged as collateral to the transactions. They are not representative of where the Group can fund itself on an unsecured basis, but provide an estimate of where the Group can source and deploy secured funding with counterparties for a given type of collateral. The funding spreads are expressed in terms of basis points over or under LIBOR and if funding spreads widen this increases the impact of discounting. The range of 10–163 basis points for both structured repurchase agreements and structured reverse repurchase agreements represents the range of asset funding curves, where wider spreads are due to a reduction in liquidity of underlying collateral for funding purposes.

A small proportion of structured debt instruments and non-structured fixed-rate bonds within financial liabilities designated at fair value has an exposure to funding spreads that is longer in duration than the actively traded market. Such positions are within the range of 10–163 basis points reported above.

Upfront price points: A component in the price quotation of credit derivative contracts, whereby the overall fair value price level is split between the credit spread (basis points running over the life of the contract as described above) and a component that is quoted and settled upfront on transacting a new contract. This latter component is referred to as upfront price points and represents the difference between the credit spread paid as protection premium on a current contract versus a small number of standard contracts defined by the market. Distressed credit names frequently trade and quote CDS protection only in upfront points rather than as a running credit spread. An increase/(decrease) in upfront points will increase/(decrease) the value of credit protection offered by CDS and other credit derivative products. The ef-

Note 24 Fair value measurement (continued)

fect on the results of the Group of increases or decreases in upfront price points depends on the nature and direction of the positions held. Upfront pricing points may be negative where a contract is quoting for a narrower premium than the market standard, but are generally positive, reflecting an increase in credit premium required by the market as creditworthiness deteriorates. The range of (12)–68% within the table above represents the variety of current market credit spread levels relative to the benchmarks used as a quotation basis. Upfront points of (12)% reflect an instrument that is trading with a tighter credit spread than the underlying quotation instrument, while upfront points of 68% represent a distressed credit.

i) Sensitivity of fair value measurements to changes in unobservable input assumptions

The table on the following page summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof. As of 31 December 2013, the total favorable and unfavorable effects of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for financial instruments classified as Level 3 were CHF 1.2 billion and CHF 1.1 billion, respectively (31 December 2012: CHF 1.8 billion and CHF 1.4 billion, respectively). In the table on the following page, the significant change in sensitivity within equity/index derivative contracts from 31 December 2012 to 31 December 2013 resulted from the transfer of UBS's option to acquire the equity of the SNB StabFund from Level 3 to Level 2 during the third quarter and the subsequent exercise.

The table shown presents the favorable and unfavorable effects for each class of financial assets and liabilities for which the potential change in fair value is considered significant. The sensitivity data presented represents an estimation of valuation uncertainty based on reasonably possible alternative values for Level 3 inputs at the balance sheet date and does not represent the estimated effect of stress scenarios. Typically, these financial assets and liabilities are sensitive to a combination of inputs from Levels 1–3. Although well-defined interdependencies may exist between Levels 1–2 and Level 3 parameters (e.g., between interest rates, which are generally Level 1 or Level 2, and prepayments, which are generally Level 3), these have not been incorporated in the table. Further, direct inter-relationships between the Level 3 parameters discussed below are not a significant element of the valuation uncertainty.

Sensitivity data is estimated using a number of techniques including the estimation of price dispersion among different market participants, variation in modeling approaches and reasonably possible changes to assumptions used within the fair value measurement process. The sensitivity ranges are not always symmetrical around the fair values as the inputs used in valuations are not always precisely in the middle of the favorable and unfavorable range.

Sensitivity data is determined at a product or parameter level and then aggregated assuming no diversification benefit. The calculated sensitivity is applied to both the outright position and any related hedges. The main interdependencies across different products to a single unobservable input parameter have been included in the basis of netting exposures within the calculation. Aggregation without allowing for diversification involves the simple summation of individual results with, the total sensitivity therefore representing the impact of all unobservable inputs which, if moved to a reasonably possible favorable or unfavorable level at the same time, would result in a significant change in the valuation. Diversification would incorporate estimated correlations across different sensitivity results and, as such, would result in an overall sensitivity that would be less than the sum of the individual component sensitivities. The Group believes that, while there are diversification benefits within the portfolios representing these sensitivity numbers, they are not significant to this analysis.

Note 24 Fair value measurement (continued)

Sensitivity of fair value measurements to changes in unobservable input assumptions[1]

	31.12.13		31.12.12	
CHF million	Favorable changes[2]	Unfavorable changes[2]	Favorable changes[2]	Unfavorable changes[2]
Government bills / bonds	17	(4)	29	(2)
Corporate bonds and municipal bonds, including bonds issued by financial institutions	35	(76)	102	(70)
Traded loans, loans designated at fair value and loan commitments	148	(70)	204	(40)
Asset-backed securities	54	(46)	74	(48)
Equity instruments	137	(84)	151	(76)
Interest rate derivative contracts, net	127	(91)	27	(30)
Credit derivative contracts, net	366	(419)	577	(556)
Foreign exchange derivative contracts, net	57	(56)	89	(94)
Equity / index derivative contracts, net	41	(43)	272	(272)
Structured debt instruments issued	184	(151)	219	(151)
Other	63	(54)	73	(75)
Total	**1,229**	**(1,094)**	**1,818**	**(1,414)**

1 Upon adoption of IFRS 13, UBS refined its methodologies for estimating the sensitivity of fair value measurements to changes in unobservable valuation input assumptions. Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information. 2 Of the total favorable change, CHF 154 million as of 31 December 2013 (31 December 2012: CHF 163 million) related to financial investments available-for-sale. Of the total unfavorable change, CHF 159 million as of 31 December 2013 (31 December 2012: CHF 124 million) related to financial investments available-for-sale.

j) Deferred day-1 profit or loss

As explained above, for new transactions resulting in a financial instrument classified as Level 3, the financial instrument is initially recognized at the transaction price. The transaction price may differ from the fair value obtained using a valuation technique, and any such difference is deferred and not recognized in the income statement and referred to as deferred day-1 profit or loss. The table below reflects the activity in deferred day-1 profit or loss for these financial instruments, including the aggregate difference yet to be recognized in the income statement at the beginning and end of the reporting period and a reconciliation of changes during the reporting period. Amounts deferred are released and gains or losses are recorded in *Net trading income* when pricing of equivalent products or the underlying parameters become observable or when the transaction is closed out.

Deferred day 1 profit or loss

	For the year ended	
CHF million	31.12.13	31.12.12
Balance at the beginning of the year	**474**	**433**
Profit / (loss) deferred on new transactions	694	424
(Profit) / loss recognized in the income statement	(653)	(367)
Foreign currency translation	(29)	(16)
Balance at the end of the year	**486**	**474**

Note 24 Fair value measurement (continued)

k) Financial instruments not measured at fair value

The following table reflects the estimated fair values and the fair value hierarchy for UBS's financial instruments not measured at fair value.

Financial instruments not measured at fair value

	31.12.13					31.12.12	
	Carrying value	Fair value				Carrying value	Fair value
CHF billion	Total	Total	Level 1	Level 2	Level 3	Total	Total
Assets							
Cash and balances with central banks	80.9	80.9	80.9	0.0	0.0	66.4	66.4
Due from banks	17.2	17.2	14.7	2.4	0.0	21.2	21.2
Cash collateral on securities borrowed	27.5	27.5	0.0	27.5	0.0	37.4	37.4
Reverse repurchase agreements	91.6	91.6	0.0	91.2	0.4	130.9	131.1
Cash collateral receivables on derivative instruments	28.0	28.0	0.0	28.0	0.0	30.4	30.4
Loans	287.0	289.3	0.0	165.5	123.8	279.9	282.9
Other assets	17.6	17.4	0.0	17.4	0.0	12.2	12.2
Liabilities							
Due to banks	12.9	12.9	10.8	2.1	0.0	23.0	23.1
Cash collateral on securities lent	9.5	9.5	0.0	9.5	0.0	9.2	9.2
Repurchase agreements	13.8	13.8	0.0	13.8	0.0	38.6	38.6
Cash collateral payables on derivative instruments	49.1	49.1	0.0	49.1	0.0	71.1	71.1
Due to customers	390.8	390.8	0.0	390.8	0.0	373.5	373.5
Debt issued	81.4	84.0	0.0	79.3	4.7	104.7	107.7
Other liabilities	39.5	39.5	0.0	39.5	0.0	44.8	44.8
Guarantees / Loan commitments							
Guarantees[1]	0.1	(0.1)	0.0	0.0	(0.1)	0.1	(0.1)
Loan commitments[2]	0.0	0.1	0.0	0.1	0.0	0.0	0.3

1 The carrying value of guarantees represented a liability of CHF 0.1 billion as of 31 December 2013 (31 December 2012: CHF 0.1 billion). The estimated fair value of guarantees represented an asset of CHF 0.1 billion as of 31 December 2013 (31 December 2012: CHF 0.1 billion). 2 The carrying value of loan commitments represented a liability of CHF 0.0 billion as of 31 December 2013 (31 December 2012: CHF 0.0 billion). The estimated fair value of loan commitments represented a liability of CHF 0.1 billion as of 31 December 2013 (31 December 2012: CHF 0.3 billion).

Note 24 Fair value measurement (continued)

The fair values included in the table on the previous page were calculated for disclosure purposes only. The fair value valuation techniques and assumptions described below relate only to the fair value of UBS's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another. UBS applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than UBS's established fair value and model governance policies and processes applied to financial instruments accounted for at fair value whose fair values impact UBS's balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments not measured at fair value:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments not measured at fair value have remaining maturities of three months or less as of 31 December 2013: 100% of cash and balances with central banks, 86% of amounts due from banks, 100% of cash collateral on securities borrowed, 90% of reverse repurchase agreements, 100% of cash collateral receivables on derivatives, 51% of loans, 84% of amounts due to banks, 94% of cash collateral on securities lent, 96% of repurchase agreements, 100% of cash collateral payable on derivatives, 99% of amount due to customers and 17% of debt issued.
- The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.
- The estimated fair values of off-balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 25 Restricted and transferred financial assets

This Note provides information on restricted financial assets (Note 25a), transfers of financial assets (Note 25b and 25c), and financial assets which are received as collateral with the right to resell or repledge these assets (Note 25d).

a) Restricted financial assets

During 2013, UBS has enhanced its disclosures on restricted financial assets in order to comply with IFRS 12 requirements on significant restrictions that impact the Group's ability to use the assets and settle the liabilities of the Group. Restricted financial assets consist of assets pledged as collateral against an existing liability or contingent liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding. In addition, UBS AG including its branches and its subsidiaries are generally not subject to significant restrictions that would prevent the transfer of dividends and capital within the Group, other than UBS AG's regulated subsidiaries which are required to maintain capital to comply with local regulations, with a certain level of capital being not available for distribution or transfer. Non-regulated subsidiaries are generally not subject to dividend or capital transfer restrictions. However, exceptions may exist when restrictions are imposed as a result of a contractual-, entity- or country-specific arrangement or requirement.

Financial assets are mainly pledged as collateral in securities lending transactions, in repurchase transactions, against loans from Swiss mortgage institutions and in connection with the issuance of covered bonds. The Group generally enters into repurchase and securities lending arrangements under standard market agreements, with a market based haircut applied to the collateral, which results in the associated liabilities having a carrying value below the carrying value of the assets. Pledged mortgage loans serve as collateral for existing liabilities against Swiss central mortgage institutions and for existing covered bond issuances of CHF 22,634 million as of 31 December 2013 (31 December 2012: CHF 21,902 million).

Other restricted financial assets include assets protected under client asset segregation rules, assets held by the Group's insurance entities to back related liabilities to the policy holders, assets held in certain jurisdictions to comply with explicit minimum local asset maintenance requirements and assets held in consolidated bankruptcy remote entities such as certain investment funds and other structured entities. The carrying value of the liabilities associated with these other restricted financial assets is generally equal to the carrying value of the assets, with the exception of assets held to comply with local asset maintenance requirements for which the associated liabilities are greater.

Restricted financial assets

	Carrying amount	
CHF million	**31.12.13**	31.12.12
Financial assets pledged as collateral		
Trading portfolio assets	**48,368**	53,656
of which: assets pledged as collateral which may be sold or repledged by counterparties	***42,449***	*44,698*
Loans	**33,632**	34,005
of which: mortgage loans[1]	***33,632***	*33,928*
Total financial assets pledged as collateral[2]	**82,000**	87,661
Other restricted financial assets		
Due from banks	**6,570**	7,804
Reverse repurchase agreements	**1,989**	1,872
Trading portfolio assets	**24,252**	32,715
Cash collateral receivables on derivative insruments	**7,939**	4,080
Financial assets designated at fair value	**581**	655
Financial investments available-for-sale	**44**	2,339
Other	**169**	143
Total other restricted financial assets[3]	**41,544**	49,608
Total financial assets pledged and other restricted financial assets	**123,544**	137,269

1 Of these pledged mortgage loans, approximately CHF 5.8 billion for 31 December 2013 (31 December 2012: approximately CHF 7.5 billion) could be withdrawn or used for future liabilities or covered bond issuances without breaching existing collateral requirements. 2 Does not include assets placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes (31 December 2013: CHF 4.3 billion, 31 December 2012: CHF 4.8 billion). 3 Other restricted financial assets as of 31 December 2013 included cash and cash equivalents of CHF 8.3 billion (31 December 2012: CHF 10.1 billion), of which CHF 6.2 billion under Due from banks (31 December 2012: CHF 7.8 billion), CHF 1.7 billion under Trading portfolio assets (31 December 2012: CHF 2.1 billion) and CHF 0.4 billion under Cash collateral receivables on derivative instruments (31 December 2012: CHF 0.2 billion).

Note 25 Restricted and transferred financial assets (continued)

b) Transferred financial assets that are not derecognized in their entirety

The following table presents information for financial assets, which have been transferred but are subject to continued recognition in full, as well as recognized liabilities associated with those transferred assets.

Transferred financial assets subject to continued recognition in full

CHF million	31.12.13		31.12.12	
	Carrying value of transferred assets	Carrying value of associated liabilities recognized on balance sheet	Carrying value of transferred assets	Carrying value of associated liabilities recognized on balance sheet
Trading portfolio assets transferred which may be sold or repledged by counterparties				
relating to securities lending and repurchase agreements in exchange for cash received	*16,296*	*15,026*	*23,573*	*22,350*
relating to securities lending agreements in exchange for securities received	*25,349*	*0*	*18,258*	*0*
relating to other financial asset transfers	*804*	*442*	*2,868*	*152*
Total financial assets transferred	**42,449**	**15,468**	**44,698**	**22,502**

Transactions whereby financial assets are transferred, but continue to be recognized in their entirety on UBS's balance sheet include securities lending and repurchase agreements as well as other financial asset transfers. Repurchase agreements and securities lending agreements are discussed in Notes 1a) 13) and 1a) 14). Repurchase and securities lending arrangements are, for the most part, conducted under standard market agreements, and are undertaken with counterparties subject to UBS's normal credit risk control processes. Other financial asset transfers include securities transferred to collateralize derivative transactions.

As of 31 December 2013, approximately one-third of the transferred financial assets are trading portfolio assets transferred in exchange for cash, in which case the associated recognized liability represents the amount to be repaid to counterparties. For securities lending and repurchase agreements, a haircut between 0% and 15% is generally applied to the collateral, which results in associated liabilities having a carrying value below the carrying value of the transferred assets. The counterparties to the associated liabilities presented in the table above have full recourse to UBS.

In securities lending arrangements entered into in exchange for the receipt of other securities as collateral, neither the securities received nor the obligation to return them are recognized on UBS's balance sheet as the risks and rewards of ownership are not transferred to UBS. In cases where such financial assets received are subsequently sold or repledged in another transaction, this is not considered to be a transfer of financial assets.

Transferred assets other than trading portfolio assets which may be sold or repledged by counterparties were not material in 2013 and 2012.

Transferred financial assets that are not subject to derecognition in full, but which remain on the balance sheet to the extent of the Group's continuing involvement, were not material in 2013 and 2012.

c) Transferred financial assets that are derecognized in their entirety with continuing involvement

Continuing involvement in a transferred and fully derecognized financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the counterparty or a third party entered into in connection with the transfer. Such transactions include purchased call options on transferred financial assets, certain lending arrangements as well as interests purchased and retained upon the transfer of assets into securitization vehicles. The table below provides information on the Group's continuing involvement in transferred and fully derecognized financial assets.

Note 25 Restricted and transferred financial assets (continued)

Transferred financial assets that are derecognized in their entirety with continuing involvement

CHF million	31.12.13					
					Gain / (loss) from continuing involvement in transferred and derecognized financial assets	
	Balance sheet line item	Carrying amount of continuing involvement	Fair value of continuing involvement	Gain / (loss) recognized at the date of transfer of the financial assets	For the year ended 31.12.13	Life-to-date 31.12.13
Type of continuing involvement						
Lending arrangements	Loans	2,408	2,384	0	43	694
Purchased and retained interests in securitization vehicles	Trading portfolio assets / Replacement values[1]	(34)	(34)	1	6	(1,596)
Other				6		
Total		**2,374**	**2,350**	**8**	**49**	**(902)**

CHF million	31.12.12					
					Gain/(loss) from continuing involvement in transferred and derecognized financial assets	
	Balance sheet line item	Carrying amount of continuing involvement	Fair value of continuing involvement	Gain/(loss) recognized at the date of transfer of the financial assets	For the year ended 31.12.12	Life-to-date 31.12.12
Type of continuing involvement						
Purchased call option[2]	Positive replacement values	2,103	2,103	(1,003)	526	(2,256)
Lending arrangements	Loans	3,342	3,271	0	61	651
Purchased and retained interests in securitization vehicles	Trading portfolio assets / Replacement values[1]	205	205	0	0	(1,701)
Total		5,650	5,579	(1,003)	587	(3,306)

1 As of 31 December 2013, Purchased and retained interest in securitization vehicles consisted of Trading portfolio assets of CHF 34 million and Negative replacement values of CHF 68 million. As of 31 December 2012, Purchased and retained interest in securitization vehicles consisted of Trading portfolio assets of CHF 325 million and Negative replacement values of CHF 120 million. 2 Reflects the option to acquire the equity of the SNB StabFund which was exercised on 7 November 2013.

There are a limited number of specific transactions for which UBS has continuing involvement in derecognized financial assets, as detailed below.

Lending arrangements: loan to BlackRock fund

In 2008, UBS sold a portfolio of US RMBSs for proceeds of USD 15 billion to the RMBS Opportunities Master Fund, LP (the "RMBS fund"), an entity managed by BlackRock, Inc. The USD 15 billion proceeds were approximately in line with the fair value of the assets at the date of the transfer of the assets. The RMBS fund was capitalized with approximately USD 3.75 billion in equity raised by BlackRock from third-party investors and an eight-year amortizing USD 11.25 billion senior secured loan provided by UBS, which represents a continuing involvement in the assets transferred to the fund and is reflected in the table above. The maximum exposure to loss is equal to the carrying amount of loan to the RMBS fund.

Purchased and retained interests in securitization vehicles

In cases where UBS has transferred assets into securitization vehicles and retained or purchased interests therein, UBS has a continuing involvement in those transferred assets. The majority of our retained continuing involvement securitization positions held in the trading portfolio are collateralized debt obligations, US commercial mortgage-backed securities and residential mortgage-backed securities. As a result of losses incurred in previous years, the majority of these continuing involvement positions have a carrying amount of zero as of 31 December 2013. As of 31 December 2013, the maximum exposure to loss related to purchased and retained interests in securitization structures was CHF 49 million compared with CHF 329 million as of 31 December 2012, both mainly related to trading portfolio assets. Life-to-date losses presented in the table above only relate to retained interests held as of 31 December 2013.

Note 25 Restricted and transferred financial assets (continued)

d) Off-balance-sheet assets received

The following table presents assets received from third parties that can be sold or repledged, that are not recognized on the balance sheet, but that are held as collateral, including amounts that have been sold or repledged.

Off-balance-sheet assets received

CHF million	**31.12.13**	31.12.12
Fair value of assets received which can be sold or repledged	**351,712**	400,150
received as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	***348,205***	*398,496*
received in unsecured borrowings	***3,507***	*1,654*
thereof sold or repledged[1]	**240,176**	284,692
in connection with financing activities	***193,879***	*224,361*
to satisfy commitments under short sale transactions	***26,609***	*34,247*
in connection with derivative and other transactions	***19,688***	*26,084*

1 Does not include off-balance-sheet assets (31 December 2013: CHF 38.4 billion, 31 December 2012: CHF 29.4 billion) placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes for which there are no associated liabilities or contingent liabilities.

Note 26 Offsetting financial assets and financial liabilities

UBS enters into netting agreements with counterparties to manage the credit risks associated primarily with repurchase and reverse repurchase transactions, securities borrowing and lending and over-the-counter and exchange-traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to offset liabilities against available assets received – in the ordinary course of business and/or in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The right to offset is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure. From a balance sheet presentation perspective, the criteria for offsetting financial assets and financial liabilities are highly restrictive. UBS offsets financial assets and financial liabilities on its balance sheet only when it has a currently enforceable legal right to offset the respective recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. In assessing the criteria for a relevant set of facts and circumstances, emphasis is placed on the effectiveness of the operational mechanics of net or simultaneous settlements in eliminating all credit and liquidity exposure between counterparties at the time of settlement. These criteria preclude offsetting on the balance sheet for substantial amounts of the Group's financial assets and liabilities, even if these amounts may be subject to enforceable netting arrangements. For derivative contracts, balance sheet offsetting is generally only permitted in circumstances in which a market settlement mechanism (e.g., an exchange or clearing house) exists which effectively accomplishes net settlement through a daily cash margining process. Bilateral OTC derivatives and exchange traded derivatives that are not margined on a daily basis are commonly precluded from offsetting on the balance sheet unless a mechanism exists to provide for net settlement of the cash flows arising from these contracts. For repurchase arrangements and securities financings, balance sheet offsetting may be permitted only to the extent that financial assets and liabilities with a counterparty have the same maturity date and are settled through a clearing process by which intra-day credit and liquidity exposures are substantially eliminated. Thus, repurchase and securities financing arrangements that are not cleared through a formal mechanism, such as a clearing house or exchange, are generally not offset on the balance sheet. UBS engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented on the tables on the next pages do not purport to represent the Group's actual credit exposure.

Note 26 Offsetting financial assets and financial liabilities (continued)

The table below provides a summary of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets. The gross financial assets of the Group that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net amounts presented within the associated balance sheet line, after giving effect to financial liabilities with the same counterparties that have been offset on the balance sheet and other financial assets not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial liabilities and collateral received that are not offset on the balance sheet are shown to arrive at financial assets after consideration of netting potential.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	31.12.13							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements and other out-of-scope items**	**Total assets recognized on the balance sheet**
Cash collateral on securities borrowed	26.5	0.0	**26.5**	(1.2)	(25.2)	0.2	**1.0**	**27.5**
Reverse repurchase agreements	111.5	(25.4)	**86.1**	(5.4)	(80.7)	0.0	**5.5**	**91.6**
Positive replacement values	240.7	(7.2)	**233.5**	(185.0)	(35.1)	13.4	**12.3**	**245.8**
Cash collateral receivables on derivative instruments[1]	223.8	(200.2)	**23.5**	(14.2)	(1.1)	8.2	**4.5**	**28.0**
Financial assets designated at fair value	3.9	0.0	**3.9**	0.0	(3.9)	0.1	**3.4**	**7.4**
Total assets	**606.4**	**(232.9)**	**373.5**	**(205.8)**	**(145.9)**	**21.8**	**26.7**	**400.3**

	31.12.12							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements and other out-of-scope items**	**Total assets recognized on the balance sheet**
Cash collateral on securities borrowed	37.4	0.0	**37.4**	(2.7)	(34.4)	0.3	**0.0**	**37.4**
Reverse repurchase agreements	154.5	(34.8)	**119.7**	(9.6)	(110.1)	0.0	**11.2**	**130.9**
Positive replacement values	416.8	(14.6)	**402.1**	(327.3)	(57.3)	17.5	**16.8**	**419.0**
Cash collateral receivables on derivative instruments[1]	351.8	(331.8)	**20.1**	(17.4)	0.0	2.7	**10.2**	**30.4**
Financial assets designated at fair value	4.6	0.0	**4.6**	0.0	(4.5)	0.1	**4.5**	**9.1**
Total assets	**965.1**	**(381.2)**	**583.9**	**(357.1)**	**(206.3)**	**20.6**	**42.8**	**626.8**

1 The amount of Cash collateral receivables on derivative instruments recognized on the balance sheet, net, includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32 and ETD derivatives which are economically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral pledged, reflected on the Negative replacement values line in the table presented on the following page. 2 The logic of the table results in amounts presented in the "Balance sheet netting with gross liabilities" column corresponding directly to the amounts presented in the "Balance sheet netting with gross assets" column in the liabilities table presented on the following page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral not set off in the balance sheet have been capped by relevant netting agreement so as not to exceed the Net amount of financial assets presented on the balance sheet, i.e., over-collateralization, where it exists, is not reflected in the table.

Note 26 Offsetting financial assets and financial liabilities (continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	31.12.13							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements and other out-of-scope items**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	8.5	0.0	**8.5**	(1.2)	(7.3)	0.0	**1.0**	**9.5**
Repurchase agreements	34.2	(25.4)	**8.8**	(5.4)	(3.4)	0.0	**5.0**	**13.8**
Negative replacement values	231.7	(7.2)	**224.6**	(185.0)	(20.7)	18.8	**15.4**	**240.0**
Cash collateral payables on derivative instruments[1]	240.5	(200.2)	**40.3**	(27.9)	(3.6)	8.8	**8.8**	**49.1**
Financial liabilities designated at fair value	6.6	0.0	**6.6**	0.0	(2.1)	4.6	**63.3**	**69.9**
Total liabilities	**521.6**	**(232.9)**	**288.7**	**(219.5)**	**(37.0)**	**32.2**	**93.5**	**382.3**

	31.12.12							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
CHF billion	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements and other out-of-scope items**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	9.2	0.0	**9.2**	(2.7)	(6.4)	0.1	**0.0**	**9.2**
Repurchase agreements	56.2	(34.8)	**21.4**	(9.6)	(11.8)	0.0	**17.1**	**38.6**
Negative replacement values	390.8	(14.6)	**376.2**	(327.3)	(20.3)	28.6	**19.1**	**395.3**
Cash collateral payables on derivative instruments[1]	391.3	(331.8)	**59.6**	(49.4)	(0.4)	9.9	**11.5**	**71.1**
Financial liabilities designated at fair value	7.0	0.0	**7.0**	0.0	(2.4)	4.6	**84.9**	**91.9**
Total liabilities	**854.6**	**(381.2)**	**473.4**	**(389.0)**	**(41.3)**	**43.1**	**132.6**	**606.1**

1 The amount of Cash collateral payables on derivative instruments recognized on the balance sheet, net, includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32 and ETD derivatives which are economically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral received reflected on the Positive replacement values line in the table presented on the previous page. 2 The logic of the table results in amounts presented in the "Balance sheet netting with gross assets" column corresponding directly to the amounts presented in the Balance sheet netting with gross liabilities column in the assets table presented on the previous page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral not set off on the balance sheet have been capped by relevant netting arrangement so as not to exceed the Net amount of financial liabilities presented in the balance sheet, i.e., over-collateralization, where it exists, is not reflected in the table.

Note 27 Financial assets and liabilities – additional information

a) Measurement categories of financial assets and liabilities

The following table provides information about the carrying amounts of individual classes of financial instruments within the measurement categories of financial assets and liabilities as defined in IAS 39 *Financial Instruments: Recognition and Measurement*. Only those assets and liabilities which are financial instruments as defined in IAS 32 *Financial Instruments: Presentation* are included in the table below, which causes certain balances to differ from those presented on the balance sheet.

➔ Refer to "Note 24 Fair value measurement" for more information on how fair value of financial instruments is determined

Measurement categories of financial assets and liabilities

CHF million	**31.12.13**	31.12.12
Financial assets[1]		
Fair value through profit or loss, held for trading		
Trading portfolio assets	**114,249**	143,471
of which: assets pledged as collateral which may be sold or repledged by counterparties	***42,449***	*44,698*
Debt issued[2]	**202**	154
Positive replacement values	**245,835**	418,957
Total	**360,286**	562,581
Fair value through profit or loss, other		
Financial assets designated at fair value	**7,364**	9,106
Financial assets at amortized cost		
Cash and balances with central banks	**80,879**	66,383
Due from banks	**17,170**	21,220
Cash collateral on securities borrowed	**27,496**	37,372
Reverse repurchase agreements	**91,563**	130,941
Cash collateral receivables on derivative instruments	**28,007**	30,413
Loans	**286,959**	279,901
Other assets	**17,598**	12,155
Total	**549,673**	578,385
Available-for-sale		
Financial investments available-for-sale	**59,525**	66,230
Total financial assets	**976,848**	1,216,302
Financial liabilities		
Fair value through profit or loss, held for trading		
Trading portfolio liabilities	**26,609**	34,247
Debt issued[2]	**362**	271
Negative replacement values	**239,953**	395,260
Total	**266,924**	429,778
Fair value through profit or loss, other		
Financial liabilities designated at fair value	**69,901**	91,901
Amounts due under unit-linked contracts	**16,155**	15,299
Total	**86,056**	107,201
Financial liabilities at amortized cost		
Due to banks	**12,862**	23,024
Cash collateral on securities lent	**9,491**	9,203
Repurchase agreements	**13,811**	38,557
Cash collateral payables on derivative instruments	**49,138**	71,148
Due to customers	**390,825**	373,459
Debt issued	**81,426**	104,719
Other liabilities	**39,522**	44,807
Total	**597,075**	664,918
Total financial liabilities	**950,055**	1,201,896

1 As of 31 December 2013, based on contractual maturities, CHF 116 billion of Loans, CHF 0 billion of Due from banks, CHF 0 billion of Reverse repurchase agreements, CHF 31 billion of Financial investments available-for-sale and CHF 5 billion of Financial assets designated at fair value are expected to be recovered or settled after 12 months. As of 31 December 2012, CHF 113 billion of Loans, CHF 0 billion of Due from banks, CHF 1 billion of Reverse repurchase agreements, CHF 29 billion of Financial investments available-for-sale and CHF 7 billion of Financial assets designated at fair value are expected to be recovered or settled after 12 months. 2 Represents the embedded derivative component of structured debt issued for which the fair value option has not been applied and which is presented within Debt issued on the balance sheet. In 2013, the comparative period figures were corrected. As a result, financial assets presented for 31 December 2012 decreased by CHF 251 million and financial liabilities presented for 31 December 2012 increased by CHF 99 million.

Note 27 Financial assets and liabilities – additional information (continued)

b) Maturity analysis of financial liabilities

The contractual maturities of our non-derivative and non-trading financial liabilities as of 31 December 2013 are based on the earliest date on which we could be contractually required to pay. The total amounts that contractually mature in each time-band are also shown for 31 December 2012. Derivative positions and trading liabilities, predominantly made up of short sale transactions, are assigned to the column *Due within 1 month,* as this provides a conservative reflection of the nature of these trading activities. The contractual maturities may extend over significantly longer periods.

Maturity analysis of financial liabilities[1]

CHF billion	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Financial liabilities recognized on balance sheet[2]						
Due to banks	9.5	1.3	1.7	0.3	0.0	12.9
Cash collateral on securities lent	8.3	0.7	0.6			9.5
Repurchase agreements	12.1	1.1	0.2	0.3	0.1	13.9
Trading portfolio liabilities[3, 4]	26.6					26.6
Negative replacement values[3]	240.0					240.0
Cash collateral payables on derivative instruments	49.1					49.1
Financial liabilities designated at fair value[5]	3.5	4.1	12.9	31.6	20.5	72.6
Due to customers	378.1	6.8	5.6	0.2	0.2	390.9
Debt issued	6.5	8.9	22.2	33.7	20.5	91.8
Other liabilities	54.3					54.3
Total 31.12.13	**788.1**	**22.9**	**43.1**	**66.2**	**41.3**	**961.6**
Total 31.12.12	996.9	28.0	61.2	78.6	52.9	1,217.6
Financial liabilities not recognized on balance sheet[6]						
Commitments						
Loan commitments	54.5	0.3	0.1	0.0		54.9
Underwriting commitments	0.8					0.8
Total commitments	55.2	0.3	0.1	0.0	0.0	55.7
Guarantees	18.3	0.0	0.1	0.2	0.1	18.8
Forward starting transactions						
Reverse repurchase agreements	9.4					9.4
Securities borrowing agreements	0.0					0.0
Total 31.12.13	**83.0**	**0.3**	**0.2**	**0.3**	**0.1**	**83.9**
Total 31.12.12	97.9	0.2	0.3	0.3	0.1	98.8

1 Non-financial liabilities such as deferred income, deferred tax liabilities, provisions and liabilities on employee compensation plans are not included in this analysis. 2 Except for trading portfolio liabilities and negative replacement values (see footnote 3), the amounts presented generally represent undiscounted cash flows of future interest and principal payments. 3 Carrying value is fair value. Management believes that this best represents the cash flows that would have to be paid if these positions had to be settled or closed out. Refer to "Note 14 Derivative instruments and hedge accounting" for undiscounted cash flows of derivatives designated in hedge accounting relationships. 4 Contractual maturities of trading portfolio liabilities are: CHF 24.3 billion due within one month (2012: CHF 32.5 billion), CHF 1.2 billion due between one month and one year (2012: CHF 0.5 billion), and CHF1.1 billion due between one and five years (2012: CHF 1.3 billion). 5 Future interest payments on variable rate liabilities are determined by reference to the applicable interest rate prevailing as of the reporting date. Future principal payments which are variable are determined by reference to the conditions existing at the reporting date. 6 Comprises the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

Note 27 Financial assets and liabilities – additional information (continued)

c) Reclassification of financial assets

In the fourth quarter of 2008 and the first quarter of 2009, financial assets were reclassified out of *Trading portfolio assets* to *Loans*. On their reclassification date, these assets had fair values of CHF 26 billion and CHF 0.6 billion, respectively.

The reclassification of financial assets reflected UBS's change in intent and ability to hold these financial assets for the foreseeable future rather than for trading in the near term. The foreseeable future is interpreted to mean a period of approximately 12 months following the date of reclassification. The financial assets were reclassified using their fair value on the date of the reclassification, which became their new cost basis at that date.

Held-for-trading assets reclassified to loans and receivables

CHF billion	31.12.13	31.12.12
Carrying value	1.5	3.2
Fair value	1.5	3.1
Pro-forma fair value gain / (loss)	0.0	(0.1)

The following table provides notional values, fair values and carrying values by product category for the remaining reclassified financial assets.

Held-for-trading assets reclassified to loans and receivables

	31.12.13			
CHF billion	Notional value	Fair value	Carrying value	Ratio of carrying to notional value (%)
US student loan and municipal auction rate securities	0.6	0.5	0.5	95
Monoline-protected assets	0.6	0.6	0.6	92
Other assets	0.5	0.4	0.4	84
Total	1.6	1.5	1.5	91

In 2013, the carrying value of the remaining reclassified financial assets decreased by CHF 1.7 billion, mainly due to sales and redemptions of US student loan auction rate securities and leveraged finance loans. The overall impact on operating profit before tax from the financial assets for the year ended 31 December 2013 was a profit of CHF 132 million (see table below). If the financial assets had not been reclassified, the impact on operating profit before tax for the year ended 31 December 2013 would have been a profit of approximately CHF 0.2 billion (2012: CHF 0.3 billion).

Contribution of the reclassified assets to the income statement

	For the year ended	
CHF million	31.12.13	31.12.12
Net interest income	74	116
Credit loss (expense) / recovery	4	(73)
Other income[1]	53	7
Impact on operating profit before tax	132	49

1 Includes net gains / losses on the disposal of reclassified financial assets.

Note 27 Financial assets and liabilities – additional information (continued)

d) Maximum exposure to credit risk of financial assets designated at fair value

Financial assets designated at fair value totaled CHF 7,364 million as of 31 December 2013 (31 December 2012: CHF 9,106 million). Maximum exposure to credit risk from financial assets designated at fair value was CHF 6.8 billion as of 31 December 2013 (31 December 2012: CHF 8.5 billion). The exposure related to structured loans and reverse repurchase and securities borrowing agreements was mitigated by securities collateral of CHF 5.4 billion as of 31 December 2013 (31 December 2012: CHF 6.5 billion).

The maximum exposure to credit risk of loans, but not structured loans, is generally mitigated by credit derivatives or similar instruments. Information regarding these instruments and the exposure which they mitigate is provided in the table below on a notional basis.

Investment fund units designated at fair value do not have a direct exposure to credit risk.

➔ **Refer to "Note 24 Fair value measurement" for more information on financial assets designated at fair value**

➔ **Refer to "Maximum exposure to credit risk" in the "Credit risk" section of this report for more information on collateral related to financial assets designated at fair value**

Notional amounts of loans designated at fair value and related credit derivatives

CHF million	31.12.13	31.12.12
Loans – notional amount	1,103	2,102
Credit derivatives related to loans – notional amount[1]	790	1,025
Credit derivatives related to loans – fair value[1]	(8)	2

1 Credit derivatives contracts include credit default swaps, total return swaps and similar instruments.

The table below provides the impact on the fair values of loans from changes in credit risk for the periods presented and cumulatively since inception. Similarly, the change in fair value of credit derivatives and similar instruments which are used to hedge these loans is also provided.

Changes in fair value of loans and related credit derivatives attributable to changes in credit risk

	For the year ended		Cumulative from inception until the year ended	
CHF million	31.12.13	31.12.12	31.12.13	31.12.12
Changes in fair value of loans designated at fair value, attributable to changes in credit risk[1]	16	22	5	(10)
Changes in fair value of credit derivatives and similar instruments which mitigate the maximum exposure to credit risk of loans designated at fair value[1]	(9)	(18)	(8)	2

1 Current and cumulative changes in the fair value of loans designated at fair value, attributable to changes in their credit risk, are only calculated for those loans outstanding at balance sheet date. Cumulative changes in the fair value of credit derivatives hedging such loans include all the derivatives which have been used to mitigate credit risk of these loans since designation at fair value. For loans reported under the fair value option, changes in fair value due to changes in the credit standing of the borrower are calculated using counterparty credit information obtained from independent market sources.

Note 28 Pension and other post-employment benefit plans

The following table provides information relating to pension costs for defined benefit plans and defined contribution plans. These costs are part of *Personnel expenses*.

Income statement – expenses related to pension and other post-employment benefit plans

CHF million	**31.12.13**	31.12.12	31.12.11
Net periodic pension cost for defined benefit plans	**651**	(222)	577
of which: related to major pension plans[1]	***638***	*(116)*	*519*
of which: Swiss plan	***555***	*(198)*	*453*
of which: Non-Swiss plans	***82***	*82*	*66*
of which: related to post-retirement medical and life insurance plans[2]	***(11)***	*(102)*	*(2)*
of which: related to remaining plans and other costs[3]	***24***	*(3)*	*60*
Pension cost for defined contribution plans[4]	**236**	240	254
Total pension and other post-employment benefit plans[5]	**887**	18	831

1 Refer to "Note 28a Defined benefit pension plans" for more information. 2 Refer to "Note 28b Post-retirement medical and life insurance plans" for more information. 3 Other costs include differences between actual and estimated performance award accruals and net accrued pension costs related to restructuring. 4 Refer to "Note 28c Defined contribution plans" for more information. 5 Refer to "Note 6 Personnel expenses" for more information.

The following table provides information relating to amounts recognized in other comprehensive income for defined benefit plans.

Other comprehensive income – gains / (losses) on pension and other post-employment benefit plans

CHF million	**31.12.13**	31.12.12	31.12.11
Major pension plans[1]	**1,168**	1,053	(2,120)
of which: Swiss plan	***1,119***	*1,095*	*(1,811)*
of which: Non-Swiss plans	***49***	*(42)*	*(309)*
Post-retirement medical and life insurance plans[2]	**3**	(26)	(19)
Remaining plans	**7**	(5)	0
Gains / (losses) recognized in other comprehensive income, before tax	**1,178**	1,023	(2,141)
Tax (expense) / benefit relating to defined benefit plans recognized in other comprehensive income	**(239)**	(413)	321
Gains / (losses) recognized in other comprehensive income, after tax[3]	**939**	609	(1,820)
Cumulative amount of gains / (losses) recognized in other comprehensive income, before tax	**(4,364)**	(5,542)	(6,565)
Cumulative tax (expense) / benefit relating to defined benefit plans recognized in other comprehensive income	**497**	736	1,149
Cumulative gains / (losses) recognized in other comprehensive income, after tax[4]	**(3,867)**	(4,806)	(5,415)

1 Refer to "Note 28a Defined benefit pension plans" for more information. 2 Refer to "Note 28b Post-retirement medical and life insurance plans" for more information. 3 Refer to the "Statement of comprehensive income." 4 Refer to the "Statement of changes in equity."

Note 28 Pension and other post-employment benefit plans (continued)

The following tables provide information on UBS's assets and liabilities with respect to pension and post-employment benefit plans. These are recognized on the balance sheet within *Other assets* and *Other liabilities*. All major plans are currently in a deficit situation except for the Swiss plan which is in a surplus situation.

Balance sheet – net defined benefit pension and post-employment asset

CHF million	**31.12.13**	31.12.12
Major pension plans[1]	**952**	0
of which: Swiss plan	***952***	*0*
of which: Non-Swiss plans	***0***	*0*
Post-retirement medical and life insurance plans	**0**	0
Remaining plans	**0**	0
Total net defined benefit pension and post-employment asset[2]	**952**	0

1 Refer to "Note 28a Defined benefit pension plans" for more information. 2 Refer to "Note 18 Other assets."

Balance sheet – net defined benefit pension and post-employment liability

CHF million	**31.12.13**	31.12.12
Major pension plans[1]	**903**	1,108
of which: Swiss plan	***0***	*118*
of which: Non-Swiss plans[2]	***903***	*990*
Post-retirement medical and life insurance plans[3]	**114**	136
Remaining plans	**31**	39
Total net defined benefit pension and post-employment liability[4]	**1,048**	1,284

1 Refer to "Note 28a Defined benefit pension plans" for more information. 2 Liability consists of: UK plan CHF 433 million, US plans CHF 186 million and German plans CHF 284 million (31 December 2012: UK plan CHF 422 million, US plans CHF 290 million and German plans CHF 277 million). 3 Refer to "Note 28b Post-retirement medical and life insurance plans" for more information. 4 Refer to "Note 23 Other liabilities."

a) Defined benefit pension plans

UBS has established pension plans for its employees in various locations. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations for the plans in these countries are performed as required.

The overall investment policy and strategy for UBS's defined benefit pension plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. For the plans with assets (i.e., funded plans), the investment strategies for the plans are generally managed under local laws and regulations in each jurisdiction. The actual asset allocation is determined by the governance body with reference to the prevailing current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. Within this framework, UBS ensures that the fiduciaries consider how the asset investment strategy correlates with the maturity profile of the plan liabilities and the respective potential impact on the funded status of the plans, including potential short term liquidity requirements. Specific asset-liability matching strategies for each pension plan are independently determined by the responsible governance body in each country. The pension assets are invested in a diversified portfolio of assets across geographic regions to ensure a balance of risk and return to the extent allowed under local pension laws.

Swiss pension plan

The Swiss pension plan covers employees of UBS AG and its affiliated companies in Switzerland and exceeds the minimum benefit requirements under Swiss pension law. The pension fund must provide the minimum mandatory benefits in accordance with Swiss pension law. Contributions to the pension plan are paid by the employees and the employer. The Swiss pension plan allows employees a choice with regard to the level of contributions paid by the employee. Employee contributions are calculated as a percentage of contributory salary and are deducted monthly. The percentages deducted from salary depend on age and choice of contribution category and vary between 1% and 13.5% of contributory base salary and between 0% and 9% of contributory variable compensation. Depending on the age of the employee, UBS pays a contribution that ranges between 6.5% and 27.5% of contributory base salary and between 3.6% and 9% of contributory variable compensation for retirement credits. UBS also pays risk contributions which are used to finance benefits paid out in the event of death and disability, as well as to finance the old age bridging pension. The benefits include retirement benefits and disability, death and survivor pensions. The pension plan offers to members at the normal retirement age of 64 a choice between a lifetime pension with or without full restitution and a partial or full lump sum payment. Members can draw retirement benefits early

Note 28 Pension and other post-employment benefit plans (continued)

from the age of 58. The amount of pension payable is a result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance of each individual plan participant's pension account is based on credited vested benefits transferred from previous employers, purchases of benefits and the employee and employer contributions that have been made to the pension account of each individual plan participant, as well as the interest accrued on the accumulated balance. The interest rate accrued is defined annually by the Pension Foundation Board. Although the Swiss pension plan is based on a defined contribution promise under Swiss pension law, it is accounted for as a defined benefit plan under IAS 19, primarily because of the obligation to accrue interest on the pension accounts and the payment of lifetime pensions. The Swiss pension plan is governed by the Pension Foundation Board as required by the Swiss pension law. The responsibilities of the Pension Foundation Board are defined by Swiss pension law and by the plan rules. According to Swiss pension law, a temporary limited underfunding is permitted. However, the Pension Foundation Board is required to take the necessary measures to ensure that full funding can be expected to be restored within a period up to a maximum of ten years. Under Swiss pension law, if the Swiss pension plan became significantly underfunded on a Swiss pension law basis, additional employer and employee contributions could be required. In these situations, the risk is shared between employer and employees, and the employer is not legally obliged to cover more than 50% of the additional contributions required. The Swiss pension plan has a technical funding ratio under Swiss pension law of 127.0% as of 31 December 2013 (31 December 2012: 123.4%), and thus it is not expected that additional contributions will be required in the next year. The investment strategy of the Swiss plan is in line with Swiss pension law, including the rules and regulations relating to diversification of plan assets. The Pension Foundation Board strives for a medium- and long-term consistency and sustainability between assets and liabilities. Under IAS 19, volatility arises in the Swiss pension plan net asset because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short term.

There are ongoing discussions in the Swiss government on possible changes to Swiss pension law. The outcome of these discussions and the timing of any resulting changes are uncertain.

In 2012, UBS announced certain changes to its Swiss pension plan. The main changes were a reduction in conversion rate on retirement and an increase of the normal retirement age, which served in part to offset the impact of the increased life expectancy reflected in the defined benefit obligation due to the adoption of the BVG 2010 generational table in 2011. This plan amendment reduced the defined benefit obligation by CHF 730 million resulting in a gain in 2012.

The employer contributions expected to be made to the Swiss pension plan in 2014 are estimated to be CHF 474 million. The actuarial assumptions used for the Swiss pension plan are based on the local economic environment. Refer also to Note 1a) 24) for a description of the accounting policy for defined benefit pension plans.

The Swiss pension plan was in a surplus situation as of 31 December 2013 as the fair value of plan assets exceeded the defined benefit obligation by CHF 1,760 million (31 December 2012: deficit of CHF 118 million). However, such a surplus can only be recognized on the balance sheet to the extent that it does not exceed the estimated future economic benefit, which is the difference between the estimated future net service cost and the estimated future employer contributions. As of 31 December 2013, the estimated future economic benefit was CHF 952 million and hence, this was the amount recognized as net defined benefit asset on the balance sheet. The difference of CHF 808 million between the pension plan surplus and the estimated future economic benefit, the so-called asset ceiling effect, was recognized as a loss in other comprehensive income.

Non-Swiss pension plans

The non-Swiss locations of UBS operate various pension plans in accordance with local regulations and practices. The locations with significant defined benefit plans are the UK, the US and Germany. The remaining non-major plans are located mainly in Asia Pacific, Europe and the Americas. As these other plans are not significant to the financial results of UBS, no further disclosure is given within this note. The non-Swiss pension plans provide benefits in the event of retirement, death or disability. The level of benefits provided depends on the specific rate of benefit accrual and the level of employee compensation. The amounts shown for the non-Swiss pension plans reflect the net funded positions of the significant non-Swiss pension plans. UBS's general principle is to ensure that the plans are appropriately funded under local pension regulations in each country and this is the primary driver for determining when additional contributions are required. Similar to the Swiss pension plan, volatility arises in the non-Swiss pension plans' net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plans' defined benefit obligation. The employer contributions expected to be made to these pension plans in 2014 are estimated to be CHF 186 million. The funding policy for these plans is consistent with local government regulations and tax requirements. The actuarial assumptions used for the non-Swiss pension plans are based on the local economic environment.

Refer also to Note 1a) 24) for a description of the accounting policy for defined benefit pension plans.

UK

The UK plan is a career average revalued earnings scheme and benefits increase automatically based on UK price inflation. Normal retirement age for the UK plan is 60. The plan is closed to new entrants, who instead can participate in a defined contribu-

Note 28 Pension and other post-employment benefit plans (continued)

tion arrangement. On 1 July 2013, UBS closed the UK defined benefit pension plan for future service. After that date, UBS no longer recognizes current service costs for this plan. The closure of the plan for future service did not have a financial impact since the UK plan is a career average plan and past service benefits are indexed to UK price inflation. Plan participants who were active employees under the defined benefit plan were eligible to become participants of the defined contribution arrangement for any service after the plan was closed for future service.

There is a UK Pension Trustee Board which is required under local pension laws. The responsibility for governance of the UK plan lies jointly with the Pension Trustee Board and UBS. The employer contributions to the pension fund included regular contributions and specific deficit funding contributions up to the date of the closure of the UK plan for future service and thereafter represent agreed deficit funding contributions. The employer contributions are determined based on the last actuarial valuation which is conducted based on assumptions agreed by the Trustees and UBS. In the event of an underfunding, UBS must agree a deficit recovery plan with the Pension Trustee Board within statutory deadlines. As the plan's obligation is to provide guaranteed lifetime pension benefits to plan participants upon retirement, increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant in the UK plan where inflationary increases result in higher sensitivity to changes in the life expectancy.

Based on the plan rules and due to local pension legislation, there are caps on the level of inflationary increase applied to plan benefits. The plan assets are invested in a diversified class of assets and a portion of the plan assets are invested in inflation-indexed bonds to provide a partial hedge against inflation. If inflation increases, the plan obligation will likely increase more significantly than any change in the fair value of plan assets. This would result in an increase in the net defined benefit liability.

US

There are two distinct major pension plans in the US. Normal retirement age for the US plans is 65. The plans are closed to new entrants, who instead can participate in defined contribution plans. One plan is a contribution-based plan where each participant accrues a percentage of salary in a pension account. The pension account is credited annually with interest based on a rate which is linked to the yield on a US government bond. Upon retirement, the plan participant can elect to receive the retirement benefit as a lump sum or a lifetime pension. The other plan provides a lifetime pension which is based on the career average earnings of each individual plan participant. There are pension plan fiduciaries for both of the major pension plans as required under local state pension laws. The fiduciaries, jointly with UBS, are responsible for the governance of the plans. Actuarial valuations are regularly completed for the plans and UBS has historically elected to make contributions to the plans in order to at least maintain a funded ratio of 80% as calculated under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year plus a rolling amortization of any prior underfunding. If the employer contributes more than the minimum or the plan has assets exceeding the liabilities, the excess can be used to offset minimum funding requirements.

In 2013, UBS offered to certain deferred vested members of the US pension plans the option to receive a lump sum payment (or early annuity payments) instead of a lifetime pension. This resulted in a reduction of the defined benefit obligation of CHF 196 million, a reduction of fair value of plan assets of CHF 216 million and a charge to the income statement of CHF 20 million in 2013.

Germany

There are two different pension plans in Germany and both are contribution-based plans. Normal retirement age for the German plans is 65. The major pension plan is funded entirely by UBS, and the employer contribution is based on the salary of the employee. On an annual basis the accumulated account balance of the plan participant is credited with guaranteed interest at a rate of 5%. The other plan is a deferred compensation plan which is funded entirely by the employees. The deferred compensation plan has a guaranteed interest rate of 4% on contributions paid after 2009. The German plans are regulated under German pension law under which the responsibility to pay pension benefits when they are due is entirely the responsibility of UBS.

The following table provides an analysis of the movement in the net asset/(liability) recognized on the balance sheet for defined benefit pension plans between the beginning to the end of the year, as well as an analysis of amounts recognized in net profit and in other comprehensive income.

Note 28 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans

CHF million	Swiss		Non-Swiss	
For the year ended	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Defined benefit obligation at the beginning of the year	**21,901**	22,555	**4,773**	4,414
Current service cost	**549**	531	**21**	33
Interest expense	**399**	462	**199**	211
Plan participant contributions	**197**	205	**0**	0
Remeasurements of defined benefit obligation	**(1,124)**	29	**105**	258
of which: actuarial (gains)/losses arising from changes in demographic assumptions	***0***	*0*	***(23)***	*(27)*
of which: actuarial (gains)/losses arising from changes in financial assumptions	***(1,114)***	*20*[1]	***3***	*269*
of which: experience (gains)/losses	***(10)***	*9*	***125***	*17*
Past service cost related to plan amendments	**0**	(730)	**(196)**[2]	0
Curtailments	**(37)**	(54)	**0**	0
Benefit payments	**(1,183)**	(1,139)	**(204)**	(164)
Termination benefits	**36**	43	**0**	0
Foreign currency translation	**0**	0	**(26)**	20
Defined benefit obligation at the end of the year	**20,738**	21,901	**4,670**	4,773
of which: amounts owing to active members	***9,841***	*10,602*	***710***	*713*
of which: amounts owing to deferred members	***0***	*0*	***2,249***	*2,378*
of which: amounts owing to retirees	***10,897***	*11,299*	***1,711***	*1,682*
Fair value of plan assets at the beginning of the year	**21,783**	20,614	**3,783**	3,458
Return on plan assets excluding amounts included in interest income	**803**	1,124	**154**	216
Interest income	**403**	460	**162**	167
Employer contributions – excluding termination benefits	**470**	486	**125**	84
Employer contributions – termination benefits	**36**	43	**0**	0
Plan participant contributions	**197**	205	**0**	0
Benefit payments	**(1,183)**	(1,139)	**(204)**	(164)
Administration expenses, taxes and premiums paid	**(11)**	(11)	**(5)**	(5)
Payments related to plan amendments	**0**	0	**(216)**[2]	0
Foreign currency translation	**0**	0	**(31)**	26
Fair value of plan assets at the end of the year	**22,498**	21,783	**3,768**	3,783
Asset ceiling effect	**808**	0	**0**	0
Net defined benefit asset/(liability)	**952**	(118)	**(903)**	(990)
Movement in the net asset/(liability) recognized on the balance sheet				
Net asset/(liability) recognized on the balance sheet at the beginning of the year	**(118)**	(1,941)	**(990)**	(956)
Net periodic pension cost	**(555)**	198	**(82)**	(82)
Amounts recognized in other comprehensive income	**1,119**	1,095	**49**	(42)
Employer contributions – excluding termination benefits	**470**	486	**125**	84
Employer contributions – termination benefits	**36**	43	**0**	0
Foreign currency translation	**0**	0	**(5)**	5
Net asset/(liability) recognized on the balance sheet at the end of the year	**952**	(118)	**(903)**	(990)
Funded and unfunded plans				
Defined benefit obligation from funded plans	**20,738**	21,901	**4,365**	4,472
Defined benefit obligation from unfunded plans	**0**	0	**306**	301
Plan assets	**22,498**	21,783	**3,768**	3,783
Surplus/(deficit)	**1,760**	(118)	**(903)**	(990)
Asset ceiling effect	**808**	0	**0**	0
Net defined benefit asset/(liability)	**952**	(118)	**(903)**	(990)

1 During 2012, UBS revised its approach for the financial assumptions regarding calculating past service cost for certain members of the Swiss pension plan to consider not only age but also the initial employee contributions transferred to, or withdrawn from, the plan. This affected the distribution between past and future service costs, resulting in a reduction in the defined benefit obligation of CHF 841 million in 2012. This amount is offset by other remeasurement changes relating to changes in financial assumptions. 2 In 2013, UBS offered to certain deferred vested members of the US pension plans the option to receive a lump sum payment (or early annuity payments) instead of a lifetime pension. This resulted in a reduction of the defined benefit obligation, a reduction of fair value of plan assets and a charge to the income statement in 2013.

Note 28 Pension and other post-employment benefit plans (continued)

Analysis of amounts recognized in net profit

CHF million	Swiss		Non-Swiss	
For the year ended	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Current service cost	**549**	531	**21**	33
Interest expense related to defined benefit obligation	**399**	462	**199**	211
Interest income related to plan assets	**(403)**	(460)	**(162)**	(167)
Administration expenses, taxes and premiums paid	**11**	11	**5**	5
Plan amendments	**0**	(730)	**20**[1]	0
Curtailments	**(37)**	(54)	**0**	0
Termination benefits	**36**	43	**0**	0
Net periodic pension cost	**555**	(198)	**82**	82

Analysis of amounts recognized in other comprehensive income

CHF million	Swiss		Non-Swiss	
For the year ended	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Remeasurement of defined benefit obligation	**1,124**	(29)	**(105)**	(258)
Return on plan assets excluding amounts included in interest income	**803**	1,124	**154**	216
Asset ceiling effect	**(808)**	0	**0**	0
Total gains / (losses) recognized in other comprehensive income	**1,119**	1,095	**49**	(42)

1 In 2013, UBS offered to certain deferred vested members of the US pension plans the option to receive a lump sum payment (or early annuity payments) instead of a lifetime pension. This resulted in a reduction of the defined benefit obligation, a reduction of fair value of plan assets and a charge to the income statement in 2013.

The following table provides information on the duration of the defined benefit pension obligations and the distribution of the timing of benefit payments.

	Swiss		Non-Swiss[1]	
	31.12.13	31.12.12	**31.12.13**	31.12.12
Duration of the defined benefit obligation	**15.1**	15.7	**18.9**	18.2
Maturity analysis of benefits expected to be paid				
CHF million				
Benefits expected to be paid within 12 months	**1,033**	1,036	**151**	150
Benefits expected to be paid between 1 to 3 years	**2,051**	2,051	**321**	310
Benefits expected to be paid between 3 to 6 years	**3,008**	3,022	**555**	538
Benefits expected to be paid between 6 to 11 years	**5,630**	5,527	**1,168**	1,157
Benefits expected to be paid between 11 to 16 years	**5,874**	5,783	**1,422**	1,471
Benefits expected to be paid in more than 16 years	**28,915**	28,828	**8,970**	9,264

1 The duration of the defined benefit obligation represents a weighted average across non-Swiss plans.

The following tables show the principal actuarial assumptions used in calculating the defined benefit obligations.

	Swiss		Non-Swiss[1]	
	31.12.13	31.12.12	**31.12.13**	31.12.12
Principal actuarial assumptions used (%)				
Assumptions used to determine defined benefit obligations at the end of the year				
Discount rate	**2.3**	1.9	**4.6**	4.3
Rate of salary increase	**2.5**	2.5	**3.2**	4.1
Rate of pension increase	**0.0**	0.0	**3.3**	2.1
Rate of interest credit on retirement savings	**2.6**	2.1	**1.1**	1.2

1 Represents weighted average assumptions across non-Swiss plans.

Note 28 Pension and other post-employment benefit plans (continued)

Mortality tables and life expectancies for major plans

		Life expectancy at age 65 for a male member currently			
		aged 65		aged 45	
Country	**Mortality table**	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Switzerland	BVG 2010 G	**21.3**	21.2	**23.1**	23.0
UK	S1NA_L CMI 2010 G, with projections	**24.4**	24.5	**27.3**	27.5
US	PPA mandated mortality table per IRC 1.430(h)(3)	**19.3**	19.2	**19.3**	19.2
Germany	Dr. K. Heubeck 2005 G	**19.7**	19.6	**22.4**	22.3

		Life expectancy at age 65 for a female member currently			
		aged 65		aged 45	
Country	**Mortality table**	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Switzerland	BVG 2010 G	**23.8**	23.7	**25.5**	25.4
UK	S1NA_L CMI 2010 G, with projections	**25.5**	25.6	**27.8**	27.9
US	PPA mandated mortality table per IRC 1.430(h)(3)	**21.1**	21.0	**21.1**	21.0
Germany	Dr. K. Heubeck 2005 G	**23.8**	23.7	**26.3**	26.2

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit asset/(liability) in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of plan assets.

Sensitivity analysis of significant actuarial assumptions[1]

	Swiss plan: increase/(decrease) in defined benefit obligation		Non-Swiss plans: increase/(decrease) in defined benefit obligation	
CHF million	**31.12.13**	31.12.12	**31.12.13**	31.12.12
Discount rate				
Increase by 50 basis points	**(1,301)**	(1,438)	**(411)**	(410)
Decrease by 50 basis points	**1,471**	1,639	**472**	470
Rate of salary increase				
Increase by 50 basis points	**142**	163	**1**	2
Decrease by 50 basis points	**(138)**	(155)	**(1)**	(2)
Rate of pension increase				
Increase by 50 basis points	**1,007**	1,118	**391**	355
Decrease by 50 basis points	**–**[2]	–[2]	**(340)**	(281)
Rate of interest credit on retirement savings				
Increase by 50 basis points	**270**	304	**7**	10
Decrease by 50 basis points	**(259)**	(286)	**(6)**	(10)
Life expectancy				
Increase in longevity by one additional year	**561**	613	**132**	125

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. 2 As the assumed rate of pension increase was 0% as of 31 December 2013 and as of 31 December 2012, a downward change in assumption is not applicable.

Note 28 Pension and other post-employment benefit plans (continued)

The following table provides information on the composition and fair value of plan assets of the Swiss pension plan and the non-Swiss pension plans.

Composition and fair value of plan assets

Swiss Plan

	31.12.13				31.12.12		
	Fair Value			Plan asset allocation %	Fair Value		Plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other	
Cash and cash equivalents	113	0	113	1	602	0	3
Real estate / property							
Domestic	0	2,523	2,523	11	0	2,377	11
Investment funds							
Equity							
Domestic	617	0	617	3	597	0	3
Foreign	5,935	827	6,761	30	5,210	824	28
Bonds[1]							
Domestic, AAA to BBB–	3,018	0	3,018	13	3,492	0	16
Domestic, below BBB–	0	0	0	0	0	0	0
Foreign, AAA to BBB–	6,867	0	6,867	31	7,060	0	32
Foreign, below BBB–	752	0	752	3	615	0	3
Real estate							
Foreign	0	124	124	1	0	138	1
Other	1,220	486	1,707	8	593	259	4
Other investments	0	15	15	0	0	16	0
Total	18,523	3,975	22,498	100	18,169	3,614	100

	31.12.13	31.12.12
Total fair value of plan assets	22,498	21,783
of which:		
Bank accounts at UBS and UBS debt instruments	*119*	*611*
UBS shares	*32*	*32*
Securities lent to UBS	*1,001[2]*	*0*
Property occupied by UBS	*143*	*158*
Derivative financial instruments, counterparty UBS	*287[2]*	*83*
Structured products, counterparty UBS	*122*	*0*

1 The bond credit ratings are primarily based on Standard and Poor's credit ratings. Ratings AAA to BBB– and below BBB– represent investment grade and non-investment grade ratings, respectively. In cases where credit ratings from other rating agencies were used, these were converted to the equivalent rating in the Standard & Poor's rating classification. 2 Securities lent to UBS and derivative financial instruments are presented gross of any collateral. Net of collateral, derivative financial instruments amounted to CHF 14 million as of 31 December 2013. Securities lent to UBS were fully covered by collateral as of 31 December 2013.

Note 28 Pension and other post-employment benefit plans (continued)

Composition and fair value of plan assets (continued)

Non-Swiss Plans

	31.12.13				31.12.12		
	Fair Value			Weighted average plan asset allocation %	Fair Value		Weighted average plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other	
Cash and cash equivalents	173	0	173	5	95	0	3
Bonds[1]							
Domestic, AAA to BBB–	66	0	66	2	121	0	3
Domestic, below BBB–	42	0	42	1	121	0	3
Foreign, AAA to BBB–	10	0	10	0	19	0	1
Foreign, below BBB–	7	0	7	0	23	0	1
Private equity	1	0	1	0	0	0	0
Investment funds							
Equity							
Domestic	639	3	641	17	624	4	16
Foreign	1,012	0	1,012	27	874	0	23
Bonds[1]							
Domestic, AAA to BBB–	1,061	0	1,061	28	1,082	0	29
Domestic, below BBB–	208	0	208	6	219	0	6
Foreign, AAA to BBB–	100	35	135	4	125	0	3
Foreign, below BBB–	62	21	83	2	132	0	4
Real estate							
Domestic	0	103	103	3	0	95	3
Foreign	0	0	0	0	0	0	0
Other	45	160	205	5	61	163	6
Insurance contracts	0	15	15	0	0	15	0
Other investments	0	5	5	0	8	4	0
Total	3,426	342	3,768	100	3,503	280	100
Total fair value of plan assets			3,768			3,783	

1 The bond credit ratings are primarily based on Standard and Poor's credit ratings. Ratings AAA to BBB– and below BBB– represent investment grade and non-investment grade ratings, respectively. In cases where credit ratings from other rating agencies were used, these were converted to the equivalent rating in the Standard & Poor's rating classification.

b) Post-retirement medical and life insurance plans

In the US and the UK, UBS offers retiree medical benefits that contribute to the health care coverage of certain employees and their beneficiaries after retirement. The UK medical plan is closed to new entrants. In the US, in addition to retiree medical benefits, UBS also provides retiree life insurance benefits to certain employees. The post-retirement medical benefits in the UK and the US cover all types of medical expenses including, but not limited to, cost of doctor visits, hospitalization, surgery and pharmaceuticals. The retirees contribute to the cost of the post-retirement medical benefits. These plans are not pre-funded plans and costs are incurred as amounts are paid.

In 2013, UBS announced changes to one of the US post-retirement medical and life insurance plans in relation to the eligibility criteria and cost sharing. This change reduced the defined benefit obligation by CHF 9 million resulting in a gain of CHF 9 million in 2013.

Further in 2013, UBS announced a change to the other US post-retirement medical and life insurance plan in relation to the prescription drug coverage. This plan change reduced the defined benefit obligation by CHF 8 million resulting in a gain of CHF 8 million in 2013.

In 2012, UBS announced changes to the retiree medical and life insurance benefit plans in the US. This change reduced the defined benefit obligation by CHF 116 million with a corresponding gain recognized in the income statement in 2012.

The employer contributions expected to be made to the post-retirement medical and life insurance plans in 2014 are estimated to be CHF 7 million.

Note 28 Pension and other post-employment benefit plans (continued)

The following table provides an analysis of the net asset / (liability) recognized on the balance sheet for post-retirement medical and life insurance plans between the beginning to the end of the year, as well as an analysis of amounts recognized in net profit and in other comprehensive income.

Post-retirement medical and life insurance plans

CHF million		
For the year ended	**31.12.13**	31.12.12
Defined benefit obligation at the beginning of the year	**136**	219
Current service cost	**1**	6
Interest expense	**6**	9
Plan participant contributions	**2**	3
Remeasurements of defined benefit obligation	**(3)**	26
of which: actuarial (gains) / losses arising from changes in demographic assumptions	***(1)***	*0*
of which: actuarial (gains) / losses arising from changes in financial assumptions	***(10)***	*10*
of which: experience (gains) / losses	***8***	*16*
Past service cost related to plan amendments	**(17)**	(9)
Curtailments	**0**	(108)
Benefit payments[1]	**(9)**	(9)
Foreign currency translation	**(2)**	(1)
Defined benefit obligation at the end of the year	**114**	136
of which: amounts owing to active members	***15***	*27*
of which: amounts owing to deferred members	***0***	*0*
of which: amounts owing to retirees	***99***	*109*
Fair value of plan assets at the end of the year	**0**	0
Net defined benefit asset / (liability)	**(114)**	(136)
Analysis of amounts recognized in net profit		
Current service cost	**1**	6
Interest expense related to defined benefit obligation	**6**	9
Past service cost related to plan amendments	**(17)**	(9)
Curtailments	**0**	(108)
Net periodic cost	**(11)**	(102)
Analysis of gains / (losses) recognized in other comprehensive income		
Remeasurement of defined benefit obligation	**3**	(26)
Total gains / (losses) recognized in other comprehensive income	**3**	(26)

1 Benefit payments are funded by employer contributions and plan participant contributions.

Note 28 Pension and other post-employment benefit plans (continued)

The post-retirement benefit obligation is determined by using the assumed average health care cost trend rate. On a country-by-country basis, the same discount rate is used for the calculation of the post-retirement benefit obligation from medical and life insurance plans as for the defined benefit obligations arising from pension plans.

The discount rate and the assumed average health care cost trend rates are presented in the following table. The calculation of the post-retirement benefit obligation also uses life expectancy rates, as disclosed in "Note 28a Defined benefit pension plans" above.

Principal weighted average actuarial assumptions used (%)[1]

Assumptions used to determine defined benefit obligations at the end of the year		
For the year ended	**31.12.13**	31.12.12
Discount rate	**4.8**	4.1
Average health care cost trend rate – initial	**6.8**	7.6
Average health care cost trend rate – ultimate	**5.1**	5.0

1 The assumptions for life expectancies are provided within "Note 28a Defined benefit pension plans."

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date.

Sensitivity analysis of significant actuarial assumptions[1]

	Increase / (decrease) in defined benefit obligation	
CHF million	**31.12.13**	31.12.12
Discount rate		
Increase by 50 basis points	**(6)**	(8)
Decrease by 50 basis points	**7**	9
Average health care cost trend rate		
Increase by 100 basis points	**9**	12
Decrease by 100 basis points	**(8)**	(10)
Life expectancy		
Increase in longevity by one additional year	**7**	9

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded.

c) Defined contribution plans

UBS also sponsors a number of defined contribution plans in its non-Swiss locations. The locations with significant defined contribution plans are the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from UBS. The employer contributions to these plans are recognized as an expense which, for the years ended 31 December 2013, 31 December 2012 and 31 December 2011, amounted to CHF 236 million, CHF 240 million and CHF 254 million, respectively.

Note 28 Pension and other post-employment benefit plans (continued)

d) Related party disclosure

UBS is the principal bank for the pension fund of UBS in Switzerland. In this function, UBS is engaged to execute most of the pension fund's banking activities. These activities can include, but are not limited to, trading and securities lending and borrowing. All transactions have been executed under arm's length conditions. The non-Swiss UBS pension funds do not have a similar banking relationship with UBS.

In 2008, UBS sold certain bank-occupied properties to the Swiss pension fund. Simultaneously, UBS and the Swiss pension fund entered into lease-back arrangements for some of the properties with 25-year lease terms and two renewal options for 10 years each. During 2009, UBS renegotiated one of the lease contracts which reduced UBS's remaining lease commitment. In 2013, after the first five years, the early break options for most of the leases were not exercised, which resulted in an increase in the minimum commitment for additional five years. As of 31 December 2013, the minimum commitment towards the Swiss pension fund under the related leases is approximately CHF 19 million (31 December 2012: CHF 11 million).

The following amounts have been received or paid by UBS from and to the pension funds in respect of these banking activities and arrangements.

Related party disclosure

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Received by UBS			
Fees	**33**	31	24
Paid by UBS			
Rent	**8**	9	10
Interest	**1**	1	3
Dividends and capital repayments	**2**	0	0

The transaction volumes in UBS shares and other UBS securities are as follows.

Transaction volumes – related parties

	For the year ended	
	31.12.13	31.12.12
Financial instruments bought by pension funds		
UBS shares (in thousands of shares)	**1,459**	2,926
UBS debt instruments (par values in CHF million)	**5**	10
Financial instruments sold by pension funds or matured		
UBS shares (in thousands of shares)	**2,293**	3,645
UBS debt instruments (par values in CHF million)	**8**	81

Details of the fair value of the plan assets of the defined pension plans are disclosed in "Note 28a Defined benefit pension plans." In addition, UBS defined contribution pension funds held 16,192,501 UBS shares with a fair value of CHF 278 million as of 31 December 2013 (31 December 2012: 16,690,174 UBS shares with a fair value of CHF 240 million).

Note 29 Equity participation and other compensation plans

a) Plans offered

UBS operates several equity participation and other compensation plans to align the interests of executives, managers and staff with the interests of shareholders. Some plans (e.g., Equity Plus and Equity Ownership Plan) are granted to eligible employees in approximately 50 countries and are designed to meet the legal, tax and regulatory requirements of each country in which they are offered. Certain plans are used in specific countries, business areas (e.g., awards granted within Wealth Management Americas), or are offered to members of the Group Executive Board (GEB) only. UBS operates compensation plans on a mandatory, discretionary and voluntary basis. The explanations below provide a general description of the terms of the most significant plans which relate to the performance year 2013 (granted in 2014) and those from prior years that are partly expensed in 2013. Refer to Note 1a) 25) for a description of the accounting policy related to equity participation and other compensation plans.

Mandatory share-based compensation plans

Equity Ownership Plan (EOP): Selected employees receive a portion of their annual performance-related compensation above a certain threshold in the form of an EOP award in UBS shares, notional shares or UBS performance shares (notional shares which are subject to performance conditions). From February 2014 onwards in general only notional shares and UBS performance shares are granted. Since 2011 (for the performance year 2010), performance shares have been granted to EOP participants who are risk-takers, Group Managing Directors or employees whose incentive exceeds a certain threshold. The performance shares granted in 2011 and 2012 will only vest in full if certain performance targets are met, i.e., if the participant's business division is profitable (for Corporate Center participants, the Group as a whole needs to be profitable) in the financial year preceding the relevant vesting date. To determine if a business division is profitable in this context, adjustments to reported profitability may be made based on considerations relating to risk, quality and reliability of earnings. For performance shares granted in respect of the performance years 2012 and 2013, the performance conditions are based on the Group return on tangible equity and the divisional return on attributed equity (for Corporate Center participants, the return on attributed equity of the Group excluding Corporate Center). Replacement awards (including sign-on payments) can be offered in deferred cash under the EOP plan rules.

Awards in UBS shares allow for voting and dividend rights during the vesting period, whereas notional and performance shares represent a promise to receive UBS shares at vesting and do not allow for voting rights during the vesting period. Notional and performance shares granted before February 2014 have no rights to dividends, whereas for awards granted since February 2014 employees are entitled to receive a dividend equivalent which may be paid in notional shares and/or cash, and which will vest on the same terms and conditions as the award. Awards granted in the form of UBS shares, notional shares and performance shares are settled by delivering UBS shares at vesting, except in countries where this is not permitted for legal or tax reasons. EOP awards granted until 2012 generally vest in three equal increments over a three-year vesting period and awards granted since March 2013 generally vest in equal increments two and three years following grant. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee, on a tiered basis.

Senior Executive Equity Ownership Plan (SEEOP): Up to 2012 (performance year 2011) GEB members received a portion of their mandatory deferral in UBS shares or notional shares, which vest in one-fifth increments over a five-year vesting period and are forfeitable if certain conditions are not met. Awards granted since 2011 are subject to the same performance conditions as performance shares granted under the EOP, i.e., they will only vest in full if the participant's business division is profitable (for Corporate Center participants, the Group as a whole must be profitable) in the financial year preceding scheduled vesting. Awards granted under SEEOP are settled by delivering UBS shares at vesting. Compensation expense is recognized on the same basis as for share-settled EOP awards. From 2013 (performance year 2012), GEB members have received EOP awards. No SEEOP awards were granted for the performance years 2012 and 2013.

Incentive Performance Plan (IPP): In 2010, GEB members and certain other senior employees received part of their annual incentive in the form of performance shares granted under the IPP. Each performance share granted is a contingent right to receive between one and three UBS shares at vesting, depending on the achievement of share price targets. The IPP awards vest in full after five years (i.e., in 2015) and are subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. IPP was a one-time plan granted in 2010 only.

Performance Equity Plan (PEP): From 2010 to 2012, GEB members received part of their annual incentive in the form of performance shares granted under the PEP. Each performance share is a contingent right to receive between zero and two UBS shares at vesting, depending on the achievement of Economic Profit (EP) and Total Shareholder Return (TSR) targets. PEP awards vest in full after three years. EP is a risk-adjusted profit measure that takes into account the cost of risk capital. TSR measures the total return to UBS shareholders (in the form of share price appreciation and

Note 29 Equity participation and other compensation plans (continued)

dividends) as compared to the constituents of a banking index. Vesting is subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. No PEP awards were granted for the performance years 2012 and 2013.

2012 Special Plan Award Program for the Investment Bank (SPAP): In April 2012, certain Managing Directors and Group Managing Directors of the Investment Bank were granted an award of UBS shares which will vest three years after grant. Vesting is subject to performance conditions, continued employment with the firm and certain other conditions. The vesting of Special Plan awards is subject to performance conditions based on the level of reduction in risk-weighted assets achieved and the average return on risk-weighted assets in the Investment Bank for 2012, 2013 and 2014. Compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Mandatory deferred cash compensation plans

Deferred Contingent Capital Plan (DCCP): The DCCP is a mandatory performance award deferral plan for all employees whose total compensation exceeds a certain threshold. Such employees receive part of their annual incentive in the form of notional bonds, which are a right to receive a cash payment at vesting. DCCP awards for the performance year 2012 (granted in 2013) vest in full five years from grant and are forfeited if the phase-in Basel III common equity tier 1 capital ratio of the Group falls below 7%, if FINMA determines that the DCCP awards need to be written down to prevent the insolvency, bankruptcy or failure of UBS AG, or if UBS AG has received a commitment of extraordinary support from the public sector that is necessary to prevent such insolvency, bankruptcy or failure. DCCP awards for the performance year 2013 (granted in 2014) are forfeited if the phase-in Basel III common equity tier 1 capital ratio of the Group falls below 10% for GEB members and 7% for non-GEB members. There was no change to the other forfeiture rules. Interest is paid annually for performance years in which the firm generates an adjusted profit before tax. In any years during the vesting period where UBS does not achieve an adjusted profit before tax, GEB members would forfeit 20% of the award. The awards are subject to standard forfeiture and harmful acts provisions, including voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Long-Term Deferred Retention Senior Incentive Scheme (LTDRSIS): Awards granted under the LTDRSIS are granted to employees in Australia and represent a profit share amount based on the profitability of the Australian business. Awards vest after three years and include an arrangement which allows for unpaid installments to be reduced if the business has a loss during the calendar year preceding vesting. The awards are generally forfeitable upon voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of the grant. Otherwise, compensation expense is recognized ratably from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Global Asset Management Equity Ownership Plan: In order to align their compensation with the performance of the funds they manage, all Global Asset Management employees receiving EOP awards, receive them in the form of cash-settled notional funds since 2012. The amount depends on the value of the relevant underlying Global Asset Management funds at the time of vesting. In prior years certain Global Asset Management employees received EOP awards in a combination of shares and cash-settled notional funds, the corresponding amount depended on the value of the underlying Global Asset Management funds at the time of vesting. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee, on a tiered basis.

Cash Balance Plan (CBP): From 2010 to 2012, Group Executive Board (GEB) members received part of their annual incentive in the form of a mandatory deferred cash award. CBP awards are paid out in two equal installments during the two years following the year of grant, subject to certain performance conditions. Awards granted in 2011 and 2012 (for performance years 2010 and 2011, respectively) are subject to Group return on equity performance conditions, whereas awards granted in 2010 (for performance year 2009) are subject to profitability hurdles. After a GEB member has left the firm, the deferred portion of the CBP award continues to be at risk of forfeiture. Awards granted under the CBP from 2011 onwards are forfeited if a GEB member voluntarily terminates his or her employment and joins another financial services organization. Compensation expense is recognized in the performance year, which is generally the financial year prior to the grant date. No CBP awards were granted for the performance years 2012 and 2013.

Deferred Cash Plan (DCP): In 2011, DCP awards were granted to Investment Bank employees whose total compensation exceeded a certain threshold. DCP awards vest in one-third increments over a three-year period following grant. The awards are forfeitable upon voluntary termination of employment. Compensation expense is recognized ratably over the vesting period. DCP was a one-time plan granted in 2011.

Note 29 Equity participation and other compensation plans (continued)

Wealth Management Americas financial advisor compensation

Financial advisor compensation – cash payments consist primarily of a formula-based compensation plan, which fluctuates in proportion to the level of business activity.

UBS also may enter into compensation commitments with certain financial advisors primarily as a recruitment incentive and to incentivize financial advisors to achieve specified revenue production and other performance thresholds. The compensation is earned and paid to the employee during a period of continued employment and may be forfeited under certain circumstances. In most cases, UBS grants loans to financial advisors in connection with these compensation commitments.

GrowthPlus is a program for selected financial advisors whose revenue production and length of service exceeds defined thresholds from 2010 through 2017. Compensation arrangements were granted in 2010 and 2011 with potential arrangements to be granted in 2015 and 2018. The awards vest ratably over seven years from grant with the exception of the 2018 commitment, which vests over five years.

PartnerPlus is a mandatory deferred cash compensation plan for certain eligible employees. Awards (UBS contributions) are based on a predefined formula during the performance year. Participants are also allowed to voluntarily contribute additional amounts earned during the year, up to a percentage of their pay, which are vested upon contribution. Awards earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter. Voluntary contributions can earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter or along with vested company contributions can be benchmarked to various mutual funds when balances vest. Awards and all interest vest in 20% increments six to ten years following grant date. Awards and interest earned on both UBS and voluntary contributions are forfeitable under certain circumstances. Compensation expense for awards is recognized in the performance year if the employee meets the qualifying separation eligibility requirements at the date of grant. Otherwise, compensation expense for awards is recognized ratably commencing in the performance year to the earlier of the vesting date or the qualifying separation eligibility date of the employee. Compensation expense for voluntary contributions are recognized in the year of deferral.

Discretionary share-based compensation plans

Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP): Until 2009, key and high potential employees were granted discretionary share-settled stock appreciation rights (SARs) or UBS options with a strike price not less than the fair market value of a UBS share on the date the SAR or option was granted. A SAR gives employees the right to receive a number of UBS shares equal to the value of any appreciation in the market price of a UBS share between the grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price. SARs and options are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. These awards are generally forfeitable upon termination of employment with UBS. Compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. No options or SARs awards have been granted since 2009.

Voluntary share-based compensation plans

Equity Plus Plan (Equity Plus): Equity Plus is a voluntary plan that provides eligible employees with the opportunity to purchase UBS shares at market value and receive, at no additional cost, one free notional UBS share for every three shares purchased, up to a maximum annual limit. Share purchases may be made annually from the performance award and/or monthly through regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for a maximum of three years from the time of purchase. Equity Plus awards vest after up to three years. Prior to 2010, instead of notional shares participants received two UBS options for each share they purchased under this plan. The options had a strike price equal to the fair market value of a UBS share on the grant date, a two-year vesting period and generally expired ten years from the grant date. The options are forfeitable in certain circumstances and are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Compensation expense for Equity Plus is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. For awards granted from April 2014 onwards, employees are entitled to receive a dividend equivalent which may be paid in either notional shares and/or cash.

Share delivery obligations

UBS satisfies share delivery obligations under its share-based plans either by purchasing UBS shares in the market or through the issuance of new shares. As of 31 December 2013, total future share delivery obligations in relation to employee share-based compensation awards were 109 million shares, taking into account the UBS share price at year-end 2013 as well as performance conditions. Share delivery obligations related to unvested and vested notional share awards, performance share awards, options and stock appreciation rights.

As of 31 December 2013, UBS held 73 million treasury shares (31 December 2012: 74 million shares) which were available to satisfy delivery obligations related to notional share awards, performance share awards, options and stock appreciation rights. An additional 139 million unissued shares (31 December 2012: 145 million shares) in conditional share capital (out of 150 million approved in 2006) were available to satisfy the delivery obligation related to options and stock appreciation rights. Treasury shares held or newly issued shares are delivered to employees at exercise or vesting.

Note 29 Equity participation and other compensation plans (continued)

b) Effect on the income statement

Effect on the income statement for the financial year and future periods

The following table summarizes the compensation expenses recognized for the year ended 31 December 2013 and deferred compensation expenses that will be recognized as an expense in the income statements of 2014 and later. The deferred compensation expenses in the table also include vested and non-vested awards granted mainly in February 2014, which relate to the performance year 2013.

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2013			Personnel expenses deferred to 2014 and later		
CHF million	Expenses relating to awards for 2013	Expenses relating to awards for prior years	Total	Relating to awards for 2013	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,942	(30)	1,912	0	0	0
Deferred Contingent Capital Plan (DCCP)	152	96	248	348	230	578
Deferred cash plans (DCP and other cash plans)	2	53	55	7	12	19
Equity Ownership Plan (EOP / SEEOP) – UBS shares	190	466	656	520	307	827
Performance Equity Plan (PEP)	0	3	3	0	0	0
Incentive Performance Plan (IPP)	0	33	33	0	21	21
Total UBS share plans	190	502	692	520	328	848
Equity Ownership Plan (EOP) – notional funds	19	60	79	37	36	73
Total performance awards	**2,305**	**681**	**2,986**	**912**	**606**	**1,518**
Variable compensation						
Variable compensation – other	152	136	288[2]	340[3]	398[4]	738
Financial advisor compensation – cash payments	2,219	0	2,219	0	0	0
Compensation commitments with recruited financial advisors	33	605	638	440	2,098	2,538
GrowthPlus and other deferral plans	62	132	194	107	564	671
UBS share plans	20	69	89	45	165	210
Wealth Management Americas: Financial advisor compensation[5]	2,334	806	3,140	592	2,827	3,419
Total	**4,791**	**1,623**	**6,414**	**1,844**	**3,831**	**5,675**

1 Total share-based personnel expenses recognized for the year ended 31 December 2013 were CHF 1,042 million and were comprised of UBS share plans of CHF 787 million, Equity Ownership Plan – notional funds of CHF 79 million, related social security costs of CHF 65 million and other compensation plans (reported within Variable compensation – other) of CHF 111 million. 2 Includes replacement payments of CHF 78 million (CHF 72 million related to prior years), forfeiture credits of CHF 146 million (all related to prior years), severance payments of CHF 114 million (all related to current year) and retention plan and other payments of CHF 242 million (CHF 210 million related to prior years). 3 Includes DCCP interest of CHF 101 million for DCCP awards 2013 (granted in 2014). 4 Includes DCCP interest of CHF 109 million for DCCP awards 2012 (granted in 2013). 5 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date.

Note 29 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2012			Personnel expenses deferred to 2013 and later		
CHF million	Expenses relating to awards for 2012	Expenses relating to awards for prior years	Total	Relating to awards for 2012	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,411	(38)	1,373	0	0	0
Deferred Contingent Capital Plan (DCCP)	145	0	145	361	0	361
Deferred cash plans (CBP, DCP and other cash plans)	5	149	154	10	87	97
Equity Ownership Plan (EOP / SEEOP) – UBS shares	135	995	1,130	383	495	878
Performance Equity Plan (PEP)	0	10	10	0	4	4
Incentive Performance Plan (IPP)	0	62	62	0	82	82
Total UBS share plans	135	1,067	1,202	383	581	964
UBS share option plans (KESAP / KESOP)	0	14	14	0	0	0
Equity Ownership Plan (EOP) – notional funds	28	84	112	20	46	66
Total performance awards	**1,724**	**1,276**	**3,000**	**774**	**714**	**1,488**
Variable compensation						
Variable compensation – other	424	(57)	367[2]	494[3]	71	565
Financial advisor compensation – cash payments	1,957	0	1,957	0	0	0
Compensation commitments with recruited financial advisors	54	579	634	587	2,115	2,702
GrowthPlus and other deferral plans	54	129	183	54	620	674
UBS share plans	21	78	99	66	216	282
Wealth Management Americas: Financial advisor compensation[4]	2,087	786	2,873	706	2,951	3,657
Total	**4,235**	**2,005**	**6,240**	**1,974**	**3,736**	**5,710**

1 Total share-based personnel expenses recognized for the year ended 31 December 2012 were CHF 1,584 million and were comprised of UBS share plans of CHF 1,261 million, UBS share option plans of CHF 14 million, Equity Ownership Plan – notional funds of CHF 112 million, related social security costs of CHF 89 million and other compensation plans (reported within Variable compensation – other) of CHF 108 million. 2 Includes replacement payments of CHF 109 million (CHF 94 million prior year), forfeiture credits of CHF 174 million (prior year), severance payments of CHF 303 million (current year) and retention plan and other payments of CHF 128 million (CHF 21 million prior year). 3 Includes DCCP interest of CHF 137 million. 4 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date.

During 2013, UBS accelerated the recognition of expenses for certain deferred compensation arrangements relating to employees that were made redundant as part of restructuring programs. Based on the redundancy provisions of the plan rules, these employees retain their deferred compensation awards, however, as the employees are not required to provide future service, compensation expense relating to these awards was accelerated to the termination date based on the shortened service period. The amounts accelerated and recognized relating to share-based payment awards in 2013 and 2012 were CHF 62 million and CHF 63 million respectively, and the amounts related to deferred cash awards were CHF 9 million and CHF 13 million, respectively.

UBS also shortened the service period for certain employees in accordance with the mutually agreed termination provisions of their deferred compensation awards. Expense recognition was accelerated to the revised vesting date. The amounts accelerated and recognized relating to share-based payment awards in 2013 and 2012 were CHF 11 million and CHF 20 million, respectively, and the amounts related to deferred cash awards were CHF 3 million and CHF 2 million, respectively.

Note 29 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2011			Personnel expenses deferred to 2012 and later		
CHF million	Expenses relating to awards for 2011	Expenses relating to awards for prior years	Total	Relating to awards for 2011	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,554	(88)	1,466	0	0	0
Deferred cash plans (CBP, DCP and other cash plans)	34	309	343	3	179	182
Equity Ownership Plan (EOP/SEEOP) – UBS shares	231	1,153	1,384	740	720	1,460
Performance Equity Plan (PEP)	3	5	8	10	4	14
Incentive Performance Plan (IPP)	0	97	97	0	134	134
Total UBS share plans	234	1,256	1,490	750	858	1,608
UBS share option plans (KESAP/KESOP)	0	100	100	0	15	15
Equity Ownership Plan (EOP) – notional funds	25	93	118	69	48	117
Total performance awards	**1,847**	**1,669**	**3,516**	**822**	**1,100**	**1,922**
Variable compensation						
Variable compensation – other	295	(104)	191[2]	132	111	243
Financial advisor compensation – cash payments	1,695	0	1,695	0	0	0
Compensation commitments with recruited financial advisors	37	499	536	561	2,131	2,692
GrowthPlus and other deferral plans	90	89	179	377	422	799
UBS share plans	20	88	108	86	261	347
Wealth Management Americas: Financial advisor compensation[3]	1,842	676	2,518	1,024	2,814	3,838
Total	**3,984**	**2,242**	**6,226**	**1,978**	**4,025**	**6,003**

1 Total share-based personnel expenses recognized for the year ended 31 December 2011 were CHF 1,789 million and were comprised of UBS share plans of CHF 1,490 million, UBS share option plans of CHF 100 million, Equity Ownership Plan – notional funds of CHF 118 million, related social security costs of CHF 39 million and other compensation plans (reported within Variable compensation – other) of CHF 42 million. 2 Includes replacement payments of CHF 121 million, forfeiture credits of CHF 215 million, severance payments of CHF 239 million and retention plan and other payments of CHF 46 million. 3 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date.

Additional disclosures on mandatory, discretionary and voluntary share-based compensation plans (including notional funds granted under EOP)

The total share-based personnel expenses recognized for the years ended 31 December 2013, 2012 and 2011 were CHF 1,042 million, CHF 1,584 million, and CHF 1,789 million, respectively. This includes the current period expense, amortization and related social security costs for awards issued in prior periods and performance year expensing for awards granted to retirement-eligible employees where the terms of the awards do not require the employee to provide future services.

The total compensation expenses for non-vested share-based awards granted up to 31 December 2013 relating to prior years to be recognized in future periods is CHF 710 million and will be recognized as personnel expenses over a weighted average period of 2 years. This includes UBS share plans, UBS share option plans, the Equity Ownership Plan (notional funds), other variable compensation and the Equity Plus Plan. Total deferred compensation amounts included in the 2013 table differ from this amount as the deferred compensation amounts also include non-vested awards granted in February 2014 related to the performance year 2013.

Actual payments to participants in cash-settled share-based plans, including amounts granted as notional funds issued under the EOP, for the years ended 31 December 2013 and 2012 were CHF 157 million and CHF 141 million respectively. The total carrying amount of the liability related to these plans was CHF 164 million as of 31 December 2013 and CHF 249 million as of 31 December 2012.

Note 29 Equity participation and other compensation plans (continued)

c) Movements during the year

UBS share and performance share awards

Movements in UBS share and notional share awards were as follows:

UBS share awards

	Number of shares 2013	Weighted average grant date fair value (CHF)	Number of shares 2012	Weighted average grant date fair value (CHF)
Outstanding, at the beginning of the year	249,059,529	15	214,698,539	17
Shares awarded during the year	50,270,660	15	120,208,862	12
Distributions during the year	(99,955,951)	15	(72,997,669)	17
Forfeited during the year	(12,740,747)	15	(12,850,203)	17
Outstanding, at the end of the year	186,633,491	15	249,059,529	15
of which: shares vested for accounting purposes	*48,096,537*		*61,555,483*	

The fair value of shares that became legally vested and were distributed (i.e., all restrictions were fulfilled) during the years ended 31 December 2013 and 2012 was CHF 1,398 million and CHF 1,216 million, respectively.

Movements in performance shares granted under the IPP are as follows:

Incentive Performance Plan

	Number of performance shares 2013	Weighted average fair value of IPP performance shares at grant date (CHF)[1]
2013		
Forfeitable, at the beginning of the year	14,231,831	22
Awarded during the year	0	0
Vested during the year	(8,690)[2]	22
Forfeited during the year	(1,072,118)	22
Forfeitable, at the end of the year	13,151,023[3]	22
of which: performance shares vested for accounting purposes	*10,248,071*	
2012		
Forfeitable, at the beginning of the year	16,137,466	22
Awarded during the year	0	0
Vested during the year	(7,182)	22
Forfeited during the year	(1,898,453)	22
Forfeitable, at the end of the year	14,231,831[3]	22
of which: performance shares vested for accounting purposes	*8,965,917*	

1 The weighted average fair value takes into account the applicable performance conditions and the range of possible outcomes. 2 The corresponding number of UBS shares distributed in 2013 was 8,690. 3 As of 31 December 2013 and 31 December 2012, the number of deliverable UBS shares was equal to the number of forfeitable performance shares.

Note 29 Equity participation and other compensation plans (continued)

Movements in performance shares granted under the PEP are as follows:

Performance Equity Plan

	2013	
	Number of performance shares 2013	**Weighted average fair value of PEP performance shares at grant date (CHF)[1]**
Forfeitable, at the beginning of the year	**1,825,199**	**16**
Awarded during the year	**0**	**0**
Vested during the year	**(359,613)[2]**	**16**
Forfeited during the year	**(84,628)**	**17**
Forfeitable, at the end of the year	**1,380,958[3]**	**16**
of which: performance shares vested for accounting purposes	***1,041,901***	
	2012	
Forfeitable, at the beginning of the year	1,210,598	18
Awarded during the year	845,580	13
Vested during the year	0	0
Forfeited during the year	(230,979)	13
Forfeitable, at the end of the year	1,825,199[3]	16
of which: performance shares vested for accounting purposes	*1,160,836*	

1 The weighted average fair value takes into account the applicable performance conditions and the range of possible outcomes. 2 The corresponding number of UBS shares distributed in 2013 was 186,999. 3 As of 31 December 2013, the number of deliverable UBS shares was 629,136 based on the applicable performance conditions. As of 31 December 2012, the number of deliverable UBS shares was 946,683 based on the applicable performance conditions.

UBS option awards

Movements in option awards were as follows:

UBS option awards

	Number of options 2013	**Weighted average exercise price (CHF)[1]**	Number of options 2012	Weighted average exercise price (CHF)[1]
Outstanding, at the beginning of the year	**158,090,564**	**43**	179,992,361	43
Granted during the year	**0**	**0**	0	0
Exercised during the year	**(3,430,697)**	**12**	(992,180)	11
Forfeited during the year	**(177,272)**	**45**	(1,283,626)	44
Expired unexercised	**(21,312,456)**	**36**	(19,625,991)	40
Outstanding, at the end of the year	**133,170,139**	**45**	158,090,564	43
Exercisable, at the end of the year	**133,170,139**	**45**	158,090,564	43

1 Some of the options in this table have exercise prices denominated in USD which have been converted into CHF at the year-end spot exchange rate for the purposes of this table.

The following table provides additional information about option exercises, grants and intrinsic values:

For the year ended	**31.12.13**	31.12.12
Weighted average share price of options exercised (CHF)	**17**	13
Intrinsic value of options exercised during the year (CHF million)	**17.5**	3.6
Weighted average grant date fair value of options granted (CHF)	**N/A**	N/A

Note 29 Equity participation and other compensation plans (continued)

The following table provides additional information about options outstanding and options exercisable as of 31 December 2013:

	Options outstanding				Options exercisable			
Range of exercise prices	Number of options outstanding	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)	Number of options exercisable	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)
CHF Awards								
10.21–15.00	11,949,232	11.40	66.0	4.6	11,949,232	11.40	66.0	4.6
15.01–25.00	9,685,112	18.89	4.6	4.7	9,685,112	18.89	4.6	4.7
25.01–35.00	26,937,351	31.48	0.0	3.8	26,937,351	31.48	0.0	3.8
35.01–45.00	7,527,842	42.01	0.0	1.0	7,527,842	42.01	0.0	1.0
45.01–55.00	15,333,852	49.43	0.0	1.4	15,333,852	49.43	0.0	1.4
55.01–65.00	4,480,527	60.09	0.0	2.7	4,480,527	60.09	0.0	2.7
65.01–75.00	44,254,456	67.62	0.0	2.4	44,254,456	67.62	0.0	2.4
10.21–75.00	**120,168,372**		**70.6**		**120,168,372**		**70.6**	
USD Awards								
17.88–25.00	1,647	20.59	0.0	1.0	1,647	20.59	0.0	1.0
25.01–35.00	5,749,053	31.74	0.0	0.5	5,749,053	31.74	0.0	0.5
35.01–44.83	7,251,067	37.59	0.0	1.2	7,251,067	37.59	0.0	1.2
17.88–44.83	**13,001,767**		**0.0**		**13,001,767**		**0.0**	

UBS SAR awards

Movements in SAR awards were as follows:

UBS SARs awards

	Number of SARs 2013	Weighted average exercise price (CHF)	Number of SARs 2012	Weighted average exercise price (CHF)
Outstanding, at the beginning of the year	33,118,335	12	55,021,238	12
Granted during the year	0	0	0	0
Exercised during the year	(10,427,263)	11	(14,217,629)	11
Forfeited during the year	(57,500)	11	(684,717)	11
Expired unexercised	(1,189,556)	33	(7,000,557)	11
Outstanding, at the end of the year	21,444,016	12	33,118,335	12
Exercisable, at the end of the year	21,444,016	12	33,118,335	12

The following table provides additional information about SARs exercises, grants and intrinsic values:

For the year ended	31.12.13	31.12.12
Weighted average share price of SARs exercised (CHF)	17	13
Intrinsic value of SARs exercised during the year (CHF million)	57.0	24.6
Weighted average grant date fair value of SARs granted (CHF)	N/A	N/A

Note 29 Equity participation and other compensation plans (continued)

The following table provides additional information about SARs outstanding as of 31 December 2013:

	SARs outstanding				SARs exercisable			
Range of exercise prices	Number of SARs outstanding	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)	Number of SARs exercisable	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)
CHF								
9.35–12.50	20,979,066	11.34	117.0	5.0	20,979,066	11.34	117.0	5.0
12.51–15.00	18,000	14.71	0.0	5.5	18,000	14.71	0.0	5.5
15.01–17.50	92,950	16.80	0.0	4.8	92,950	16.80	0.0	4.8
17.51–20.00	354,000	19.25	0.0	5.6	354,000	19.25	0.0	5.6
9.35–20.00	**21,444,016**		**117.0**		**21,444,016**		**117.0**	

d) Valuation

UBS share awards

UBS measures compensation expense based on the average market price of the UBS share on the grant date as quoted on the SIX Swiss Exchange, taking into consideration post-vesting sale and hedge restrictions, non-vesting conditions and market conditions, where applicable. The fair value of the share awards subject to post-vesting sale and hedge restrictions is discounted based upon the duration of the post-vesting restriction and is referenced to the cost of purchasing an at-the-money European put option for the term of the transfer restriction. The weighted average discount for share and performance share awards granted during 2013 is approximately 13.4% (2012: 15.4%) of the market price of the UBS share. The grant date fair value of notional UBS shares without dividend entitlements also includes a deduction for the present value of future expected dividends to be paid between the grant date and distribution.

UBS options and SARs awards

Since 2010, the fair values of options and SARs have been determined using a standard closed-formula option valuation model. The expected term of each instrument is calculated based on historical employee exercise behavior patterns, taking into account the share price, strike price, vesting period and the contractual life of the instrument. The term structure of volatility is derived from the implied volatilities of traded UBS options in combination with the observed long-term historical share price volatility. Expected future dividends are derived from traded UBS options or from the historical dividend pattern. No options or SARs have been granted since 2009.

Incentive Performance Plan (IPP) and Performance Equity Plan (PEP)

No IPP and no PEP awards were granted in 2013. For performance share awards granted in 2012, UBS obtained an independent third-party valuation based on the market conditions at the date of grant. The valuation methodology applied was a Monte Carlo simulation. The approach to determining input parameters and valuing the post-vesting transfer restriction is in line with that used for options. The fair value of PEP units granted in 2012 was determined using the following assumptions.

	31.12.12
	PEP CHF awards
Expected total shareholder return volatility (%)	43.00
Expected economic profit volatility (%)	16.00
Risk-free interest rate (%)	0.09
Expected dividend (CHF)	0.13
Share price (CHF)	12.76

Note 30 Interests in subsidiaries and other entities

a) Interests in subsidiaries

Effective 31 December 2013, UBS revised its approach to determining its significant subsidiaries to include only those entities that, either individually or in aggregate, contribute significantly to the Group's financial position or results of operations, based on a number of criteria, including the subsidiaries' equity and their contribution to the Group's total assets and profit/(loss) before tax, in accordance with the requirements set by IFRS 12, Swiss regulations and the regulations of the US SEC.

Individually significant subsidiaries

The table below lists the Group's individually significant subsidiaries as of 31 December 2013. Unless otherwise stated, the subsidiaries listed below have share capital consisting solely of ordinary shares, which are held fully by the Group, and the proportion of ownership interest held is equal to the voting rights held by the Group. The country where the respective registered office is located is also generally the principal place of business.

Individually significant subsidiaries as of 31 December 2013

Company	Registered office	Primary business division		Share capital in million	Equity interest accumulated in %
UBS Americas Inc.	Wilmington, Delaware, USA	Investment Bank	USD	0.0	100.0
UBS Bank USA	Salt Lake City, Utah, USA	Wealth Management Americas	USD	0.0	100.0
UBS Financial Services Inc.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Limited	London, United Kingdom	Investment Bank	GBP	226.6	100.0
UBS Securities LLC	Wilmington, Delaware, USA	Investment Bank	USD	1,283.1[1]	100.0

1 Mainly comprised of non-voting preferred shares held by UBS Americas Inc.

UBS Limited and UBS Americas Inc. are fully held by UBS AG. UBS Bank USA and UBS Financial Services Inc. are fully held by UBS Americas Inc. 30% of UBS Securities LLC is held by UBS AG and 70% by UBS Americas Inc. (after consideration of preferred shares).

Note 30 Interests in subsidiaries and other entities (continued)

Other subsidiaries

The table below lists other subsidiaries that are not individually significant but contribute to the Group's total assets and aggregated profit before tax thresholds and are thereby selected in accordance with the requirements set by the US SEC.

Other subsidiaries as of 31 December 2013

Company	Registered office	Primary business division		Share capital in million	Equity interest accumulated in %
Topcard Service AG	Glattbrugg, Switzerland	Retail & Corporate	CHF	0.2	100.0
UBS (Italia) SpA	Milan, Italy	UBS Wealth Management	EUR	80.0	100.0
UBS (Luxembourg) S.A.	Luxembourg, Luxembourg	UBS Wealth Management	CHF	150.0	100.0
UBS Alternative and Quantitative Investments LLC	Wilmington, Delaware, USA	Global Asset Management	USD	0.1	100.0
UBS Beteiligungs-GmbH & Co. KG	Frankfurt, Germany	UBS Wealth Management	EUR	568.8	100.0
UBS Card Center AG	Glattbrugg, Switzerland	Retail & Corporate	CHF	0.1	100.0
UBS Credit Corp.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Deutschland AG	Frankfurt, Germany	UBS Wealth Management	EUR	176.0	100.0
UBS Fund Advisor, L.L.C.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global Asset Management	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global Asset Management	USD	5.6	100.0
UBS Global Asset Management (Americas) Inc.	Wilmington, Delaware, USA	Global Asset Management	USD	0.0	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global Asset Management	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	Global Asset Management	SGD	4.0	100.0
UBS Loan Finance LLC	Wilmington, Delaware, USA	Investment Bank	USD	0.1	100.0
UBS O'Connor LLC	Dover, Delaware, USA	Global Asset Management	USD	1.0	100.0
UBS Real Estate Securities Inc.	Wilmington, Delaware, USA	Investment Bank	USD	0.0	100.0
UBS Realty Investors LLC	Boston, Massachusetts, USA	Global Asset Management	USD	9.0	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	Investment Bank	THB	500.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	Investment Bank	AUD	0.3[1]	100.0
UBS Securities Canada Inc.	Toronto, Canada	Investment Bank	CAD	10.0	100.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	Investment Bank	EUR	15.0	100.0
UBS Securities India Private Limited	Mumbai, India	Investment Bank	INR	140.0	100.0
UBS Securities Japan Co., Ltd.	Tokyo, Japan	Investment Bank	JPY	74,450.0	100.0
UBS Securities Pte. Ltd.	Singapore, Singapore	Investment Bank	SGD	420.4	100.0
UBS Services LLC	Wilmington, Delaware, USA	Investment Bank	USD	0.0	100.0
UBS Trust Company of Puerto Rico	Hato Rey, Puerto Rico	Wealth Management Americas	USD	0.1	100.0

1 Includes a nominal amount relating to redeemable preference shares.

Note 30 Interests in subsidiaries and other entities (continued)

Changes in consolidation scope

On 1 January 2013, UBS adopted IFRS 10, resulting in a change in the consolidation status of certain entities. Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for an overview of the effects on total comprehensive income and on the balance sheet. There were no material changes in the scope of consolidation in 2013.

Non-controlling interests

As of 31 December 2013 and 31 December 2012, non-controlling interests were not material to the Group. In addition, as of these dates there were no significant restrictions on UBS's ability to access or use the assets and settle the liabilities of the Group resulting from protective rights of non-controlling interests.

➔ **Refer to the "Statement of changes in equity" for more information**

b) Interests in associates and joint ventures

As of 31 December 2013 and 31 December 2012, no associate or joint venture was individually material to the Group. In addition, there were no significant restrictions on the ability of associates or joint ventures to transfer funds to UBS AG or its subsidiaries in the form of cash dividends or to repay loans or advances made. There were no quoted market prices for any associates or joint ventures of the Group.

Investments in associates and joint ventures

CHF million	31.12.13	31.12.12
Carrying amount at the beginning of the year	858	795
Additions	0	4
Disposals	(2)	(3)
Share of comprehensive income	59	113
of which: share of net profit[1]	*49*	*88*
of which: share of other comprehensive income[2]	*10*	*25*
Dividends received	(69)	(37)
Foreign currency translation	(4)	(12)
Carrying amount at the end of the year	**842**	858
of which: associates	*815*	*828*
of which: UBS Securities Co. Limited[3]	*369*	*385*
of which: SIX Group AG[4]	*367*	*366*
of which: other associates	*78*	*77*
of which: joint ventures	*27*	*30*

1 For 2013, consists of CHF 37 million from associates and CHF 12 million from joint ventures. For 2012, consists of CHF 76 million from associates and CHF 12 million from joint ventures. 2 For 2013, consists of CHF 9 million from associates and CHF 1 million from joint ventures. For 2012, consists of CHF 24 million from associates and CHF 1 million from joint ventures. 3 UBS's equity interest amounts to 20.0%. 4 UBS's equity interest amounts to 17.3% and UBS is represented on the Board of Directors.

Note 30 Interests in subsidiaries and other entities (continued)

c) Interests in unconsolidated structured entities

During 2013, the Group sponsored the creation of various structured entities (SE) and interacted with a number of non-sponsored SE, including securitization vehicles, client vehicles as well as certain investment funds, which UBS did not consolidate as of 31 December 2013 because it did not control these entities.

➔ **Refer to Note 1a) 3) for more information on the nature, purpose, activities and financing structure of these entities**

The table below presents the Group's interests in and maximum exposure to loss from unconsolidated SE as of 31 December 2013. In addition, the total assets held by the SE in which UBS had an interest as of 31 December 2013 are provided, except for investment funds sponsored by third parties, for which the carrying value of UBS's interest as of 31 December 2013 has been disclosed.

Interests in unconsolidated structured entities

			31.12.13		
CHF million, except where indicated	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss[1]
Trading portfolio assets	3,298	544	6,509	10,350	10,350
Positive replacement values	26	16	0	42	42
Financial assets designated at fair value		124[2]	91	215	2,449
Loans	1,878		366	2,244	2,244
Financial investments available-for-sale		4,020	77	4,096	4,096
Other assets		53[2]	6	58	933
Total assets	5,202[3]	4,756	7,048	17,005	
Negative replacement values	1,263[4]		0	1,263	16
Total liabilities	1,263[5]		0	1,263	
Assets held by the unconsolidated structured entities in which UBS had an interest (CHF billion)	390[6]	96[7]	266[8]		

1 For purposes of this disclosure, maximum exposure to loss amounts do not consider the risk-reducing effects of collateral or other credit enhancements. 2 Represents the carrying value of loan commitments, both designated at fair value and held at amortized cost. The maximum exposure to loss for these instruments is equal to the notional amount. 3 Of the CHF 5.2 billion, CHF 5.0 billion or 96% was held by Corporate Center – Non-core and Legacy Portfolio. 4 Comprised of credit default swap (CDS) liabilities and other swap liabilities. The maximum exposure to loss for CDS is equal to the sum of the negative carrying value and the notional amount. For other swap liabilities, no maximum exposure to loss is reported. 5 Entirely held by Corporate Center – Non-core and Legacy Portfolio. 6 Represents principal amount outstanding. 7 Represents the market value of total assets. 8 Represents the net asset value of the investment funds sponsored by UBS (CHF 260 billion) and the carrying value of UBS's interest in the investment funds not sponsored by UBS (CHF 7 billion).

The Group retains or purchases interests in unconsolidated SE in the form of direct investments, financing, guarantees, letters of credit, derivatives and through management contracts.

For retained interests, the Group's maximum exposure to loss is generally equal to the carrying value of the Group's interest in the SE, with the exception of guarantees, letters of credit and credit derivatives for which the contract's notional amount, adjusted for losses already incurred, represents the maximum loss that the Group is exposed to. In addition, the current fair value of derivative swap instruments with a positive replacement value only, such as total return swaps, are presented as UBS's maximum exposure to loss. Risk exposure for these swap instruments could change over time with market movements.

The maximum exposure to loss disclosed in the table above does not reflect the Group's risk management activities, including effects from financial instruments that the Group may utilize to economically hedge the risks inherent in the unconsolidated SE or the risk reducing effects of collateral or other credit enhancements.

In 2013, the Group did not provide support, financial or otherwise, to an unconsolidated structured entity when the Group was not contractually obligated to do so, nor has the Group an intention to do so in the future.

In 2013, income earned from interests in unconsolidated SE primarily resulted from mark-to-market movements recognized in net trading income as well as fee and commission income received from UBS sponsored funds.

Interests in securitization vehicles

As of 31 December 2013, the Group retained interests in securitization vehicles related to financing, underwriting, secondary market and derivative trading activities. In some cases the Group may be required to absorb losses from an unconsolidated SE before other parties because the Group's interest is subordinated to others in the ownership structure. An overview of the Group's interests in unconsolidated securitization vehicles and the relative ranking and external credit rating of those interests as of 31 December 2013 is presented in the table on the next page.

Note 30 Interests in subsidiaries and other entities (continued)

Interests in unconsolidated securitization vehicles[1]

	31.12.13				
CHF million, except where indicated	Residential mortgage-backed securities	Commercial mortgage-backed securities	Other asset-backed securities[2]	Re-securitization[3]	Total
Sponsored by UBS					
Interests in senior tranches	24	103	96	627	849
of which: rated investment grade	*23*	*103*	*90*	*624*	*839*
of which: rated sub-investment grade				*1*	*1*
of which: defaulted			*6*	*1*	*7*
of which: not rated	*1*	*0*			*1*
Interests in mezzanine tranches	4	27	8	33	73
of which: rated investment grade		*20*	*8*	*33*	*61*
of which: rated sub-investment grade	*4*	*6*		*0*	*10*
of which: defaulted	*0*	*1*		*0*	*2*
Interests in junior tranches	0				0
Total	28	130	104	660	922
of which: Trading portfolio assets	*28*	*130*	*57*	*21*	*237*
of which: Loans			*47*	*639*	*686*
Total assets held by the vehicles in which UBS had an interest (CHF billion)	1	26	2	4	32
Not sponsored by UBS					
Interests in senior tranches	391	745	1,263	449	2,848
of which: rated investment grade	*332*	*575*	*1,112*	*412*	*2,431*
of which: rated sub-investment grade	*57*	*170*	*148*	*37*	*412*
of which: defaulted	*2*		*3*		*5*
of which: not rated	*0*		*0*		*0*
Interests in mezzanine tranches	218	350	369	237	1,173
of which: rated investment grade	*135*	*212*	*332*	*211*	*890*
of which: rated sub-investment grade	*79*	*133*	*23*	*25*	*260*
of which: defaulted	*5*	*5*		*0*	*10*
of which: not rated	*0*	*0*	*14*		*14*
Interests in junior tranches	88	8	134	2	234
of which: rated investment grade	*57*	*4*	*133*		*194*
of which: rated sub-investment grade	*21*	*4*	*1*		*26*
of which: defaulted	*0*	*0*	*0*		*1*
of which: not rated	*11*			*2*	*13*
Total	698	1,103	1,766	688	4,254
of which: Trading portfolio assets	*698*	*1,103*	*763*	*498*	*3,062*
of which: Loans	*0*	*0*	*1,002*	*190*	*1,192*
Total assets held by the vehicles in which UBS had an interest (CHF billion)	103	149	70	27	349

1 This table excludes derivative transactions with securitization vehicles. 2 Includes credit card, car and student loan structures. 3 Includes collateralized debt obligations.

Note 30 Interests in subsidiaries and other entities (continued)

The numbers outlined in the table on the previous page differ from the securitization positions presented in the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report, primarily due to: (i) exclusion from the table above of synthetic securitizations transacted with entities that are not SE and transactions in which the Group did not have an interest because it did not absorb any risk, (ii) a different measurement basis in certain cases (e.g., IFRS carrying value within the table above compared with net exposure amount at default for Basel III Pillar 3 disclosures) and (iii) different classification of vehicles viewed as sponsored by the Group versus sponsored by third parties.

➔ **Refer to Note 1a) items 3) and 12) for more information on when the Group is viewed as the sponsor of an SE and for the Group's accounting policies regarding securitization vehicles established by UBS**

➔ **Refer to the "Supplemental disclosures required under Basel III Pillar 3 regulations" section of this report for more information on securitization exposures**

Interests in client vehicles

As of 31 December 2013, the Group retained interests in client vehicles sponsored by the Group and third parties that relate to financing and derivative activities and to hedge structured product offerings. Included within these investments are securities guaranteed by US government agencies.

Interests in investment funds

The Group holds interests in a number of investment funds, primarily resulting from seed investments or to hedge structured product offerings. In addition to the interests disclosed in the table on the previous page, the Group manages the assets of various pooled investment funds and receives fees which are based, in whole or part, on the net asset value of the fund and/or the performance of the fund. The specific fee structure is determined based on various market factors and considers the nature of the fund, the jurisdiction of incorporation as well as fee schedules negotiated with clients. These fee contracts represent an interest in the fund as they align the Group's exposure to investors, providing a variable return which is based on the performance of the entity. Depending on the structure of the fund, these fees may be collected directly from the fund assets and/or from the investors. Any amounts due are collected on a regular basis and are generally backed by the assets of the fund. The Group did not have any material exposure to loss from these interests as of 31 December 2013.

Sponsored unconsolidated structured entities in which UBS did not have an interest

For several sponsored SE, no interest was held by the Group as of 31 December 2013. However, during the reporting period the Group transferred assets, provided services and held instruments which did not qualify as an interest with these sponsored SE, and accordingly earned income or incurred expenses from these entities. The table below presents the income earned and expenses incurred directly from these entities during 2013 as well as asset information. The table does not include income earned and expenses incurred from risk management activities, including income and expenses from financial instruments that the Group may utilize to economically hedge instruments transacted with the unconsolidated SE.

Sponsored unconsolidated structured entities in which UBS did not have an interest at year end[1]

	As of or for the year ended			
	31.12.13			
CHF million, except where indicated	Securitization vehicles	Client vehicles	Investment funds	Total
Net interest income	1	(48)	(19)	(66)
Net fee and commission income			64	64
Net trading income	(271)	(368)	113	(525)
Total income	**(270)**	**(416)**	**159**	**(527)**
Asset information (CHF billion)	**2[2]**	**0[3]**	**13[4]**	

1 This table excludes net profit attributable to preferred noteholders of CHF 204 million. 2 Represents total assets transferred to the respective securitization vehicles. Of the total amount transferred, CHF 1 billion was transferred by UBS and CHF 1 billion was transferred by third parties. 3 Represents total assets transferred to the respective client vehicles. The entire amount relates to assets transferred by UBS. 4 Represents the total net asset value of the respective investment funds.

During 2013, the Group primarily earned fees and incurred net trading losses from sponsored SE in which UBS did not hold an interest. The majority of the fee income arose from investment funds that are sponsored and administrated by the Group and managed by third parties. As the Group does not provide any active management services, UBS was not exposed to risk from the performance of these entities and therefore was deemed not to have an interest in them.

In certain structures, the fees receivable for administrative purposes may be collected directly from the investors and have therefore not been included in the table above.

Note 30 Interests in subsidiaries and other entities (continued)

In addition, the Group incurred net trading losses from mark-to-market movements arising primarily from derivatives, such as interest rate swaps and credit derivatives in which the Group purchases protection, and financial liabilities designated at fair value, which do not qualify as interests because the Group does not absorb variability from the performance of the entity. The net losses reported do not reflect economic hedges or other mitigating effects from the Group's risk management activities.

During 2013, UBS and third parties transferred assets totaling CHF 3 billion into sponsored securitization and client vehicles created in 2013. For sponsored investment funds, transfers arose during the period as investors invested and redeemed positions, thereby changing the overall size of the funds alongside market movements, resulting in a total closing net asset value of CHF 13 billion.

Note 31 Business combinations

Business combinations in 2013

In 2013, UBS completed the acquisition of all voting and ownership interests in Link Investimentos, a Brazilian financial services firm that was integrated into the Investment Bank. The acquisition cost was CHF 90 million of which CHF 55 million related to goodwill, CHF 21 million to intangible assets, primarily related to customer relationships, and CHF 14 million to other net assets. The acquisition costs included a cash payment of CHF 35 million and deferred consideration of CHF 55 million.

Business combinations in 2012

In 2012, no significant business combinations were completed.

Note 32 Changes in organization

Restructuring charges arise from programs that materially change either the scope of business undertaken by the Group or the manner in which such business is conducted. Restructuring charges are non-recurring, temporary costs that are necessary to effect such programs and include items such as severance and other personnel related charges, duplicate headcount costs, impairment and accelerated depreciation of assets, contract termination costs, consulting fees, and related infrastructure and system costs. These costs are presented in the income statement according to the underlying nature of the expense. As the costs associated with restructuring programs are temporary in nature, and in order to provide a more thorough understanding of business performance, such costs are separately presented on the following page.

Prior to 2013, restructuring charges were limited to (i) items recognized in the restructuring provision, consisting of severance and other personnel related items and onerous lease contracts and (ii) associated asset impairments. The expanded definition of restructuring charges better reflects the total economic costs arising from UBS's restructuring programs and thus provides better information regarding the effects of its investment in significant transformational activities expected to reduce operating costs upon completion. This change solely affects the presentation of charges and does not affect the timing of when such charges are recognized in our operating results. The effect of this expanded definition on all prior periods is not material and thus no amounts have been restated.

Note 32 Changes in organization (continued)

Net restructuring charges by business division and Corporate Center

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Wealth Management	**178**	26	82
Wealth Management Americas	**59**	(1)	10
Retail & Corporate	**54**	3	32
Global Asset Management	**43**	20	26
Investment Bank	**210**	273	202
Corporate Center	**229**	51	29
of which: Core Functions	***(6)***	*(8)*	*15*
of which: Non-core and Legacy Portfolio	***235***	*58*	*14*
Total net restructuring charges	**772**	371	380
of which: personnel expenses	***156***	*358*	*261*
of which: general and administrative expenses	***548***	*0*	*93*
of which: depreciation and impairment of property and equipment	***68***	*14*	*26*

Net restructuring charges by personnel expense category

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Salaries	**65**	64	31
Variable compensation – performance awards	**(15)**	115	54
Variable compensation – other	**88**	247	122
Contractors	**3**	0	0
Social security	**5**	(10)	20
Pension and other post-employment benefit plans	**8**	(56)	30
Wealth Management Americas: Financial advisor compensation	**0**	0	(1)
Other personnel expenses	**3**	(1)	6
Total net restructuring charges: personnel expenses	**156**	358	261

Net restructuring charges by general and administrative expense category

	For the year ended		
CHF million	**31.12.13**	31.12.12	31.12.11
Occupancy	**35**	(1)	(1)
Rent and maintenance of IT and other equipment	**8**	4	1
Administration	**2**	0	0
Travel and entertainment	**4**	0	0
Professional fees	**76**	1	1
Outsourcing of IT and other services	**59**	0	0
Other[1]	**364**	(5)	92
Total net restructuring charges: general and administrative expenses	**548**	0	93

1 Mainly comprised of onerous real estate lease contracts.

Note 33 Operating lease commitments

As of 31 December 2013, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions, as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options, nor do they impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The minimum commitments for non-cancellable leases of premises and equipment are presented as follows.

CHF million	31.12.13
Expenses for operating leases to be recognized in:	
2014	737
2015	674
2016	583
2017	552
2018	469
2019 and thereafter	2,316
Subtotal commitments for minimum payments under operating leases	5,330
Less: Sublease rental income commitments	383
Net commitments for minimum payments under operating leases	4,947

CHF million	31.12.13	31.12.12	31.12.11
Gross operating lease expense recognized in the income statement	792	860	837
Sublease rental income	74	87	84
Net operating lease expense recognized in the income statement	718	773	754

Note 34 Related parties

UBS defines related parties as associates (entities which are significantly influenced by UBS), post-employment benefit plans for the benefit of UBS employees, key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled or jointly controlled by key management personnel or their close family members. Key management personnel is defined as members of the Board of Directors (BoD) and Group Executive Board (GEB).

a) Remuneration of key management personnel

The non-independent members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the non-independent members of the BoD and GEB members, including those who stepped down during 2013, is provided in the table below.

Remuneration of key management personnel

CHF million	**31.12.13**	31.12.12	31.12.11
Base salaries and other cash payments	**19**	20	21
Incentive awards – cash[1]	**10**	0	22
Annual incentive award under DCCP	**19**	21	0
Employer's contributions to retirement benefit plans	**2**	1	1
Benefits in kind, fringe benefits (at market value)	**2**	1	1
Equity-based compensation[2]	**38**	34	33
Total	**88**	76	79

1 Includes immediate and deferred cash. 2 Expenses for shares granted is measured at grant date and allocated over the vesting period, generally for 5 years. In 2013 and 2012, equity-based compensation was entirely comprised of EOP awards. In 2011, equity-based compensation included PEP and SEEOP awards, as well as blocked shares due to applicable UK FSA regulations.

The independent members of the BoD do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the BoD. Payments to these individuals for their services as external board members amounted to CHF 7.6 million in 2013, CHF 7.6 million in 2012 and CHF 7.0 million in 2011.

b) Equity holdings of key management personnel

	31.12.13	31.12.12
Number of stock options from equity participation plans held by non-independent members of the BoD and the GEB members[1]	**2,865,603**	3,137,426
Number of shares held by members of the BoD, GEB and parties closely linked to them[2]	**3,951,869**	4,557,522

1 Refer to "Note 29 Equity participation and other compensation plans" for more information. 2 Excludes shares granted under variable compensation plans with forfeiture provisions.

Of the share totals above, 5,597 shares were held by close family members of key management personnel on 31 December 2013 and 31 December 2012, respectively. No shares were held by entities that are directly or indirectly controlled or jointly controlled by key management personnel or their close family members on 31 December 2013 and 31 December 2012. Refer to "Note 29 Equity participation and other compensation plans" for more information. As of 31 December 2013, no member of the BoD or GEB was the beneficial owner of more than 1% of UBS AG's shares.

Note 34 Related parties (continued)

c) Loans, advances and mortgages to key management personnel

Non-independent members of the BoD and GEB members have been granted loans, fixed advances and mortgages on the same terms and conditions that are available to other employees, which are based on terms and conditions granted to third parties but are adjusted for differing credit risk. Independent BoD members are granted loans and mortgages under general market conditions.

Movements in the loan, advances and mortgage balances are as follows.

Loans, advances and mortgages to key management personnel[1]

CHF million	2013	2012
Balance at the beginning of the year	19	19
Additions	2	5
Reductions	(1)	(5)
Balance at the end of the year	20	19

1 All loans are secured loans, except for CHF 311,308 in 2012.

d) Other related party transactions with entities controlled by key management personnel

During 2013 and 2012, UBS entered into transactions at arm's length with entities which are directly or indirectly controlled or jointly controlled by UBS's key management personnel or their close family members. In 2013, these entities included H21 Macro Fund Ltd (Cayman Islands), DKSH Holding Ltd. (Switzerland) and Immo Heudorf AG (Switzerland). In 2012, these entities included H21 Macro Fund Ltd (Cayman Islands) and Immo Heudorf AG (Switzerland).

Other related party transactions

CHF million	2013	2012
Balance at the beginning of the year	11	11
Additions	0	1
Reductions	1	0
Balance at the end of the year	10[1]	11[1]

1 Comprised of loans.

Other transactions with these related parties include:

CHF million	2013	2012
Goods sold and services provided to UBS	0	0
Fees received for services provided by UBS	2	0

Note 34 Related parties (continued)

e) Transactions with associates and joint ventures

All transactions with associates and joint ventures are conducted at arm's length.

Loans and outstanding receivables to associates and joint ventures

CHF million	**2013**	2012
Balance at the beginning of the year	**450**	231
Additions	**2**	251
Reductions	**(163)**	(32)
Foreign currency translation	**0**	1
Balance at the end of the year	**288**	450
of which: unsecured loans	***271***	*276*
of which: allowances for credit losses	***1***	*1*

Other transactions with associates and joint ventures transacted at arm's length.

	As of or for the year ended	
CHF million	**31.12.13**	31.12.12
Payments to associates and joint ventures for goods and services received	**163**	131
Fees received for services provided to associates and joint ventures	**2**	0
Commitments and contingent liabilities to associates and joint ventures	**2**	8

Refer to "Note 30 Interests in subsidiaries and other entities" for an overview of investments in associates and joint ventures.

f) Additional information

UBS may also engage in trading and risk management activities (e.g., swaps, options and forwards) with related parties. These transactions may give rise to credit risk either for UBS or for a related party towards UBS. As part of its normal course of business, UBS is also a market-maker in equity and debt instruments and at times may hold positions in instruments of related parties. These transactions are generally entered into at arm's length terms.

Note 35 Invested assets and net new money

Invested assets

Invested assets include all client assets managed by or deposited with UBS for investment purposes. Invested assets include managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. All assets held for purely transactional purposes and custody-only assets, including corporate client assets held for cash management and transactional purposes, are excluded from invested assets as the Group only administers the assets and does not offer advice on how the assets should be invested. Also excluded are non-bankable assets (e.g., art collections) and deposits from third-party banks for funding or trading purposes.

Discretionary assets are defined as client assets that UBS decides how to invest. Other invested assets are those where the client ultimately decides how the assets are invested. When a single product is created in one business division and sold in another, it is counted in both the business division that manages the investment and the one that distributes it. This results in double counting within UBS total invested assets, as both business divisions are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money

Net new money in a reporting period is the amount of invested assets that are entrusted to UBS by new and existing clients, less those withdrawn by existing clients and clients who terminated their relationship with UBS.

Net new money is calculated using the direct method, under which inflows and outflows to/from invested assets are determined at the client level based on transactions. Interest and dividend income from invested assets are not counted as net new money inflows. Market and currency movements as well as fees, commissions and interest on loans charged are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and custody-only assets as a result of a change in the service level delivered are generally treated as net new money flows. However, where such change in service level directly results from a new, externally imposed regulation, the one-time net effect of the implementation is reported as an asset reclassification without net new money impact.

The Investment Bank does not track invested assets and net new money. However, when a client is transferred from the Investment Bank to another business division, this produces net new money even though client assets were already with UBS. Net new money resulting from such transfers between business divisions was zero in 2013 and 2012.

	For the year ended	
CHF billion	**31.12.13**	31.12.12
Fund assets managed by UBS	**244**	270
Discretionary assets	**714**	635
Other invested assets	**1,432**	1,325
Total invested assets (double counts included)	**2,390**	2,230
of which: double count	***156***	*172*
of which: acquisitions (divestments)	***(6.6)***	*(13.8)*
Net new money (double counts included)	**32.3**	32.9

Note 36 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of our foreign operations into Swiss francs.

	Spot rate		Average rate[1]		
	As of		Year ended		
	31.12.13	31.12.12	**31.12.13**	31.12.12	31.12.11
1 USD	**0.89**	0.92	**0.92**	0.93	0.88
1 EUR	**1.23**	1.21	**1.23**	1.20	1.23
1 GBP	**1.48**	1.49	**1.45**	1.49	1.45
100 JPY	**0.85**	1.05	**0.95**	1.12	1.11

1 Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a year represent an average of twelve month-end rates, weighted according to the income and expense volumes of all foreign operations of the Group with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for the Group.

Note 37 Events after the reporting period

There have been no material events after the reporting period which would require disclosure in or adjustment to the 31 December 2013 Financial Statements.

Note 38 Swiss GAAP requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards (IFRS). The Swiss Financial Market Supervisory Authority (FINMA) requires banks which present their financial statements under IFRS to provide a narrative explanation of the main differences between IFRS and Swiss GAAP (FINMA Circular 2008/2 and the Banking Ordinance). Included in this note are the significant differences in regard to recognition and measurement between IFRS and the provisions of the Banking Ordinance and the guidelines of the FINMA governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance. The differences outlined in points two through nine also apply to the Parent Bank statutory accounts. Refer to Parent Bank financial statements "Note 2 Accounting policies, c) Accounting policies to be adopted in the future" for an outlook on the expected Swiss GAAP revision.

1. Consolidation

Under IFRS, all entities which are controlled by the Group are consolidated.

Under Swiss GAAP, only entities that are active in the field of banking and finance and real estate entities are subject to consolidation. Entities which are held temporarily are generally recorded as financial investments.

2. Financial investments available-for-sale

Under IFRS, financial investments available-for-sale are carried at fair value. Changes in fair value are recorded directly in equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in equity is included in net profit or loss for the period. On disposal of a financial investment available-for-sale, the cumulative unrecognized gain or loss previously recognized in equity is recognized in the income statement.

Under Swiss GAAP, classification and measurement of financial investments available-for-sale depends on the nature of the investment. Equity instruments with no permanent holding intent and debt instruments are classified as *Financial investments* and measured at lower of (amortized) cost or market. Market value adjustments up to the original cost amount and realized gains or losses upon disposal of the investment are recorded in the income statement as *Other income* from *ordinary activities.* Equity instruments with a permanent holding intent are classified as participations in *Investments in subsidiaries and other participations* and measured at cost less impairment. Impairment losses are recorded in the income statement as *Impairment of investments in subsidiaries and other participations.* Reversal of impairments up to the original cost amount as well as realized gains or losses upon disposal of the investment are recorded as *Extraordinary income / Extraordinary expenses* in the income statement.

3. Cash flow hedges

The Group designates derivative instruments in cash flow hedge accounting relationships. Under IFRS, when hedge accounting is applied, the fair value gain or loss on the effective portion of the derivative designated as a cash flow hedge is recognized in equity. When the hedged cash flows materialize, the accumulated unrecognized gain or loss is reclassified to income.

Under Swiss GAAP, the effective portion of the fair value change of the derivative instrument used to hedge cash flow exposures is deferred on the balance sheet as *Other assets* or *Other liabilities*. The deferred amounts are released to income when the hedged cash flows materialize.

4. Fair value option

Under IFRS, the Group applies the fair value option to certain financial assets and financial liabilities not held for trading. Instruments for which the fair value option is applied are accounted for at fair value with changes in fair value reflected in *Net trading income*. The fair value option is applied primarily to structured debt instruments, certain non-structured debt instruments, structured reverse repurchase and repurchase agreements and securities borrowing agreements, certain structured and non-structured loans as well as loan commitments.

Under Swiss GAAP, the fair value option can only be applied to structured products issued that consist of a debt host contract and an embedded derivative(s) that requires bifurcation. Changes in fair value attributable to changes in own credit are not recognized in the income statement.

5. Goodwill and intangible assets

Under IFRS, goodwill acquired in a business combination is not amortized but tested annually for impairment. Intangible assets acquired in a business combination with an indefinite useful life are also not amortized but tested annually for impairment.

Under Swiss GAAP, goodwill and intangible assets with indefinite useful lives are amortized over a period not exceeding five years, unless a longer useful life, which may not exceed twenty years, can be justified.

Note 38 Swiss GAAP requirements (continued)

6. Pension funds

Swiss GAAP permits the use of IFRS or Swiss accounting standards for pension funds, with the election made on a plan by plan basis.

UBS applies IFRS (IAS 19) for its non-Swiss defined benefit plans and Swiss accounting standards (Swiss GAAP FER 16, "FER 16") for the Swiss pension plan in the Parent Bank. The requirements of FER 16 are better aligned with the specific nature of Swiss pension plans, which are hybrid in that they combine elements of defined contribution and defined benefit plans, but are treated as defined benefit plans under IFRS. The financial statements of the Swiss pension plan are prepared in accordance with Swiss GAAP FER 26 ("FER 26"). Key differences between FER 16/26 and IAS 19 relate to the treatment of future salary increases, which are not considered under FER 16/26, and the determination of the discount rate.

For defined benefit plans, IFRS requires the full defined benefit obligation net of the plan assets to be recorded on the balance sheet, with changes resulting from remeasurements recognized directly in equity. For plans for which IFRS is elected, Swiss GAAP requires that changes due to remeasurements are recognized in the income statement.

Swiss accounting standards require that employer contributions to the pension fund are recognized as personnel expenses in the income statement. Further, FER 16 requires an assessment as to whether, based on the financial statements of the pension fund prepared in accordance with Swiss accounting standards (FER 26), an economic benefit or obligation for the employer arises from the pension fund and is recognized in the balance sheet when conditions are met. Conditions for recording a pension asset or liability would be met if, for example, an employer contribution reserve is available or the employer is required to contribute to the reduction of a pension deficit (on an FER 26 basis).

7. Netting of replacement values

Under IFRS, replacement values are reported on a gross basis unless certain restrictive requirements are met. Under Swiss GAAP, replacement values and the related cash collateral are reported on a net basis, provided the master netting and the related collateral agreements are legally enforceable.

8. Restructuring provisions

Under Swiss GAAP, a provision for restructuring costs is recognized when a detailed formal plan is approved by the governing body responsible for the overall direction, supervision and control of the entity. For IFRS, in addition to a detailed formal plan for the restructuring, a provision for restructuring costs is recognized only when the entity also has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Therefore, the recognition of a provision for restructuring may occur earlier under Swiss GAAP than under IFRS.

Furthermore under Swiss GAAP, the restructuring provision includes all costs that are directly related to the restructuring measures and that are not associated with the ongoing ordinary activities of the entity, whereas under IFRS, costs associated with the ongoing activities of the entity must not be included in the provision. Swiss GAAP results in a wider scope of charges being eligible for inclusion in the restructuring provision than IFRS.

9. Extraordinary income and expense

Certain items of non-recurring and non-operating income and expense are classified as extraordinary items under Swiss GAAP. This distinction is not available under IFRS.

Note 39 Supplemental guarantor information required under SEC regulations

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc. (PaineWebber), UBS AG entered into a full and unconditional guarantee of the senior notes, the subordinated notes and the trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was an SEC registrant. Upon acquisition, PaineWebber was merged into UBS Americas Inc., a wholly-owned subsidiary of UBS AG.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS AG without first proceeding against UBS Americas Inc. UBS AG's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS AG and all other liabilities of UBS AG.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the consolidated financial statements of UBS of which this information is a part.

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2013	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	11,308	1,984	1,204	(1,359)	13,137
Interest expense	(7,086)	(695)	(930)	1,359	(7,351)
Net interest income	4,221	1,290	275	0	5,786
Credit loss (expense) / recovery	(14)	(33)	(3)	0	(50)
Net interest income after credit loss expense	4,207	1,257	271	0	5,736
Net fee and commission income	6,426	6,781	3,079	0	16,287
Net trading income	4,592	379	159	0	5,130
Income from subsidiaries	283	0	0	(283)	0
Other income	1,073	416	(909)	0	580
Total operating income	16,582	8,833	2,600	(283)	27,732
Operating expenses					
Personnel expenses	8,099	5,584	1,499	0	15,182
General and administrative expenses	3,959	3,364	1,058	0	8,380
Depreciation and impairment of property and equipment	575	133	107	0	816
Amortization and impairment of intangible assets	6	60	17	0	83
Total operating expenses	12,639	9,141	2,681	0	24,461
Operating profit / (loss) before tax	3,943	(307)	(81)	(283)	3,272
Tax expense / (benefit)	567	(937)	261	0	(110)
Net profit / (loss)	3,376	630	(342)	(283)	3,381
Net profit / (loss) attributable to preferred noteholders	204	0	0	0	204
Net profit / (loss) attributable to non-controlling interests	0	0	5	0	5
Net profit / (loss) attributable to UBS shareholders	3,172	630	(347)	(283)	3,172

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. UBS AG (Parent Bank) net profit for 2013 in accordance with Swiss GAAP was CHF 2,753 million. Refer to the UBS AG (Parent Bank) financial statements for more information. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated balance sheet

CHF million As of 31 December 2013	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	69,808	8,893	2,178	0	80,879
Due from banks	27,677	7,009	53,826	(71,342)	17,170
Cash collateral on securities borrowed	28,304	33,385	2,097	(36,290)	27,496
Reverse repurchase agreements	77,647	28,757	47,122	(61,963)	91,563
Trading portfolio assets	92,757	7,848	27,194	(4,951)	122,848
of which: assets pledged as collateral which may be sold or repledged by counterparties	*44,602*	*1,862*	*1,853*	*(5,869)*	*42,449*
Positive replacement values	242,582	8,219	59,282	(64,248)	245,835
Cash collateral receivables on derivative instruments	23,834	5,920	19,977	(21,724)	28,007
Financial assets designated at fair value	6,519	1,880	3,257	(4,292)	7,364
Loans	274,616	36,807	15,231	(39,695)	286,959
Financial investments available-for-sale	50,014	4,169	5,343	0	59,525
Investments in subsidiaries and associates	67,175[2]	1	1	(66,335)[2]	842
Property and equipment	5,149	603	254	0	6,006
Goodwill and intangible assets	326	4,906	1,061	0	6,293
Deferred tax assets	4,946	3,658	241	0	8,845
Other assets	13,506	7,572	2,047	(2,896)	20,228
Total assets	984,858	159,628	239,112	(373,737)	1,009,860
Liabilities					
Due to banks	39,988	39,449	4,768	(71,342)	12,862
Cash collateral on securities lent	23,823	19,261	2,696	(36,290)	9,491
Repurchase agreements	10,039	19,333	46,402	(61,963)	13,811
Trading portfolio liabilities	22,142	3,603	5,480	(4,617)	26,609
Negative replacement values	235,870	8,318	60,013	(64,248)	239,953
Cash collateral payables on derivative instruments	36,846	8,141	25,874	(21,724)	49,138
Financial liabilities designated at fair value	67,912	440	6,084	(4,536)	69,901
Due to customers	346,246	41,029	43,245	(39,695)	390,825
Debt issued	78,470	341	2,866	(91)	81,586
Provisions	1,625	938	408	0	2,971
Other liabilities	28,781	16,244	20,648	(2,896)	62,777
Total liabilities	891,742	157,098	218,486	(307,402)	959,925
Equity attributable to UBS shareholders	91,222	2,530	20,585	(66,335)	48,002
Equity attributable to preferred noteholders	1,893	0	0	0	1,893
Equity attributable to non-controlling interests	0	0	41	0	41
Total equity	93,116[2]	2,530	20,626	(66,335)[2]	49,936
Total liabilities and equity	984,858	159,628	239,112	(373,737)	1,009,860

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. UBS AG (Parent Bank) total assets and total equity as of 31 December 2013 in accordance with Swiss GAAP were CHF 715,917 million and CHF 35,437 million, respectively. Refer to the UBS AG (Parent Bank) financial statements for more information. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Investments in subsidiaries which are presented gross in this table are eliminated against equity upon consolidation.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2013	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	55,469	(8,159)	7,015	54,325
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(49)	0	0	(49)
Disposal of subsidiaries, associates and intangible assets[2]	136	0	0	136
Purchase of property and equipment	(1,032)	(160)	(44)	(1,236)
Disposal of property and equipment	545	5	91	639
Net (investment in) / divestment of financial investments available-for-sale	751	6,076	(861)	5,966
Net cash flow from / (used in) investing activities	351	5,922	(815)	5,457
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	(1,400)	0	(2,890)	(4,290)
Net movements in treasury shares and own equity derivative activity	(341)	0	0	(341)
Increase in share capital	1	0	0	1
Dividends paid on UBS shares	(564)	0	0	(564)
Issuance of long-term debt, including financial liabilities designated at fair value	27,442	59	513	28,014
Repayment of long-term debt, including financial liabilities designated at fair value	(65,112)	(486)	(3,356)	(68,954)
Dividends paid and repayments of preferred notes	(1,415)	0	0	(1,415)
Net changes of non-controlling interests	0	0	(6)	(6)
Net activity in investments in subsidiaries	12	23	(35)	0
Net cash flow from / (used in) financing activities	(41,377)	(405)	(5,774)	(47,555)
Effects of exchange rate differences on cash and cash equivalents	(2,330)	(207)	(165)	(2,702)
Net increase / (decrease) in cash and cash equivalents	12,112	(2,850)	261	9,524
Cash and cash equivalents at the beginning of the year	71,858	14,275	12,975	99,108
Cash and cash equivalents at the end of the year	83,970	11,425	13,237	108,632
Cash and cash equivalents comprise:				
Cash and balances with central banks	69,808	8,893	2,178	80,879
Money market paper[3]	4,224	28	35	4,288
Due from banks[4]	9,938	2,503	11,024	23,465
Total	83,970	11,425	13,237	108,632[5]

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 Includes positions recognized on the balance sheet under Due from banks and Cash collateral receivables on derivative instruments. 5 CHF 8,333 million of cash and cash equivalents were restricted.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	13,376	2,774	1,882	(2,065)	15,968
Interest expense	(9,395)	(1,153)	(1,507)	2,065	(9,990)
Net interest income	3,982	1,622	375	0	5,978
Credit loss (expense) / recovery	(7)	(112)	1	0	(118)
Net interest income after credit loss expense	3,974	1,510	375	0	5,860
Net fee and commission income	5,933	6,333	3,130	0	15,396
Net trading income	3,119	250	157	0	3,526
Income from subsidiaries	(3,981)	0	0	3,981	0
Other income	1,545	783	(1,687)	0	641
Total operating income	10,590	8,876	1,976	3,981	25,423
Operating expenses					
Personnel expenses	7,682	5,369	1,686	0	14,737
General and administrative expenses	4,643	2,618	1,393	0	8,653
Depreciation and impairment of property and equipment	501	104	84	0	689
Impairment of goodwill	14	2,860	156	0	3,030
Amortization and impairment of intangible assets	3	84	20	0	106
Total operating expenses	12,843	11,034	3,339	0	27,216
Operating profit / (loss) before tax	(2,254)	(2,158)	(1,363)	3,981	(1,794)
Tax expense / (benefit)	6	165	290	0	461
Net profit / (loss)	(2,260)	(2,323)	(1,653)	3,981	(2,255)
Net profit / (loss) attributable to preferred noteholders	220	0	0	0	220
Net profit / (loss) attributable to non-controlling interests	0	0	5	0	5
Net profit / (loss) attributable to UBS shareholders	(2,480)	(2,323)	(1,658)	3,981	(2,480)

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated balance sheet

CHF million As of 31 December 2012	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	54,192	11,395	796	0	66,383
Due from banks	29,107	7,845	68,734	(84,464)	21,220
Cash collateral on securities borrowed	35,749	35,172	3,126	(36,675)	37,372
Reverse repurchase agreements	105,197	60,659	59,962	(94,877)	130,941
Trading portfolio assets	117,337	21,772	29,026	(7,572)	160,564
of which: assets pledged as collateral which may be sold or repledged by counterparties	*47,226*	*5,467*	*2,466*	*(10,460)*	*44,698*
Positive replacement values	416,098	5,695	128,949	(131,785)	418,957
Cash collateral receivables on derivative instruments	32,740	4,045	28,331	(34,703)	30,413
Financial assets designated at fair value	7,007	3,037	4,490	(5,428)	9,106
Loans	279,038	38,663	10,252	(48,053)	279,901
Financial investments available-for-sale	51,041	10,484	4,706	0	66,230
Investments in subsidiaries and associates	64,807[2]	4	1	(63,953)[2]	858
Property and equipment	5,034	593	376	0	6,004
Goodwill and intangible assets	323	5,116	1,023	0	6,461
Deferred tax assets	5,132	2,643	368	0	8,143
Other assets	10,924	7,712	1,730	(3,122)	17,244
Total assets	1,213,726	214,835	341,869	(510,633)	1,259,797
Liabilities					
Due to banks	54,795	46,014	6,680	(84,464)	23,024
Cash collateral on securities lent	19,704	22,105	4,069	(36,675)	9,203
Repurchase agreements	24,540	51,057	57,837	(94,877)	38,557
Trading portfolio liabilities	24,996	8,892	6,980	(6,620)	34,247
Negative replacement values	391,863	5,856	129,325	(131,785)	395,260
Cash collateral payables on derivative instruments	58,650	10,907	36,294	(34,703)	71,148
Financial liabilities designated at fair value	88,775	988	8,132	(5,994)	91,901
Due to customers	330,271	45,107	46,133	(48,053)	373,459
Debt issued	98,906	353	5,966	(388)	104,837
Provisions	1,166	1,023	347	0	2,536
Other liabilities	29,256	20,497	19,890	(3,122)	66,523
Total liabilities	1,122,924	212,801	321,653	(446,682)	1,210,697
Equity attributable to UBS shareholders	87,693	2,034	20,174	(63,951)	45,949
Equity attributable to preferred noteholders	3,109	0	0	0	3,109
Equity attributable to non-controlling interests	0	0	42	0	42
Total equity	90,802[2]	2,034	20,216	(63,951)[2]	49,100
Total liabilities and equity	1,213,726	214,835	341,869	(510,633)	1,259,797

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Investments in subsidiaries which are presented gross in this table are eliminated against equity upon consolidation.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	49,291	10,795	7,075	67,160
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(11)	0	0	(11)
Disposal of subsidiaries, associates and intangible assets[2]	41	0	0	41
Purchase of property and equipment	(878)	(189)	(50)	(1,118)
Disposal of property and equipment	194	5	3	202
Net (investment in) / divestment of financial investments available-for-sale	(12,429)	(780)	(785)	(13,994)
Net cash flow from / (used in) investing activities	(13,082)	(965)	(832)	(14,879)
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	(26,177)	0	(11,790)	(37,967)
Net movements in treasury shares and own equity derivative activity	(1,159)	0	0	(1,159)
Dividends paid on UBS shares	(379)	0	0	(379)
Issuance of long-term debt, including financial liabilities designated at fair value	49,885	575	5,430	55,890
Repayment of long-term debt, including financial liabilities designated at fair value	(49,981)	(23)	(4,254)	(54,259)
Dividends paid and repayments of preferred notes	(221)	0	0	(221)
Net changes of non-controlling interests	0	0	(16)	(16)
Net activity in investments in subsidiaries	(2,600)	(99)	2,698	0
Net cash flow from / (used in) financing activities	(30,631)	452	(7,932)	(38,110)
Effects of exchange rate differences on cash and cash equivalents	(200)	(352)	(121)	(673)
Net increase / (decrease) in cash and cash equivalents	5,377	9,930	(1,808)	13,500
Cash and cash equivalents at the beginning of the year	66,481	4,336	14,793	85,609
Cash and cash equivalents at the end of the year	71,858	14,266	12,985	99,108
Cash and cash equivalents comprise:				
Cash and balances with central banks	54,192	11,395	796	66,383
Money market paper[3]	4,279	47	56	4,381
Due from banks[4]	13,387	2,824	12,133	28,344
Total	71,858	14,266	12,985	99,108[5]

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments. 5 CHF 10,109 million of cash and cash equivalents were restricted.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	15,311	2,910	2,952	(3,203)	17,969
Interest expense	(10,854)	(1,102)	(2,391)	3,203	(11,143)
Net interest income	4,457	1,808	561	0	6,826
Credit loss (expense) / recovery	(96)	18	(6)	0	(84)
Net interest income after credit loss expense	4,361	1,826	555	0	6,742
Net fee and commission income	6,351	5,757	3,128	0	15,236
Net trading income	4,155	(81)	269	0	4,343
Income from subsidiaries	677	0	0	(677)	0
Other income	1,427	728	(689)	0	1,467
Total operating income	16,972	8,230	3,263	(677)	27,788
Operating expenses					
Personnel expenses	8,772	5,199	1,663	0	15,634
General and administrative expenses	2,577	2,283	1,099	0	5,959
Depreciation and impairment of property and equipment	564	117	81	0	761
Amortization and impairment of intangible assets	26	80	21	0	127
Total operating expenses	11,940	7,679	2,864	0	22,482
Operating profit / (loss) before tax	5,032	551	399	(677)	5,307
Tax expense / (benefit)	895	61	(55)	0	901
Net profit / (loss)	4,138	490	454	(677)	4,406
Net profit / (loss) attributable to non-controlling interests	0	2	266	0	268
Net profit / (loss) attributable to UBS shareholders	4,138	488	189	(677)	4,138

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	(12,251)	(933)	(1,057)	(14,241)
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(58)	0	0	(58)
Disposal of subsidiaries, associates and intangible assets[2]	50	0	0	50
Purchase of property and equipment	(917)	(114)	(98)	(1,129)
Disposal of property and equipment	137	91	5	233
Net (investment in) / divestment of financial investments available-for-sale	19,125	1,165	(9)	20,281
Net cash flow from / (used in) investing activities	18,336	1,142	(101)	19,377
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	5,459	0	9,879	15,338
Net movements in treasury shares and own equity derivative activity	(1,885)	0	0	(1,885)
Issuance of long-term debt, including financial liabilities designated at fair value	48,844	197	3,549	52,590
Repayment of long-term debt, including financial liabilities designated at fair value	(55,668)	(8)	(6,950)	(62,626)
Net changes of non-controlling interests	0	0	(748)	(748)
Net activity in investments in subsidiaries	640	(366)	(274)	0
Net cash flow from / (used in) financing activities	(2,610)	(177)	5,457	2,670
Effects of exchange rate differences on cash and cash equivalents	(2,587)	299	159	(2,129)
Net increase / (decrease) in cash and cash equivalents	889	333	4,457	5,678
Cash and cash equivalents at the beginning of the year	65,592	4,003	10,339	79,934
Cash and cash equivalents at the end of the year	66,481	4,336	14,796	85,612
Cash and cash equivalents comprise:				
Cash and balances with central banks	38,094	1,977	568	40,638
Money market paper[3]	3,804	29	67	3,900
Due from banks[4]	24,582	2,330	14,162	41,074
Total	66,481	4,336	14,796	85,612

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss GAAP. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Guarantee of other securities

The table below provides information on outstanding trust preferred securities which are registered under the US Securities Act and issued by US-domiciled entities that are 100% legally owned by UBS AG. These entities are not consolidated as UBS does not absorb any variability from the performance of these entities. However, UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit and all other liabilities of UBS. As of 31 December 2013, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated was approximately CHF 948 billion.

Guarantee of other securities

USD billion, unless otherwise indicated			As of 31.12.13	
Issuing Entity	Type of security	Date issued	Interest (%)	Amount outstanding
UBS Preferred Funding Trust IV	Non-cumulative trust preferred securities	May 2003	one-month USD LIBOR + 0.7	0.3
UBS Preferred Funding Trust V	Non-cumulative trust preferred securities	May 2006	6.243	1.0

Guarantee to UBS Ltd.

UBS AG has issued a guarantee for the benefit of each counterparty of UBS Limited. Under this guarantee, UBS AG irrevocably and unconditionally guarantees each and every obligation that UBS Limited entered into. UBS AG promises to pay to that counterparty on demand any unpaid balance of such liabilities under the terms of the guarantee.

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UBS AG (Parent Bank)

Parent Bank review

The following review is based on changes in UBS AG's (Parent Bank) financial statements from 31 December 2012 to 31 December 2013.

Income statement

UBS AG (Parent Bank) recorded a net profit of CHF 2,753 million in 2013, compared with a net loss of CHF 6,645 million in 2012.

The profit before extraordinary items and tax was CHF 1,365 million, compared with a loss of CHF 3,016 million in the prior year. This was mainly a result of a CHF 2,935 million decline in the impairment of investments in subsidiaries and other participations, as the prior year included goodwill impairments in subsidiaries and the impact of the adoption of IAS 19R. Furthermore, expenses for allowances, provisions and losses decreased by CHF 1,076 million, mainly due to lower charges for provisions for litigation, regulatory and similar matters. In addition, operating expenses decreased by CHF 707 million, which was partly offset by a decrease in operating income amounting to CHF 300 million.

Extraordinary income was CHF 1,667 million compared with CHF 429 million in the prior year, mainly reflecting a reversal of impairments and provisions of subsidiaries and other participations as well as the release of the reinvestment relief provision related to the sale of UBS Pactual. Extraordinary expenses were CHF 9 million compared with CHF 4,117 million, mainly as 2012 included expenses related to changes in pension accounting.

Net interest income

Net interest income increased by CHF 183 million, or 5%, to CHF 4,044 million, reflecting a CHF 2,394 million decline in interest expenses, partly offset by CHF 2,211 million lower interest income.

The CHF 2,211 million decline in interest income was driven by CHF 1,255 million lower interest and discount income which mainly reflected lower interest earned on loans and advances. In addition, interest and dividend income from the trading portfolio decreased by CHF 849 million. Furthermore, interest and dividend income from financial investments decreased by CHF 107 million.

Interest expense decreased by CHF 2,394 million, mainly due to lower interest expenses on debt issued as well as due to banks and customers.

Net fee and commission income

Net fee and commission income increased by CHF 439 million to CHF 6,454 million.

Fee and commission income from securities and investment businesses increased by CHF 443 million to CHF 6,713 million. Portfolio management and advisory fees increased in Wealth Management. Brokerage fees increased in the Investment Bank due to improved market activity. Investment fund fees increased mainly in Global Asset Management. These increases were partly offset by a decrease in underwriting fees in the Investment Bank and Corporate Center.

Fee and commission expense decreased by CHF 36 million, mainly due to lower brokerage fees paid.

Net trading income

Net trading income was CHF 4,209 million in 2013 compared with CHF 5,097 million in 2012. Net trading income within the Corporate Client Solutions business in the Investment Bank was positive CHF 368 million, compared with negative CHF 743 million in 2012. Net trading income within the Investor Client Services business in the Investment Bank increased by CHF 914 million to CHF 3,566 million. Net trading income in other business divisions and Corporate Center was CHF 275 million compared with CHF 3,189 million in 2012.

Other income from ordinary activities

Other income from ordinary activities was CHF 2,368 million, a decline of CHF 33 million.

Dividend income from investments in subsidiaries and other participations increased by CHF 110 million to CHF 1,015 million.

Sundry ordinary income decreased by CHF 225 million to CHF 3,734 million. In 2013, sundry income included CHF 3,599 million of income received from subsidiaries for services rendered, a decrease of CHF 257 million compared with the prior year.

Sundry ordinary expenses decreased by CHF 77 million to CHF 2,492 million. Charges from subsidiaries for services received decreased by CHF 272 million to CHF 2,096 million. This was partly offset by losses of CHF 187 million related to the buyback of debt in public tender offers in 2013.

Operating expenses

Personnel expenses decreased by CHF 732 million to CHF 8,156 million, mainly as the prior year included restructuring charges of CHF 1,364 million and a credit of CHF 485 million related to changes to our Swiss pension plan.

General and administrative expenses increased by CHF 25 million.

Impairment of investments in subsidiaries and other participations

Impairment of investments in subsidiaries and other participations decreased by CHF 2,935 million to CHF 1,275 million. Impairments in 2013 were mainly due to unfavorable foreign currency impacts, mainly related to US subsidiaries, updated strategic business outlooks and certain litigation charges. In 2012, the net asset value of subsidiaries which recorded a goodwill impairment declined, resulting in an impairment of the investments in those subsidiaries of CHF 2,951 million. In addition, the adoption of IAS 19R by foreign subsidiaries in 2012 also resulted in lower net asset values, resulting in an impairment of CHF 620 million of the respective investments.

Allowances, provisions and losses

Allowances, provisions and losses decreased by CHF 1,076 million to CHF 659 million, mainly as 2012 included higher charges for provisions for litigation, regulatory and similar matters, primarily as a result of charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. 2013 included a charge of CHF 110 million related to the Swiss-UK tax agreement.

Extraordinary income

Extraordinary income increased by CHF 1,238 million to CHF 1,667 million.

Reversals of impairments and provisions of subsidiaries and other participations increased by CHF 815 million to CHF 976 million, mainly due to a significant deferred tax assets write-up. Gains from disposals of subsidiaries and other participations increased by CHF 39 million and included gains of CHF 40 million resulting from the divestment of our participation in Euroclear Plc. Prior period related income decreased to CHF 49 million from CHF 115 million. Other extraordinary income of CHF 275 million mainly included gains on sales of real estate. Furthermore, in 2013, the reinvestment relief provision of CHF 291 million related to the sale of UBS Pactual in 2009 was released.

Extraordinary expenses

Extraordinary expenses decreased by CHF 4,108 million to CHF 9 million, mainly as 2012 included changes in pension accounting, which resulted in extraordinary expenses of CHF 3,954 million, of which CHF 3,063 million related to the Swiss pension plan and CHF 892 million related to non-Swiss defined benefit plans.

Tax expense/benefit

The tax expense in 2013 was CHF 270 million compared with a net tax benefit in 2012 of CHF 59 million.

Deferred tax assets are not accounted for or reported in UBS AG's (Parent Bank) financial statements prepared under Swiss GAAP. As a consequence, there is no net upward revaluation of deferred tax assets and no amortization of deferred tax assets for tax losses used against profits arising from business operations. This is the main difference to the Group net income tax benefit of CHF 110 million for IFRS purposes, for which the net upward revaluation and net amortization of deferred tax assets represent the most significant elements.

Balance sheet

Assets

Total assets stood at CHF 716 billion as of 31 December 2013, a decrease of CHF 60 billion from 31 December 2012, predominantly in Non-core and Legacy Portfolio, reflecting the ongoing execution of our strategy.

Asset reductions mainly occurred within reverse repurchase agreements, trading balances in securities and precious metals, money market paper and positive replacement values. These decreases were partly offset by higher liquid assets held at central banks and increased holdings of high-quality corporate bonds.

Liquid assets and money market paper

Liquid assets increased by CHF 16 billion to CHF 70 billion as of 31 December 2013, mainly reflecting higher balances with central banks. Money market paper held decreased by CHF 9 billion to CHF 22 billion, primarily due to reductions in US, German, Dutch and Canadian government bills.

Due from banks and due from customers

Interbank lending (due from banks) decreased by CHF 40 billion to CHF 128 billion, mainly reflecting reduced reverse repurchase agreements and securities borrowing with UBS subsidiaries, in particular in the Americas and Europe.

Due from customers decreased by CHF 8 billion to CHF 153 billion, mainly due to a decrease in non-mortgage loans of CHF 3 billion, primarily in the Americas, a decrease in current accounts of CHF 3 billion, mainly in Switzerland, and a decrease in reverse repurchase agreements and securities borrowings with non-bank clients of CHF 2 billion. These decreases were partly offset by higher prime brokerage loan balances, mainly in the Americas, which increased by CHF 3 billion.

Mortgage loans

Mortgage loans increased by CHF 3 billion, mainly due to an increase in residential mortgages.

Trading balances in securities and precious metals and financial investments

Trading balances in securities and precious metals decreased by CHF 21 billion. Precious metal holdings were lower by CHF 8 billion, debt instruments were reduced by CHF 4 billion and investment fund units were down by CHF 4 billion. These decreases were partly offset by an increase in securities borrowing arrangements totaling CHF 6 billion.

Financial investments increased by CHF 4 billion to CHF 35 billion, primarily due to increased holdings of high-quality corporate bonds.

Investments in subsidiaries and other participations

Investments in subsidiaries and other participations increased by CHF 1 billion to CHF 22 billion. This was mainly due to the aforementioned write-up of subsidiaries of CHF 1 billion combined with net capital injections of CHF 1 billion, partly offset by write-downs of CHF 1 billion.

Positive replacement values

Positive replacement values, which are reported on a net basis provided the master netting and/or the related collateral agreements are legally enforceable, decreased by CHF 6 billion to CHF 29 billion, mainly as replacement values for interest rate contracts fell due to lower volumes and interest rate movements, whereas replacement values for credit derivatives fell due to the tightening of credit spreads and reduced volumes. Replacement values for equity/index contracts declined as a result of the exercise of our option to acquire the SNB StabFund's equity. These decreases were partly offset by an increase in foreign exchange contracts.

Liabilities

Money market paper issued

Money market paper issued increased by CHF 2 billion to CHF 23 billion on 31 December 2013, mainly due to an increase in certificates of deposit outstanding, which was partly offset by a reduction in commercial paper outstanding.

Due to banks and due to customers

Due to banks decreased by CHF 23 billion to CHF 79 billion, reflecting lower unsecured interbank borrowing of CHF 15 billion and lower repurchase activity of CHF 11 billion. These decreases were partly offset by increased securities lending activity of CHF 4 billion. Total amounts due to customers increased by CHF 13 billion to CHF 377 billion, primarily due to an increase in deposit and personal accounts, mainly in the Americas and in Switzerland, respectively.

Trading portfolio liabilities

Trading portfolio liabilities declined by CHF 3 billion to CHF 22 billion as of 31 December 2013, mainly related to a reduction in debt instruments sold short, which was partly offset by an increase in equity instruments sold short.

Bonds issued and loans from central mortgage institutions

Bonds issued and loans from central mortgage institutions decreased by CHF 25 billion, primarily due to decreases in senior debt. As part of our reduction in wholesale funding, we successfully completed two cash tender offers during 2013 to repurchase certain subordinated and senior unsecured bonds.

Financial liabilities designated at fair value

Financial liabilities designated at fair value decreased by CHF 15 billion, primarily resulting from trade restructurings, lower valuation of structured debt as well as instrument maturities and redemptions.

Negative replacement values

Negative replacement values fell by CHF 6 billion to CHF 37 billion, primarily due to lower replacement values for interest rate and equity/index contracts.

Other liabilities and allowances and provisions

Other liabilities decreased by CHF 4 billion, mainly due to decreased deferrals for hedging instruments and settlements of liabilities.

Allowances and provisions remained stable at CHF 3 billion.

Equity

Total equity attributable to shareholders stood at CHF 35,437 million as of 31 December 2013, compared with CHF 33,176 million as of 31 December 2012. The increase was mainly due to the 2013 net profit of CHF 2,753 million. The general statutory reserve decreased by CHF 5,386 million to CHF 26,611 million as of 31 December 2013, mainly reflecting a partial appropriation of the loss in 2012 of CHF 4,894 million as well as the distribution out of the capital contribution reserve in May 2013.

The reserve for own shares increased by CHF 131 million to CHF 1,020 million, reflecting the net acquisition of treasury shares. Other reserves decreased by CHF 1,882 million, reflecting the partial appropriation of the loss in 2012 of CHF 1,751 million, as well as the net acquisition of treasury shares, which decreased other reserves by CHF 131 million.

Parent Bank financial statements

Income statement

		For the year ended		% change from
CHF million	Note	**31.12.13**	31.12.12	31.12.12
Interest and discount income		**8,792**	10,047	(12)
Interest and dividend income from trading portfolio		**2,409**	3,258	(26)
Interest and dividend income from financial investments		**135**	242	(44)
Interest expense		**(7,292)**	(9,686)	(25)
Net interest income		**4,044**	3,861	5
Credit-related fees and commissions		**324**	378	(14)
Fee and commission income from securities and investment business		**6,713**	6,270	7
Other fee and commission income		**649**	634	2
Fee and commission expense		**(1,231)**	(1,267)	(3)
Net fee and commission income		**6,454**	6,015	7
Net trading income	3	**4,209**	5,097	(17)
Net income from disposal of financial investments		**81**	75	8
Dividend income from investments in subsidiaries and other participations		**1,015**	905	12
Income from real estate holdings		**30**	31	(3)
Sundry ordinary income		**3,734**	3,959	(6)
Sundry ordinary expenses		**(2,492)**	(2,569)	(3)
Other income from ordinary activities		**2,368**	2,401	(1)
Operating income		**17,074**	17,374	(2)
Personnel expenses		**8,156**	8,888	(8)
General and administrative expenses		**5,041**	5,016	0
Operating expenses		**13,197**	13,904	(5)
Operating profit		**3,877**	3,470	12
Impairment of investments in subsidiaries and other participations		**1,275**	4,210	(70)
Depreciation of fixed assets		**579**	541	7
Allowances, provisions and losses		**659**	1,735	(62)
Profit / (loss) before extraordinary items and taxes		**1,365**	(3,016)	
Extraordinary income	4	**1,667**	429	289
Extraordinary expenses	4	**(9)**	(4,117)	(100)
Tax (expense) / benefit		**(270)**	59	
Net profit / (loss) for the period		**2,753**	(6,645)	

Balance sheet

CHF million	Note	31.12.13	31.12.12	% change from 31.12.12
Assets				
Liquid assets		69,808	54,192	29
Money market paper		22,159	31,066	(29)
Due from banks		127,689	167,204	(24)
Due from customers		153,326	160,996	(5)
Mortgage loans		152,479	149,002	2
Trading balances in securities and precious metals		94,841	115,906	(18)
Financial investments		34,985	30,778	14
Investments in subsidiaries and other participations		21,758	21,090	3
Fixed assets		5,193	5,054	3
Accrued income and prepaid expenses		2,025	2,157	(6)
Positive replacement values	13	29,085	35,206	(17)
Other assets	5	2,568	3,037	(15)
Total assets		**715,917**	775,687	(8)
of which: subordinated assets		*1,776*	*3,776*	*(53)*
of which: amounts due from subsidiaries		*150,663*	*201,982*	*(25)*
Liabilities				
Money market paper issued		22,885	21,257	8
Due to banks		79,207	102,401	(23)
Trading portfolio liabilities		22,165	25,419	(13)
Due to customers on savings and deposit accounts		106,040	94,086	13
Other amounts due to customers		271,339	269,992	0
Medium-term notes		779	1,341	(42)
Bonds issued and loans from central mortgage institutions		75,585	100,166	(25)
Financial liabilities designated at fair value		49,620	64,808	(23)
Accruals and deferred income		6,610	6,434	3
Negative replacement values	13	37,415	43,518	(14)
Other liabilities	5	6,029	10,163	(41)
Allowances and provisions	8	2,805	2,925	(4)
Total liabilities		**680,480**	742,511	(8)
Equity				
Share capital	9, 10	384	384	0
General statutory reserve	9	26,611	31,997	(17)
thereof capital contribution reserve		*41,692*	*42,184*	*(1)*
thereof retained earnings		*(15,081)*	*(10,187)*	*48*
Reserve for own shares	9	1,020	889	15
thereof retained earnings		*1,020*	*889*	*15*
Other reserves	9	4,669	6,551	(29)
Net profit / (loss) for the period		2,753	(6,645)	
Equity attributable to shareholders	9	**35,437**	33,176	7
Total liabilities and equity		**715,917**	775,687	(8)
of which: subordinated liabilities		*13,800*	*15,985*	*(14)*
of which: amounts due to subsidiaries		*76,339*	*103,148*	*(26)*

Statement of appropriation of retained earnings

The Board of Directors proposes that the Annual General Meeting of Shareholders (AGM) on 7 May 2014 approves the following appropriation of retained earnings.

Proposed appropriation of retained earnings

	For the year ended
CHF million	**31.12.13**
Net profit for the period	2,753
Total available for appropriation	**2,753**
Appropriation to general statutory reserve: retained earnings	2,753
Total appropriation	**2,753**

Proposed distribution of capital contribution reserve

The Board of Directors proposes that the AGM on 7 May 2014 approves the pay-out of CHF 0.25 per share of CHF 0.10 par value out of the capital contribution reserve. Provided that the proposed distribution of the capital contribution reserve is approved, the payment of CHF 0.25 per share would be made on 15 May 2014 to holders of shares on the record date 14 May 2014. The shares will be traded ex-dividend as of 12 May 2014, and accordingly the last day on which the shares may be traded with entitlement to receive a pay-out will be 9 May 2014.

	For the year ended
CHF million, except where indicated	**31.12.13**
Total capital contribution reserve before proposed distribution[1, 2]	**41,692**
Proposed distribution of capital contribution reserve within general statutory reserve: CHF 0.25 per dividend bearing share[3]	(961)
Total capital contribution reserve after proposed distribution	**40,732**

1 As presented on the balance sheet, the capital contribution reserve of CHF 41,692 million is a component of the general statutory reserve of CHF 26,611 million after taking into account negative retained earnings of CHF 15,081 million. 2 Effective 1 January 2011, the Swiss withholding tax law provides that payments out of the capital contribution reserve are not subject to withholding tax. This law has led to interpretational differences between the Swiss Federal Tax Authorities and companies about the qualifying amounts of capital contribution reserve and the disclosure in the financial statements. In view of this, the Swiss Federal Tax Authorities have confirmed that UBS would be able to repay to shareholders CHF 27.4 billion of disclosed capital contribution reserve (status as of 1 January 2011) without being subject to the withholding tax deduction that applies to dividends paid out of retained earnings. This amount reduced to CHF 26.5 billion as of 31 December 2013 subsequent to the distributions approved by the AGM 2012 and 2013. The decision about the remaining amount has been deferred to a future point in time. 3 Dividend-bearing shares are all shares issued except for treasury shares held by UBS AG (Parent Bank) as of the record date 14 May 2014.

Notes to the Parent Bank financial statements

Note 1 Business activities, risk assessment, outsourcing and personnel

Business activities

The business activities of UBS AG (Parent Bank) are described in the context of the description of the activities of the UBS Group in the "Operating environment and strategy" section of this report.

Risk assessment

UBS AG (Parent Bank), as the ultimate parent company of the UBS Group, is fully integrated into the Group-wide internal risk assessment process described in the audited part of the "Risk, treasury and capital management" section of this report.

Outsourcing

Outsourcing of information technology and other services through agreements with external service providers is in compliance with FINMA Circular 2008/7 "Outsourcing – banks."

Personnel

UBS AG (Parent Bank) employed 33,291 personnel on a full-time equivalent basis as of 31 December 2013, compared with 35,153 personnel as of 31 December 2012.

Note 2 Accounting policies

a) Significant accounting policies

UBS AG's (Parent Bank) financial statements are prepared in accordance with Swiss GAAP (FINMA Circular 2008/2 and the Banking Ordinance). The accounting policies are principally the same as for the consolidated financial statements outlined in "Note 1 Summary of significant accounting policies." Major differences between the Swiss GAAP requirements and International Financial Reporting Standards are described in "Note 38 Swiss GAAP requirements" to the consolidated financial statements. The significant accounting policies applied for the statutory accounts of UBS AG (Parent Bank) are discussed below. In addition the presentation of the balance sheet and income statement under Swiss GAAP differs from the presentation under IFRS.

Treasury shares

Treasury shares are own equity instruments held by an entity. Under Swiss GAAP, treasury shares are recognized in the balance sheet as *Trading balances in securities and precious metals* or as *Financial investments*. Short positions in treasury shares are presented as *Trading portfolio liabilities*. Treasury shares recognized as trading balances (which include treasury shares held as economic hedges of equity compensation plans) and short positions in treasury shares are measured at fair value with unrealized gains or losses from remeasurement to fair value included in the income statement. Treasury shares recognized as *Financial investments* are valued according to the principles of lower of cost or market value. Realized gains and losses on the sale or acquisition of treasury shares are recognized in the income statement.

For treasury shares held as *Financial investments* or for non-genuine trading purposes (e.g., treasury shares held to hedge equity compensation plans), a *Reserve for own shares* must be created in equity through the reclassification of free reserves equal to the cost value of the treasury shares held. Repurchases of shares for the purpose of holding these as *Financial investments* or non-genuine trading can be made to the extent that sufficient free reserves are available. The *Reserve for own shares,* is not available for distribution to shareholders. Total treasury shares held cannot exceed 10% of total issued shares.

Foreign currency translation

Assets and liabilities of foreign branches are translated into Swiss francs at the spot exchange rate at the balance sheet date. Income and expense items are translated at weighted average exchange rates for the period. All exchange differences are recognized in the income statement.

The main currency translation rates used by UBS AG (Parent Bank) can be found in "Note 36 Currency translation rates" to the consolidated financial statements.

Note 2 Accounting policies (continued)

Investments in subsidiaries and other participations

Investments in subsidiaries and other participations are equity interests which are held for the purpose of UBS AG's (Parent Bank) business activities or for strategic reasons. They include all directly held subsidiaries through which UBS AG (Parent Bank) conducts its business on a global basis. The investments are carried at cost less impairment. The carrying value is tested for impairment when indications for a decrease in value exist, which include incurrence of significant operating losses or a severe depreciation of the currency in which the investment is denominated. If an investment in a subsidiary is impaired, its value is generally written down to the net asset value. Subsequent recoveries in value are recognized up to the original cost value based on either the increased net asset value or a value above the net asset value if, in the opinion of management, forecasts of future profitability provide sufficient evidence that a carrying value above net asset value is supported. Management may exercise its discretion as to what extent and in which period a recovery in value is recognized.

Reversals of impairments are presented as *Extraordinary income* in the income statement. Impairments of investments are presented in *Profit/(loss) before extraordinary items and taxes* under *Impairment of investments in subsidiaries and other participations*. Impairments and partial or full reversal of impairments for a subsidiary on net basis are classified as extraordinary expense or extraordinary income respectively, if they relate to prior periods.

Deferred taxes

Deferred tax assets are not recognized in UBS AG's (Parent Bank) financial statements under Swiss GAAP. However, deferred tax liabilities may be recognized for taxable temporary differences. The change in the deferred tax liability balance is recognized in profit or loss.

Equity participation and other compensation plans

Equity participation plans

Under Swiss GAAP, employee share and option awards are recognized as compensation expense and accrued over the performance year, which is generally the financial year prior to the grant date. Equity and cash-settled awards are classified as liabilities. The employee share option awards are remeasured to fair value at each balance sheet date. However, for employee share options that UBS intends to settle in shares from conditional capital, no compensation expense is recognized in the income statement as these awards are not a liability of UBS. Upon exercise of employee options, cash received for payment of the strike price is credited against *Share capital* and the *General statutory reserve*.

Other compensation plans

Fixed and variable deferred cash compensation is recognized as compensation expenses over the performance year.

Sundry income from ordinary activities and sundry ordinary expenses

Sundry income from ordinary activities mainly includes income from hard cost and revenue transfers between UBS AG (Parent Bank) and its subsidiaries and income from lower of cost or market accounting of financial investments. *Sundry ordinary expenses* mainly include costs for hard revenue transfers between UBS AG (Parent Bank) and its subsidiaries and expenses from lower of cost or market accounting of financial investments. Hard transfers of costs and revenues are performed on an arm's length basis and are settled in cash between UBS AG (Parent Bank) and its subsidiaries.

Dispensations in statutory financial statements

As UBS Group prepares consolidated financial statements in accordance with IFRS, UBS AG (Parent Bank) is dispensed from various disclosures in the statutory financial statements.

Pension and other post-employment benefit plans

FINMA Circular 2008/2 "Accounting – banks" permits the use of IAS 19 or Swiss GAAP FER 16 ("FER 16") for accounting for pension and other post-employment benefit plans. Election of the accounting standard may be done on a plan-by-plan basis. UBS AG (Parent Bank) applies FER 16 for the Swiss pension plan. FER 16 requires recognizing the employer contributions to the pension fund as personnel expenses. The employer contributions to the Swiss pension fund are determined as a percentage of contributory compensation. Under FER 16 it is periodically assessed whether, from the point of view of UBS AG (Parent Bank), an economic benefit or obligation arises from the pension fund which, when conditions are met, is recorded on the balance sheet. The financial statements of the pension fund prepared in accordance with Swiss GAAP FER 26 ("FER 26") are used for the assessment.

UBS AG (Parent Bank) applies IAS 19 to the non-Swiss defined benefit plans. For Swiss GAAP, remeasurements of the defined benefit obligation and the plan assets are recognized in the income statement rather than equity. Key differences between FER 16/26 and IAS 19 include the treatment of future salary increases, which are not considered under FER 16/26, and the determination of the discount rate.

In 2012, UBS AG (Parent Bank) adopted the revisions to IAS 19 issued by the IASB in June 2011 ("IAS 19R") for the non-Swiss defined benefit plans and at the same time adopted FER 16 for the Swiss pension plan.

Note 2 Accounting policies (continued)

b) Changes in accounting policies, comparability and other adjustments

Presentation of net defined benefit liabilities

On 31 December 2013, UBS has reclassified liabilities arising from non-Swiss defined benefit plans accounted for under IAS 19 of CHF 563 million from *Allowances and provisions* to *Other liabilities* and restated comparative 2012 information, following a re-assessment of the economic nature of such liabilities.

c) Accounting policies to be adopted in the future

Amendment of accounting standards applicable to banks and securities dealers

The Swiss Code of Obligations' provisions concerning financial reporting were revised and came into force on 1 January 2013, effective for annual periods beginning on or after 1 January 2015. Following this, the accounting standards applicable to banks and securities dealers are being amended accordingly. On 29 October 2013, the Swiss Federal Department of Finance released the amended Banking Ordinance, and FINMA released its new circular "Accounting – banks," both for consultation until 31 December 2013. Final rules are expected to be published during the second quarter of 2014 and are expected to be applicable for annual financial statements as of 31 December 2015 the latest. Under the proposed changes Swiss GAAP will be more closely aligned with IFRS in certain areas such as the fair value option, share-based compensation and treasury shares.

Additional income statement information

Note 3 Net trading income

	For the year ended		% change from
CHF million	**31.12.13**	31.12.12	31.12.12
Investment Bank Corporate Client Solutions	**368**	(743)	
Investment Bank Investor Client Services	**3,566**	2,652	34
Other business divisions and Corporate Center	**275**	3,189	(91)
Total	**4,209**	5,097	(17)

Note 4 Extraordinary income and expenses

	For the year ended		% change from
CHF million	**31.12.13**	31.12.12	31.12.12
Gains from disposals of subsidiaries and other participations	**76**	37	105
Reversal of impairments and provisions of subsidiaries and other participations	**976**	161	506
Prior period related income	**49**	115	(57)
Other extraordinary income	**275**	116	137
Release of reinvestment relief provision related to the sale of Pactual	**291**	0	
Total extraordinary income	**1,667**	429	289
Losses from disposals of subsidiaries and other participations	**(3)**	(67)	(96)
Prior period related expenses	**(7)**	(96)	(93)
Expenses related to changes in pension accounting[1]	**0**	(3,954)	(100)
Total extraordinary expenses	**(9)**	(4,117)	(100)

1 Of the CHF 3,954 million for 2012, CHF 3,063 million related to the Swiss pension plan and CHF 892 million to non-Swiss pension plans. Refer to "Note 2 Accounting policies" for more information.

Additional balance sheet information

Note 5 Other assets and liabilities

			% change from
CHF million	31.12.13	31.12.12	31.12.12
Other assets			
Receivables from subsidiaries	1,412	1,784	(21)
Settlement and clearing accounts	394	470	(16)
VAT and other tax receivables	313	178	76
Other receivables	449	606	(26)
Total other assets	**2,568**	**3,037**	**(15)**

Other liabilities

			% change from
CHF million	31.12.13	31.12.12	31.12.12
Deferral position for hedging instruments	2,690	5,453	(51)
Payables to subsidiaries	728	770	(5)
Settlement and clearing accounts	655	757	(13)
Net defined benefit liabilities[1]	563	510	10
VAT and other tax payables	387	451	(14)
Other payables	1,006	2,222	(55)
Total other liabilities	**6,029**	**10,163**	**(41)**

1 In 2013, liabilities arising from non-Swiss defined benefit plans accounted for in accordance with IAS 19 were reclassified from Allowances and provisions to Other liabilities. Prior periods have been restated for this change in presentation. As a result, Other liabilities as of 31 December 2012 increased by CHF 510 million. Refer to "Note 2b Changes in accounting policies, comparability and other adjustments" for more information.

Note 6 Pledged assets

	31.12.13		31.12.12		Change in %	
CHF million	Carrying value of pledged assets	Associated liability recognized on the balance sheet	Carrying value of pledged assets	Associated liability recognized on the balance sheet	Carrying value of pledged assets	Associated liability recognized on the balance sheet
Money market paper	496	405	1,880	1,226	(70)	(67)
Mortgage loans[1]	33,632	22,634	33,928	21,902	(1)	3
Securities	45,071	15,849	49,316	26,889	(9)	(41)
Pledges of precious metals to subsidiaries	4,144	0	4,163	0	0	
Total[2]	**83,343**	**38,888**	**89,287**	**50,017**	**(7)**	**(22)**

1 These pledged mortgage loans serve as collateral for existing liabilities against Swiss central mortgage institutions and for existing covered bond issuances. Of these pledged mortgage loans, approximately CHF 5.8 billion for 31 December 2013 (31 December 2012: approximately CHF 7.5 billion) could be withdrawn or used for future liabilities or covered bond issuances without breaching existing collateral requirements. 2 Does not include assets placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes totaling CHF 3.3 billion as of 31 December 2013 (31 December 2012: CHF 3.5 billion).

UBS AG (Parent Bank) pledges assets mainly in securities lending transactions, in repurchase transactions, against loans from Swiss mortgage institutions, in connection with derivative transactions, as security deposits for stock exchanges and clearing house memberships, and in connection with the issuance of covered bonds.

Note 7 Swiss pension plan and non-Swiss defined benefit plans

a) Liabilities due to Swiss pension plan and non-Swiss defined benefit plans

CHF million	31.12.13	31.12.12
Provision for Swiss pension plan	0	0
Net defined benefit liabilities for non-Swiss defined benefit plans	563	510
Total provision for Swiss pension plan and net defined benefit liabilities for non-Swiss defined benefit plans	563	510
Bank accounts at UBS and UBS debt instruments held by Swiss pension fund	119	611
UBS derivative financial instruments held by Swiss pension fund	295	98
Total liabilities due to Swiss pension plan and non-Swiss defined benefit plans	**977**	**1,219**

b) Swiss pension plan[1]

	As of or for the year ended	
CHF million	31.12.13	31.12.12
Pension plan surplus	4,772	4,115
Economical benefit / (obligation) for UBS AG	0	0
Change in economical benefit / obligation recognized in the income statement	0	0
Employer contributions for the period recognized in the income statement under FER 16	468	108
Performance rewards related employer contributions accrued	49	14
Total pension expense recognized in the income statement within Personnel expenses under FER 16	**517**	**121[2]**
Pension cost recognized in the income statement under IAS 19	0	(128)
of which: current service cost	*0*	*357*
of which: past service cost related to plan amendment	*0*	*(485)*
Total pension expense recognized in the income statement within Personnel expenses under IAS 19	**0**	**(128)[2]**
Total pension expense recognized in the income statement within Personnel expenses	**517**	**(6)[3]**

1 The pension plan surplus is determined in accordance with FER 26 and consists of the reserve for the fluctuation in asset value. The surplus did not represent an economical benefit for UBS AG in accordance with FER 16 as of 31 December 2013 or 31 December 2012. 2 The Swiss pension plan was accounted for in accordance with IAS 19 until 30 September 2012 and in accordance with FER 16 since 1 October 2012. 3 In addition, in 2012 extraordinary expenses of CHF 3,063 million were recognized related to changes in accounting for the Swiss pension plan. These extraordinary expenses included the reversal of the credit of CHF 485 million shown on the line Past service cost related to a plan amendment.

The Swiss pension plan had no employer contribution reserve in 2013 or 2012. Details on the Swiss pension plan and non-Swiss defined benefit plans can be found in "Note 28 Pension and other post-employment benefit plans" to the consolidated financial statements.

Note 8 Allowances and provisions[1]

CHF million	Balance at 31.12.12	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest and currency translation differences	Provisions released to income	New provisions charged to income	Balance at 31.12.13
Default risks	754	(86)	9	(240)	310	747
of which: specific allowances for due from customers and mortgage loans	*573*	*(85)*	*2*	*(127)*	*244*	*606*
of which: specific allowances for due from banks	*22*	*(1)*	*6*	*(11)*	*0*	*15*
of which: collective loan loss allowances[2]	*113*			*(95)*	*1*	*18*
of which: provisions for loan commitments and guarantees	*47*		*1*	*(6)*	*5*	*46*
of which: other allowances					*61*	*61*
Operational risks	23	(14)	(1)	(5)	17	21
Litigation risks[3]	501	(92)	(13)	(53)	383	726
Restructuring[4]	1,612	(449)	42	(184)	434	1,455
Real estate[5]	88	(20)	13	(4)	8	84
Employee benefits	235	(21)	(2)	(23)	26	215
Provisions related to parental support provided by UBS AG (Parent Bank) to subsidiaries in the form of indemnities, letter of support, letters of undertaking and similar agreements	84				0	85
Deferred taxes					3	3
Other provisions	334	(3)	0	(293)[6]	131[7]	169
Total allowances and provisions	**3,633**	**(685)**	**48**	**(802)**	**1,312**	**3,505**
Allowances deducted from assets	707					701
Total allowances and provisions as per balance sheet	**2,925**					**2,805**

1 In 2013, liabilities arising from non-Swiss defined benefit plans accounted for in accordance with IAS 19 were reclassified from Allowances and provisions to Other liabilities. Prior periods have been restated for this change in presentation. As a result, Allowances and provisions as of 31 December 2012 decreased by CHF 510 million. Refer to "Note 2b Changes in accounting policies, comparability and other adjustments" for more information. 2 Mainly relates to due from customers. 3 Includes provisions for litigation resulting from security risks. 4 Refer to "Note 38 Swiss GAAP requirements" in the consolidated financial statements for more information with regard to differences between IFRS and Swiss GAAP with respect to timing of recognizing restructuring provisions. 5 Includes provisions for onerous lease contracts of CHF 16 million as of 31 December 2013 (31 December 2012: CHF 22 million) and reinstatement cost provisions for leasehold improvements of CHF 68 million as of 31 December 2013 (31 December 2012: CHF 66 million). 6 Mainly due to the release of the reinvestment relief provision related to the sale of UBS Pactual in 2009. 7 Mainly related to the Swiss-UK tax agreement.

Note 9 Statement of shareholders' equity

CHF million	Share capital	General statutory reserve	Reserve for own shares	Other reserves	Net profit / (loss) for the period	Total shareholders' equity (before distribution of capital contribution reserve)
Balance as of 31 December 2011 and 1 January 2012	**383**	**32,350**	**1,066**	**934**	**5,440**	**40,174**
Capital increase	0	26				**26**
Net profit / (loss) appropriation				5,440	(5,440)	**0**
Prior year dividend		(379)				**(379)**
Net profit / (loss) for the period					(6,645)	**(6,645)**
Changes in reserve for own shares			(176)	176		**0**
Balance as of 31 December 2012 and 1 January 2013	**384**	**31,997**	**889**	**6,551**	**(6,645)**	**33,176**
Capital increase	1	71				**72**
Net profit / (loss) appropriation		(4,894)		(1,751)	6,645	**0**
Prior year dividend		(564)				**(564)**
Net profit / (loss) for the period					2,753	**2,753**
Changes in reserve for own shares			131	(131)		**0**
Balance as of 31 December 2013	**384**	**26,611**	**1,020**	**4,669**	**2,753**	**35,437**

Note 10 Share capital and significant shareholders

	Par value		Dividend bearing	
	No. of shares	Capital in CHF	No. of shares	Capital in CHF
Balance as of 31 December 2013				
Issued	**3,842,002,069**	**384,200,207**	**3,768,225,119**	**376,822,512**
of which: shares outstanding	***3,768,201,817***	***376,820,182***	***3,768,201,817***	***376,820,182***
of which: treasury shares held by UBS AG (Parent Bank)[1]	***73,776,950***	***7,377,695***		
of which: treasury shares held by subsidiaries of UBS AG (Parent Bank)[1]	***23,302***	***2,330***	***23,302***	***2,330***
Conditional share capital	**518,759,156**	**51,875,916**		
Balance as of 31 December 2012				
Issued	3,835,250,233	383,525,023	3,747,463,874	374,746,387
of which: shares outstanding	*3,747,370,632*	*374,737,063*	*3,747,370,632*	*374,737,063*
of which: treasury shares held by UBS AG (Parent Bank)[1]	*87,786,359*	*8,778,636*		
of which: treasury shares held by subsidiaries of UBS AG (Parent Bank)[1]	*93,242*	*9,324*	*93,242*	*9,324*
Conditional share capital	625,510,992	62,551,099		

1 During 2013, 55.3 million treasury shares were acquired at market prices (2012: 114.3 million) and 69.4 million treasury shares were disposed of (2012: 111.4 million), mainly related to the delivery of shares under employee share based compensation plans.

Conditional share capital

As of 31 December 2013, 138,759,156 additional shares (31 December 2012: 145,510,992 shares) could have been issued to fund UBS's employee share option programs.

On 14 April 2010, the Annual General Meeting of UBS AG shareholders approved the creation of conditional capital to a maximum number of 380,000,000 shares for conversion rights/warrants granted in connection with the issuance of bonds or similar financial instruments.

In 2013, the conditional capital of up to 100,000,000 shares, which was available in connection with an arrangement with the Swiss National Bank (SNB), was removed. The SNB provided a loan to the SNB StabFund, to which UBS transferred certain illiquid securities and other positions in 2008 and 2009. As part of this arrangement, UBS granted warrants on shares to the SNB, which would have been exercisable if the SNB had incurred a loss on the loan. In 2013, the loan was paid back in full, the warrants were terminated and the relevant conditional capital was removed.

Significant shareholders

According to disclosure notifications filed with UBS AG and the SIX under the Swiss Stock Exchange Act, on 18 September 2013, Government of Singapore Investment Corp., Singapore, disclosed the change of its corporate name to GIC Private Limited, effective from 22 July 2013, with a holding of 6.40% of the total share capital of UBS AG. The beneficial owner of this holding is the Government of Singapore. On 30 September 2011, Norges Bank, Oslo, the Central Bank of Norway, disclosed a holding of 3.04%. On 17 December 2009, BlackRock Inc., New York, disclosed a holding of 3.45%. In accordance with the Swiss Stock Exchange Act, the percentages indicated above were calculated in relation to the total UBS share capital reflected in the Articles of Association at the time of the respective disclosure notification. Information on disclosures under the Swiss Stock Exchange Act can be found on the following website of the SIX: *http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html*.

According to our share register, the shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) listed in the table below were registered with 3% or more of the total share capital as of 31 December 2013 and 2012.

➔ **Refer to the "Corporate governance" section of this report for more information on significant shareholders and shareholders' participation rights**

Shareholders registered in the UBS shares register with 3% or more of the total share capital as of 31 December 2013 and 2012

	31.12.13			31.12.12		
	Quantity	Total nominal value CHF million	Share %	Quantity	Total nominal value CHF million	Share %
Chase Nominees Ltd., London	450,540,638	45	11.73	457,784,081	46	11.94
GIC Private Limited, Singapore	245,517,417	25	6.39	245,517,417	25	6.40
DTC (Cede & Co.), New York[1]	226,191,092	23	5.89	202,368,918	20	5.28
Nortrust Nominees Ltd, London	143,960,557	14	3.75	147,144,758	15	3.84

1 DTC (Cede & Co.), New York, "The Depository Trust Company," is a US securities clearing organization.

Note 11 Transactions with related parties

Transactions with related parties (such as securities transactions, payment transfer services, borrowing and compensation for deposits) are conducted at internally agreed transfer prices or at arm's length, or with respect to loans, fixed advances and mortgages to non-independent members of the Board of Directors and Group Executive Board members on the same terms and conditions that are available to other employees. Refer to the "Compensation of the members of the Board of Directors and the Group Executive Board" section of this report for information on loans granted to Group Executive Board and Board of Directors members. Amounts due from/to subsidiaries are disclosed on the balance sheet.

Off-balance sheet and other information

Note 12 Commitments and contingent liabilities

			% change from
CHF million	**31.12.13**	31.12.12	31.12.12
Contingent liabilities	**61,016**	115,254	(47)
of which: Guarantees to third parties related to subsidiaries	***44,446***	*97,335*	*(54)*
of which: credit guarantees and similar instruments	***7,816***	*7,676*	*2*
of which: performance guarantees and similar instruments	***2,719***	*2,847*	*(4)*
of which: documentary credits	***6,035***	*7,397*	*(18)*
Irrevocable commitments	**58,712**	68,420	(14)
of which: loan commitments	***57,817***	*67,448*	*(14)*
of which: payment commitment related to deposit insurance	***893***	*972*	*(8)*
Forward starting transactions[1]	**18,970**	33,510	(43)
of which: reverse repurchase agreements	***10,452***	*22,321*	*(53)*
of which: securities borrowing agreements	***46***	*249*	*(82)*
of which: repurchase agreements	***8,471***	*10,940*	*(23)*
Liabilities for calls on shares and other equities	**47**	63	(25)

1 Cash to be paid in the future by either UBS or the counterparty.

The table above includes indemnities and guarantees issued by UBS AG (Parent Bank) for the benefit of subsidiaries and creditors of subsidiaries.

UBS AG has issued a guarantee for the benefit of each counterparty of UBS Limited. Under this guarantee, UBS AG irrevocably and unconditionally guarantees each and every obligation that UBS Limited entered into. UBS AG promises to pay to that counterparty on demand any unpaid balance of such liabilities under the terms of the guarantee. In instances in which the indemnity amount issued by UBS AG (Parent Bank) is not specifically defined, the indemnity relates to the solvency or minimum capitalization of a subsidiary, and therefore no amount is included in the table above.

In addition, UBS AG (Parent Bank) is jointly and severally liable for the value added tax (VAT) liability of Swiss subsidiaries that belong to its VAT group. This contingent liability is not included in the table above.

Note 13 Derivative instruments[1]

	31.12.13			31.12.12		
CHF million, except where indicated	**PRV**[2]	**NRV**[3]	**Notional values (CHF billion)**[4]	PRV[2]	NRV[3]	Notional values (CHF billion)[4]
Interest rate contracts[5]	**115,763**	**112,033**	**23,298**	236,793	231,574	28,093
Credit derivative contracts	**16,665**	**16,634**	**1,290**	31,935	33,152	2,400
Foreign exchange contracts[5]	**69,224**	**75,989**	**6,082**	85,582	95,872	6,725
Precious metal contracts[5]	**1,982**	**2,001**	**49**	1,789	2,118	79
Equity / Index contracts	**14,209**	**19,400**	**552**	13,397	15,018	505
Commodities contracts, excluding precious metal contracts	**305**	**421**	**38**	797	852	86
Total before netting[6]	**218,148**	**226,478**	**31,310**	370,293	378,606	37,888
Replacement value netting	**189,063**	**189,063**		335,087	335,087	
Total after netting	**29,085**	**37,415**		35,206	43,518	

1 Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from this table 2 PRV: Positive replacement value. 3 NRV: Negative replacement value. 4 Represents the sum of notional values related to PRV and NRV and other notional values. 5 In 2013, the classification of certain PRV and NRV, between interest contracts and foreign exchange contracts, was corrected for 31 December 2012. As a result, interest rate contracts PRV were reduced by CHF 1,774 million and interest rate contracts NRV were reduced by CHF 2,422 million (associated notional amount: reduced by CHF 35 billion) with corresponding increases made to foreign exchange contracts. In addition, a correction was made to 31 December 2012 notional values for precious metal contracts. Respective notional values were reduced by CHF 30 billion. 6 Replacement values are presented net of cash collateral, where applicable.

Note 14 Fiduciary transactions

			% change from
CHF million	**31.12.13**	31.12.12	31.12.12
Deposits:			
with third-party banks	**5,153**	6,175	(17)
with subsidiaries	**1,725**	2,261	(24)
Total	**6,879**	8,436	(18)

Fiduciary transactions encompass transactions entered into or granted by UBS that result in holding or placing assets on behalf of individuals, trusts, defined benefit plans and other institutions. Unless the recognition criteria for the assets are satisfied, these assets and the related income are excluded from UBS AG's (Parent Bank) balance sheet and income statement, but disclosed in this Note as off-balance sheet fiduciary transactions. Client deposits which are initially placed as fiduciary transactions with UBS AG (Parent Bank) may be recognized on UBS AG's (Parent Bank) balance sheet in situations in which the deposit is subsequently placed within UBS AG (Parent Bank). In such cases, these deposits are not reported in the table above.

Compensation of the members of the Board of Directors and the Group Executive Board

Total compensation for GEB members for the performance years 2013 and 2012

CHF, except where indicated[1]

Name, function	For the year	Base salary	Immediate cash[2]	Annual performance award under EOP[3]	Annual performance award under DCCP[4]	Benefits[5]	Contributions to retirement benefit plans[6]	Total
Sergio P. Ermotti, Group CEO	2013	2,500,000	1,000,000	4,530,000	2,370,000	127,300	202,822	10,730,122
Sergio P. Ermotti, Group CEO (highest-paid)	2012	2,500,000	0	3,660,000	2,440,000	69,500	201,088	8,870,588
Andrea Orcel (highest-paid)	2013	1,500,000	1,000,000	5,300,000	2,700,000	727,048	202,822	11,429,870
Aggregate of all GEB members who were in office at the end of the year[7]	2013	16,873,360	9,949,062	33,894,646	18,790,161	1,548,784	1,347,784	82,403,796
	2012	16,273,460	0	31,355,592	20,903,728	640,683	1,233,719	70,407,181
Aggregate of all GEB members who stepped down during the year[8]	2013	0	0	0	0	0	0	0
	2012	1,593,288	0	0	0	105,865	14,799	1,713,952

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013. 2 For the performance year 2013, 20% was paid out in immediate cash, subject to a cash cap of CHF/USD 1 million. Due to applicable UK Prudential Regulation Authority regulations, the immediate cash includes blocked shares for Andrea Orcel. For the performance year 2012, no immediate cash was paid. 3 For EOP awards for the performance years 2013 and 2012, the number of shares allocated at grant has been determined by dividing the amount communicated by CHF 18.60 and USD 20.88 (for notional shares) for 2013, and by CHF 15.014 and USD 15.868 (for actual shares) and by CHF 13.97 and USD 14.77 (for notional shares) for 2012, based on the average price of UBS shares over the ten trading days prior to and including the grant date (28 February 2014 and 15 March 2013 respectively). For notional shares granted under EOP 2012 the number of notional shares has been adjusted for the estimated value of dividends paid on UBS shares over the vesting period. 4 DCCP awards vest after the five-year vesting period. The amount reflects the amount of the notional bond excluding future notional interest. For DCCP awards for the performance year 2013, the notional interest rate is set at 5.125% for awards denominated in USD and 3.500% for awards denominated in CHF. For DCCP awards for the performance year 2012, the notional interest rate is set at 6.25% for awards denominated in USD and 5.40% for awards denominated in CHF. 5 Benefits are all valued at market price. 6 This figure excludes the mandatory employer's social security contributions, but includes the portion related to the employer's contribution to the statutory pension scheme. The employee contribution is included in the base salary and annual incentive award components. 7 11 GEB members were in office on 31 December 2013 and on 31 December 2012 respectively. 8 2012 includes three months in office as a GEB member for Alexander Wilmot-Sitwell and 10 months in office as a GEB member for Carsten Kengeter.

Share and option ownership / entitlements of GEB members on 31 December 2013 / 2012[1]

Name, function	on 31 December	Number of unvested shares / at risk[2]	Number of vested shares	Total number of shares	Potentially conferred voting rights in %	Number of options[3]	Potentially conferred voting rights in %[4]
Sergio P. Ermotti, Group Chief Executive Officer	2013	453,460	69,900	523,360	0.025	0	0.000
	2012	220,928	41,960	262,888	0.013	0	0.000
Markus U. Diethelm, Group General Counsel	2013	542,417	108,007	650,424	0.032	0	0.000
	2012	506,132	126,098	632,230	0.030	0	0.000
John A. Fraser, Chairman and CEO Global Asset Management	2013	645,324	268,945	914,269	0.044	756,647	0.037
	2012	617,529	315,270	932,799	0.045	884,531	0.042
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate	2013	504,800	22,727	527,527	0.026	0	0.000
	2012	412,199	95,537	507,736	0.024	0	0.000
Ulrich Körner, Group Chief Operating Officer and CEO UBS Group EMEA	2013	688,923	208,887	897,810	0.044	0	0.000
	2012	605,284	121,837	727,121	0.035	0	0.000
Philip J. Lofts, Group Chief Risk Officer	2013	601,553	157,447	759,000	0.037	500,741	0.024
	2012	542,402	169,789	712,191	0.034	536,173	0.026
Robert J. McCann, CEO Wealth Management Americas and CEO UBS Group Americas	2013	892,872	65,971	958,843	0.046	0	0.000
	2012	658,470	18,112	676,582	0.032	0	0.000
Tom Naratil, Group Chief Financial Officer	2013	422,516	263,027	685,543	0.033	867,087	0.042
	2012	340,757	233,603	574,360	0.027	935,291	0.045
Andrea Orcel, CEO Investment Bank	2013	1,209,775	0	1,209,775	0.059	0	0.000
	2012	1,755,691	0	1,755,691	0.084	0	0.000
Chi-Won Yoon, CEO UBS Group Asia Pacific	2013	502,762	441,143	943,905	0.046	538,035	0.026
	2012	478,986	370,760	849,746	0.041	578,338	0.028
Jürg Zeltner, CEO UBS Wealth Management	2013	624,415	13,920	638,335	0.031	203,093	0.010
	2012	522,500	38,329	560,829	0.027	203,093	0.010
	2013	7,088,817	1,619,974	8,708,791	0.422	2,865,603	0.139
Total	2012	6,660,878	1,531,295	8,192,173	0.391	3,137,426	0.150

1 This table includes all vested and unvested shares and options of GEB members, including related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Deferred variable compensation plans" section in this report for more information on the plans. 3 Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information. 4 No conversion rights are outstanding.

Compensation details and additional information for non-independent BoD members

CHF, except where indicated[1]

Name, function[2]	For the year	Base salary	Annual share award	Benefits[3]	Contributions to retirement benefit plans[4]	Total
Axel A. Weber, Chairman	2013	2,000,000	3,720,000	89,446	260,070	6,069,516
	2012	1,322,581	2,003,995[5]	69,867	171,898	**3,568,341**
Kaspar Villiger, former Chairman	2013	–	–	–	–	–
	2012	354,167	200,000[5]	54,926	–	**609,093**

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013. 2 Axel A. Weber was the only non-independent member in office on 31 December 2013 and on 31 December 2012 respectively. Kaspar Villiger did not stand for re-election at the AGM on 3 May 2012. 3 Benefits are all valued at market price. 4 This figure excludes the mandatory employer's social security contributions, but includes the portion related to the employer's contribution to the statutory pension scheme. The employee contribution is included in the base salary and annual incentive award components. 5 These shares are blocked for four years.

Remuneration details and additional information for independent BoD members

CHF, except where indicated[1]

Name, function[2]	Audit Committee	Human Resources & Compensation Committee	Governance & Nominating Committee	Corporate Responsibility Committee	Risk Committee	For the period AGM to AGM	Base fee	Committee retainer(s)	Additional payments	Total	Share percentage[3]	Number of shares[4, 5]
Michel Demaré, Vice Chairman	M	M	M			2013/2014	325,000	400,000	250,000[6]	975,000	50	30,834
	M		M			**2012/2013**	325,000	300,000	250,000[6]	**875,000**	50	34,233
David Sidwell, Senior Independent Director			M		C	2013/2014	325,000	500,000	250,000[6]	1,075,000	50	33,997
			M		C	**2012/2013**	325,000	500,000	250,000[6]	**1,075,000**	50	42,057
Reto Francioni, member				M		2013/2014	325,000	50,000		375,000	50	11,859
						2012/2013	–	–		**–**	–	–
Rainer-Marc Frey, member		M			M	2013/2014	325,000	300,000		625,000	100	37,394
		M			M	**2012/2013**	325,000	300,000		**625,000**	100	46,367
Ann F. Godbehere, member	M	C				2013/2014	325,000	500,000		825,000	50	26,091
	M	C				**2012/2013**	325,000	500,000		**825,000**	50	32,276
Axel P. Lehmann, member					M	2013/2014	325,000	200,000		525,000	100	31,403
			M		M	**2012/2013**	325,000	300,000		**625,000**	100	46,367
Wolfgang Mayrhuber, former member						2013/2014	–	–		–	–	–
		M		C		**2012/2013**	325,000	200,000		**525,000**	50	20,539
Helmut Panke, member		M			M	2013/2014	325,000	300,000		625,000	50	19,765
		M			M	**2012/2013**	325,000	300,000		**625,000**	50	24,452
William G. Parrett, member	C			M		2013/2014	325,000	350,000		675,000	50	21,347
	C			M		**2012/2013**	325,000	350,000		**675,000**	50	26,408
Isabelle Romy, member	M		M			2013/2014	325,000	300,000		625,000	50	19,765
	M		M			**2012/2013**	325,000	300,000		**625,000**	50	24,452
Beatrice Weder di Mauro, member	M				M	2013/2014	325,000	400,000		725,000	50	22,928
	M			M		**2012/2013**	325,000	250,000		**575,000**	50	22,496
Joseph Yam, member				M	M	2013/2014	325,000	250,000		575,000	50	18,184
				M	M	**2012/2013**	325,000	250,000		**575,000**	50	22,496
Total 2013										7,625,000		
Total 2012										**7,625,000**		

Legend: C = Chairperson of the respective Committee, M = Member of the respective Committee

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013. 2 There were 11 independent BoD members in office on 31 December 2013. Reto Francioni was appointed at the AGM on 2 May 2013 and Wolfgang Mayrhuber did not stand for re-election at the AGM on 2 May 2013. There were 11 independent BoD members in office on 31 December 2012. Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012 and Bruno Gehrig did not stand for re-election at the AGM on 3 May 2012. 3 Fees are paid 50% in cash and 50% in blocked UBS shares. However, independent BoD members can elect to have 100% of their remuneration paid in blocked UBS shares. 4 For 2013, shares valued at CHF 18.60 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2014), and were granted with a price discount of 15% for a new value of CHF 15.81. These shares are blocked for four years. For 2012, shares valued at CHF 15.03 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2013), and were granted with a price discount of 15% for a new value of CHF 12.78. These shares are blocked for four years. 5 Number of shares is reduced in case of the 100% election to deduct social security contributions. All remuneration payments are subject to social security contributions / withholding tax. 6 This payment is associated with the Vice Chairman or the Senior Independent Director function, respectively.

Total payments to BoD members

CHF, except where indicated[1]	For the year	Total
Aggregate of all BoD members	2013	13,694,516
	2012	11,802,434

1 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section of our Annual Report 2013.

Number of shares of BoD members on 31 December 2013 / 2012[1]

Name, function	on 31 December	Number of shares held	Voting rights in %
Axel A. Weber, Chairman[2]	2013	233,333	0.011
	2012	200,000	0.010
Michel Demaré, Vice Chairman	2013	150,412	0.007
	2012	116,179	0.006
David Sidwell, Senior Independent Director	2013	151,184	0.007
	2012	149,199	0.007
Reto Francioni, member[2]	2013	0	0.000
	2012	–	0.000
Rainer-Marc Frey, member	2013	209,044	0.010
	2012	162,677	0.008
Ann F. Godbehere, member	2013	113,562	0.006
	2012	81,286	0.004
Axel P. Lehmann, member	2013	185,970	0.009
	2012	139,603	0.007
Wolfgang Mayrhuber, former member[3]	2013	–	0.000
	2012	38,957	0.002
Helmut Panke, member	2013	162,244	0.008
	2012	137,792	0.007
William G. Parrett, member	2013	99,914	0.005
	2012	91,078	0.004
Isabelle Romy, member[2]	2013	24,452	0.001
	2012	0	0.000
Beatrice Weder di Mauro, member[2]	2013	22,496	0.001
	2012	0	0.000
Joseph Yam, member	2013	48,679	0.002
	2012	26,183	0.001
Total	2013	1,401,290	0.068
	2012	1,142,954	0.055

1 This table includes blocked and unblocked shares held by BoD members, including related parties. No options were granted in 2013 and 2012. 2 Reto Francioni was appointed at the AGM on 2 May 2013. Axel A. Weber, Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012. 3 Wolfgang Mayrhuber did not stand for re-election at the AGM on 2 May 2013.

Compensation paid to former BoD and GEB members[1]

CHF, except where indicated[2]

	For the year	Compensation	Benefits	Total
Former BoD members	2013	0	0	0
	2012	0	0	0
Aggregate of all former GEB members[3]	2013	0	27,809	27,809
	2012	0	25,465	25,465
Aggregate of all former BoD and GEB members	2013	0	27,809	27,809
	2012	0	25,465	25,465

1 Compensation or remuneration that is connected with the former member's activity on the BoD or GEB or that is not at market conditions. 2 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section in our Annual Report 2013. 3 Includes one former GEB member in 2013 and 2012.

Total of all vested and unvested shares of GEB members[1, 2]

	Total	of which vested	of which vesting				
			2014	2015	2016	2017	2018
Shares on 31 December 2013	8,708,791	1,619,974	1,652,867	2,373,539	1,263,412	1,052,595	746,404
			2013	2014	2015	2016	2017
Shares on 31 December 2012	8,192,173	1,531,295	1,811,280	1,652,867	2,373,539	517,001	306,191

1 Includes related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Deferred variable compensation plans" section in this report for more information on the plans.

Total of all blocked and unblocked shares of BoD members[1]

	Total	of which unblocked	of which blocked until			
			2014	2015	2016	2017
Shares on 31 December 2013	1,401,290	201,098	204,792	216,451	324,012	454,937
			2013	2014	2015	2016
Shares on 31 December 2012	1,142,954	56,624	302,118	204,792	231,501	347,919

1 Includes related parties.

Vested and unvested options of GEB members on 31 December 2013 / 2012[1]

on 31 December	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Sergio P. Ermotti, Group Chief Executive Officer						
2013	0					
2012	0					
Markus U. Diethelm, Group General Counsel						
2013	0					
2012	0					
John A. Fraser, Chairman and CEO Global Asset Management						
2013	756,647	170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
2012	884,531	127,884	2003	31.01.2006	31.01.2013	USD 22.53
		170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate						
2013	0					
2012	0					
Ulrich Körner, Group Chief Operating Officer and CEO UBS Group EMEA						
2013	0					
2012	0					
Philip J. Lofts, Group Chief Risk Officer						
2013	500,741	35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66
2012	536,173	9,985	2003	01.03.2004	31.01.2013	CHF 27.81
		9,980	2003	01.03.2005	31.01.2013	CHF 27.81
		9,974	2003	01.03.2006	31.01.2013	CHF 27.81
		1,833	2003	01.03.2004	28.02.2013	CHF 26.39
		1,830	2003	01.03.2005	28.02.2013	CHF 26.39
		1,830	2003	01.03.2006	28.02.2013	CHF 26.39
		35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66

on 31 December	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Robert J. McCann, CEO Wealth Management Americas and CEO UBS Group Americas						
2013	0					
2012	0					
Tom Naratil, Group Chief Financial Officer						
2013	867,087	145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
2012	935,291	63,942	2003	31.01.2006	31.01.2013	USD 22.53
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
Andrea Orcel, CEO Investment Bank						
2013	0					
2012	0					
Chi-Won Yoon, CEO UBS Group Asia Pacific						
2013	538,035	6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35
2012	578,338	8,648	2003	01.03.2004	31.01.2013	USD 20.49
		8,642	2003	01.03.2005	31.01.2013	USD 20.49
		8,635	2003	01.03.2006	31.01.2013	USD 20.49
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		3,374	2003	01.03.2004	28.02.2013	USD 19.53
		3,371	2003	01.03.2005	28.02.2013	USD 19.53
		3,371	2003	01.03.2006	28.02.2013	USD 19.53

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information.

Vested and unvested options of GEB members on 31 December 2013 / 2012[1] (continued)

on 31 December	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Chi-Won Yoon, CEO UBS Group Asia Pacific (continued)						
		6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35
Jürg Zeltner, CEO UBS Wealth Management						
2013	**203,093**	4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
Jürg Zeltner, CEO UBS Wealth Management (continued)						
		230	2006	08.09.2008	08.09.2016	CHF 65.76
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35
2012	**203,093**	4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
		230	2006	08.09.2008	08.09.2016	CHF 65.76
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 29 Equity participation and other compensation plans" in the "Financial information" section of our Annual Report 2013 for more information.

Loans granted to GEB members on 31 December 2013 / 2012[1]

CHF, except where indicated[2]

Name, function	on 31 December	Loans[3]
Ulrich Körner, Group Chief Operating Officer and CEO UBS Group EMEA (highest loan in 2013)	2013	5,181,976
Markus U. Diethelm, Group General Counsel (highest loan in 2012)	2012	5,564,012
Aggregate of all GEB members	2013	18,763,976
	2012	18,862,820

1 No loans have been granted to related parties of the GEB members at conditions not customary in the market. 2 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section in our Annual Report 2013. 3 All loans granted are secured loans, except for CHF 311,308 in 2012.

Loans granted to BoD members on 31 December 2013/ 2012[1]

CHF, except where indicated[2]

	on 31 December	Loans[3, 4]
Aggregate of all BoD members	2013	1,520,000
	2012	500,000

1 No loans have been granted to related parties of the BoD members at conditions not customary in the market. 2 Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Financial information" section in our Annual Report 2013. 3 All loans granted are secured loans. 4 CHF 1,520,000 for Reto Francioni in 2013. CHF 500,000 for Michel Demaré in 2012.

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 6 March 2014

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of UBS AG, which comprise the balance sheet, income statement and notes on pages 510 to 531, for the year ended 31 December 2013.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of the Swiss Institute of Certified Accountants and Tax Consultants

Opinion

In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and Art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Jonathan Bourne Licensed Audit Expert (Auditor in charge)	Thomas Schneider Licensed Audit Expert

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Independent Auditor's Report
to the Board of Directors of

UBS AG, Zurich and Basel

As special auditors of UBS AG, we have audited the issue of new shares and the preconditions for the adjustment of the provisions regarding the conditional capital increase according to article 4a of the articles of association in the period from 1 January 2013 to 31 December 2013 in accordance with article 653f paragraph 1 of the Swiss code of obligations (CO).

According to article 4a of the articles of association, the following possibilities for the issue of conditional capital exist:

- Paragraph 1; employee stock option plans of UBS AG, based on the resolution of the annual general meeting of 19 April 2006.
- Paragraph 2; conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments, based on the resolution of the annual general meeting of 14 April 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the new share issue in accordance with the legal requirements and the company's articles of incorporation.

Auditor's Responsibility

Our responsibility is to express an opinion based on our audit as to whether the new share issue complies with Swiss law and the company's articles of incorporation. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the new share issue complies with the legal requirements and the company's articles of incorporation.

An audit involves performing procedures to obtain audit evidence so that significant breaches of the legal requirements and the company's articles of incorporation for the new share issue may be identified with reasonable assurance. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material breaches of the requirements concerning the new share issue, whether due to fraud or error.

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 issue of 6'751'836 new registered shares of a nominal value of CHF 0.10 per share relating to the employee stock option plans of UBS AG, according to article 4a paragraph 1 of the articles of association, was in accordance with the provisions of Swiss law and the company's articles of association;
- no new registered shares relating to the conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments, according to article 4a paragraph 2 of the articles of association, were issued in the reporting period.

Zurich, 3 February 2014

BDO Ltd

Werner Schiesser
Licensed audit expert

Jürg Caspar
Licensed audit expert

BDO Ltd, a limited company under Swiss law, incorporated in Zurich, forms part of the international BDO Network of independent member firms.

Confirmation of the auditors concerning removal of conditional capital increase

to the Board of Directors of

UBS AG, Zurich and Basel

As special auditors of UBS AG, we have audited the expiration of options relating to the conditional capital increase according to article 4a paragraph 2 of the articles of association in accordance with the provisions of article 653i of the Swiss code of obligations.

The provision of evidence that the option rights have expired is the responsibility of the board of directors. Our responsibility is to express an opinion on the accuracy of this statement, based on our audit. We confirm that we meet the legal requirements on licensing and independence.

Our audit was conducted in accordance with the Swiss auditing standards, which require that an audit be planned and performed to obtain reasonable assurance as to whether the conclusion as to the expired option rights are free of material misstatement. We have performed the audit procedures considered appropriate in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the option rights relating to 100'000'000 registered shares of a nominal value of CHF 0.10 per share according to article 4a paragraph 2 of the articles of association, have expired.

Zurich, 6 November 2013

BDO Ltd

Werner Schiesser	Jürg Caspar
	Auditor in Charge
Licensed Audit Expert	Licensed Audit Expert

BDO Ltd, with its statutory seat in Zurich, is the legally independent Swiss member firm of the international BDO network.

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Supplemental disclosures required under SEC regulations

A – Introduction

The following pages contain supplemental UBS Group disclosures which are required under SEC regulations. UBS's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and are denominated in Swiss francs (CHF), the reporting currency of the Group.

B – Selected financial data

The tables below provide information concerning the noon purchase rate for the Swiss franc, expressed in United States dollars, or USD, per one Swiss franc. The noon purchase rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

On 28 February 2014, the noon purchase rate was 1.1351 USD per 1 CHF.

Year ended 31 December	High	Low	Average rate[1] (USD per 1 CHF)	At period end
2009	1.0016	0.8408	0.9260	0.9654
2010	1.0673	0.8610	0.9670	1.0673
2011	1.3706	1.0251	1.1398	1.0668
2012	1.1174	1.0043	1.0724	1.0923
2013	1.1292	1.0190	1.0826	1.1231

Month	High	Low
September 2013	1.1061	1.0597
October 2013	1.1216	1.0913
November 2013	1.1053	1.0846
December 2013	1.1292	1.1018
January 2014	1.1176	1.0970
February 2014	1.1351	1.1050

1 The average of the noon purchase rates on the last business day of each full month during the relevant period.

Key figures

CHF million, except where indicated	As of or for the year ended 31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
Group results					
Operating income	**27,732**	25,423	27,788	31,994	22,601
Operating expenses	**24,461**	27,216	22,482	24,650	25,128
Operating profit / (loss) from continuing operations before tax	**3,272**	(1,794)	5,307	7,345	(2,527)
Net profit / (loss) attributable to UBS shareholders	**3,172**	(2,480)	4,138	7,452	(2,700)
Diluted earnings per share (CHF)[1]	**0.83**	(0.66)	1.08	1.94	(0.74)
Key performance indicators, balance sheet and capital management, and additional information[2]					
Performance					
Return on equity (RoE) (%)	**6.7**	(5.1)	9.1	18.0	(7.9)
Return on tangible equity (%)[3]	**8.0**	1.6	11.9	24.7	(6.1)
Return on risk-weighted assets, gross (%)[4]	**11.4**	12.0	13.7	15.5	9.9
Return on assets, gross (%)	**2.5**	1.9	2.1	2.3	1.5
Growth					
Net profit growth (%)[5]	**N/A**	N/A	(44.5)	N/A	N/A
Net new money growth (%)[6]	**1.4**	1.6	1.9	(0.8)	(7.1)
Efficiency					
Cost / income ratio (%)	**88.0**	106.6	80.7	76.9	102.8
Capital strength					
Common equity tier 1 capital ratio (%, phase-in)[7]	**18.5**	15.3			
Common equity tier 1 capital ratio (%, fully applied)[7]	**12.8**	9.8			
BIS tier 1 capital ratio, Basel 2.5 (%)		21.3	15.9		
BIS total capital ratio, Basel 2.5 (%)		25.2	17.2		
Swiss SRB leverage ratio (%, phase-in)[8]	**4.7**	3.6			
Balance sheet and capital management					
Total assets	**1,009,860**	1,259,797	1,416,962	1,314,813	1,338,239
Equity attributable to UBS shareholders	**48,002**	45,949	48,530	43,728	37,704
Total book value per share (CHF)[9]	**12.74**	12.26	12.95	11.53	10.71
Tangible book value per share (CHF)[9]	**11.07**	10.54	10.36	8.94	7.58
Common equity tier 1 capital (phase-in)[7]	**42,179**	40,032			
Common equity tier 1 capital (fully applied)[7]	**28,908**	25,182			
Risk-weighted assets (phase-in)[7]	**228,557**	261,800			
Risk-weighted assets (fully applied)[7]	**225,153**	258,113			
Total capital ratio (%) (phase-in)[7]	**22.2**	18.9			
Total capital ratio (%) (fully applied)[7]	**15.4**	11.4			
BIS tier 1 capital, Basel 2.5		40,982	38,370		
BIS risk-weighted assets, Basel 2.5		192,505	240,962		

1 Refer to "Note 9 Earnings per share (EPS) and shares outstanding" to the consolidated financial statements for more information. 2 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 3 Net profit / loss attributable to UBS shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS shareholders less average goodwill and intangible assets. 4 Based on Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011, 2010 and 2009. 5 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 6 Group net new money includes net new money for Retail & Corporate and excludes interest and dividend income. 7 Based on the Basel III framework as applicable for Swiss systemically relvant banks (SRB). Numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 8 Refer to the "Capital management" section of this report for more information. 9 Refer to "UBS shares" in the "Capital management" section of this report for more information.

Key figures (continued)

	As of or for the year ended				
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.10	31.12.09
Additional information					
Average equity of average assets (%)	**4.0**	3.4	3.2	2.7	1.7
Invested assets (CHF billion)[1]	**2,390**	2,230	2,088	2,075	2,160
Market capitalization[2]	**65,007**	54,729	42,843	58,803	57,108
Registered ordinary shares (number)	**3,842,002,069**	3,835,250,233	3,832,121,899	3,830,840,513	3,558,112,753
Treasury shares (number)	**73,800,252**	87,879,601	84,955,551	38,892,031	37,553,872
Personnel (full-time equivalents)	**60,205**	62,628	64,820	64,617	65,233
Americas	**21,317**	21,995	22,924	23,178	23,834
of which: USA	***20,037***	*20,833*	*21,746*	*22,031*	*22,702*
Asia Pacific	**7,116**	7,426	7,690	7,263	6,865
Europe, Middle East and Africa	**10,052**	10,829	11,019	10,892	10,484
of which: United Kingdom	***5,595***	*6,459*	*6,674*	*6,634*	*6,204*
of which: Rest of Europe	***4,303***	*4,202*	*4,182*	*4,122*	*4,145*
of which: Middle East and Africa	***153***	*167*	*162*	*137*	*134*
Switzerland	**21,720**	22,378	23,188	23,284	24,050

1 Group invested assets includes invested assets for Retail & Corporate. 2 Refer to "UBS shares" in the "Capital management" section of this report for more information.

Income statement data

	For the year ended				
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	31.12.10	31.12.09
Interest income	**13,137**	15,968	17,969	18,872	23,461
Interest expense	**(7,351)**	(9,990)	(11,143)	(12,657)	(17,016)
Net interest income	**5,786**	5,978	6,826	6,215	6,446
Credit loss (expense) / recovery	**(50)**	(118)	(84)	(66)	(1,832)
Net interest income after credit loss (expense) / recovery	**5,736**	5,860	6,742	6,149	4,614
Net fee and commission income	**16,287**	15,396	15,236	17,160	17,712
Net trading income	**5,130**	3,526	4,343	7,471	(324)
Other income	**580**	641	1,467	1,214	599
Total operating income	**27,732**	25,423	27,788	31,994	22,601
Total operating expenses	**24,461**	27,216	22,482	24,650	25,128
Operating profit / (loss) from continuing operations before tax	**3,272**	(1,794)	5,307	7,345	(2,527)
Tax expense / (benefit)	**(110)**	461	901	(409)	(444)
Net profit / (loss) from continuing operations	**3,381**	(2,255)	4,406	7,754	(2,082)
Net profit / (loss) from discontinued operations	**0**	0	0	2	(7)
Net profit / (loss)	**3,381**	(2,255)	4,406	7,756	(2,089)
Net profit / (loss) attributable to preferred noteholders	**204**	220			
Net profit / (loss) attributable to non-controlling interests	**5**	5	268	304	610
Net profit / (loss) attributable to UBS shareholders	**3,172**	(2,480)	4,138	7,452	(2,700)
Cost / income ratio (%)[1]	**88.0**	106.6	80.7	76.9	102.8
Per share data (CHF)					
Basic[2]	**0.84**	(0.66)	1.10	1.97	(0.74)
Diluted[2]	**0.83**	(0.66)	1.08	1.94	(0.74)
Cash dividends declared per share (CHF)[3, 4]	**0.25**	0.15	0.10	N/A	N/A
Cash dividends declared per share (USD)[3, 4]		0.16	0.11	N/A	N/A
Dividend payout ratio (%)[3, 4]	**29.8**	(22.7)	9.1	N/A	N/A
Rates of return (%)					
Return on equity attributable to UBS shareholders[5]	**6.7**	(5.1)	9.1	18.0	(7.9)
Return on average equity	**6.7**	(5.0)	9.1	17.9	(8.7)
Return on average assets	**0.3**	(0.2)	0.3	0.5	(0.1)

1 Operating expenses / operating income before credit loss expense. 2 Refer to "Note 9 Earnings per share (EPS) and shares outstanding" to the consolidated financial statements for more information. 3 Dividends and / or distribution of capital contribution reserve are normally approved and paid in the year subsequent to the reporting period. 4 For the year 2013, an amount of CHF 0.25 per share will be paid out of capital contribution reserve on 15 May 2014, subject to approval by shareholders at the Annual General Meeting on 7 May 2014. The USD amount per share will be determined on 12 May 2014. 5 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders. The calculation excludes expected deductions for dividends and distribution of capital contribution reserve.

Balance sheet data

CHF million	31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
Assets					
Total assets	**1,009,860**	1,259,797	1,416,962	1,314,813	1,338,239
Cash and balances with central banks	**80,879**	66,383	40,638	26,939	20,899
Due from banks	**17,170**	21,220	23,218	17,133	16,804
Cash collateral on securities borrowed	**27,496**	37,372	58,763	62,454	63,507
Reverse repurchase agreements	**91,563**	130,941	213,501	142,790	116,689
Trading portfolio assets	**122,848**	160,564	181,525	228,815	232,258
of which: assets pledged as collateral which may be sold or repledged by counterparties	***42,449***	*44,698*	*39,936*	*61,352*	*44,221*
Positive replacement values	**245,835**	418,957	486,584	401,146	421,694
Cash collateral receivables on derivative instruments	**28,007**	30,413	41,322	38,071	53,774
Loans	**286,959**	279,901	266,604	262,877	266,477
Financial investments available-for-sale	**59,525**	66,230	53,174	74,768	81,757
Other assets	**20,228**	17,244	15,492	24,973	26,459
Liabilities					
Due to banks	**12,862**	23,024	30,201	41,490	31,922
Cash collateral on securities lent	**9,491**	9,203	8,136	6,651	7,995
Repurchase agreements	**13,811**	38,557	102,429	74,796	64,175
Trading portfolio liabilities	**26,609**	34,247	39,480	54,975	47,469
Negative replacement values	**239,953**	395,260	473,400	393,762	409,943
Cash collateral payables on derivative instruments	**49,138**	71,148	67,114	58,924	66,097
Financial liabilities designated at fair value	**69,901**	91,901	88,982	100,756	112,653
Due to customers	**390,825**	373,459	342,409	332,301	339,263
Debt issued	**81,586**	104,837	140,617	130,271	131,352
Other liabilities	**62,777**	66,523	69,633	70,412	79,643
Equity attributable to UBS shareholders	**48,002**	45,949	48,530	43,728	37,704

Ratio of earnings to fixed charges

The following table sets forth UBS's ratio of earnings to fixed charges on an IFRS basis for the periods indicated. The ratios are calculated based on earnings from continuing operations. Ratios of earnings to fixed charges and preferred share dividends are not presented as there were no mandatory preferred share dividends in any of the periods indicated.

For the year ended				
31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
1.41	0.83[1]	1.42	1.52	0.83

1 The ratio of earnings to fixed charges for the year ended 31 December 2012 was restated upon the adoption of IFRS 10. The ratios for the years ended prior to 31 December 2012 were not restated in line with the transition requirements of IFRS 10.

C – Information on the company

Property, plant and equipment

At 31 December 2013, UBS operated about 864 business and banking locations worldwide, of which about 42% were in Switzerland, 42% in the Americas, 11% in the rest of Europe, Middle East and Africa and 5% in Asia Pacific. Of the business and banking locations in Switzerland, 31% were owned directly by UBS, with the remainder, along with most of UBS's offices outside Switzerland, being held under commercial leases. These premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for current and anticipated operations.

D – Information required by industry guide 3

Selected statistical information

The following tables set forth selected statistical information regarding the Group's banking operations extracted from the Financial Statements. Unless otherwise indicated, average balances for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 are calculated from monthly data. The distinction between domestic and foreign is generally based on the booking location. For loans, this method is not significantly different from an analysis based on the domicile of the borrower.

Average balances and interest rates

The following table sets forth average interest-earning assets and average interest-bearing liabilities, along with the average yield, for the years ended.

	31.12.13			31.12.12			31.12.11		
CHF million, except where indicated	**Average balance**	**Interest income**	**Average yield (%)**	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Assets									
Due from banks									
Domestic	**3,051**	**8**	**0.3**	3,566	33	0.9	3,465	22	0.6
Foreign	**17,301**	**82**	**0.5**	24,718	282	1.1	17,623	142	0.8
Cash collateral on securities borrowed and reverse repurchase agreements									
Domestic	**11,479**	**10**	**0.1**	4,884	4	0.1	8,025	15	0.2
Foreign	**162,479**	**575**	**0.4**	263,958	1,155	0.4	281,544	1,485	0.5
Trading portfolio assets									
Domestic	**5,189**	**177**	**3.4**	6,019	235	3.9	12,821	299	2.3
Foreign taxable	**119,894**	**2,736**	**2.3**	156,581	4,247	2.7	189,861	5,163	2.7
Foreign non-taxable							1,313	4	0.3
Foreign total	**119,894**	**2,736**	**2.3**	156,581	4,247	2.7	191,174	5,167	2.7
Cash collateral receivables on derivative instruments									
Domestic	**155**	**0**	**0.0**	9	0	0.0	21	0	0.0
Foreign	**29,576**	**70**	**0.2**	36,895	143	0.4	37,696	324	0.9
Financial assets designated at fair value									
Domestic	**414**	**0**	**0.0**	454	0	0.0	493	0	0.0
Foreign	**10,113**	**364**	**3.6**	8,790	369	4.2	8,262	248	3.0
Loans									
Domestic	**189,969**	**3,974**	**2.1**	185,969	4,280	2.3	182,125	4,604	2.5
Foreign	**100,027**	**2,420**	**2.4**	88,246	2,150	2.4	82,755	2,203	2.7
Financial investments available-for-sale									
Domestic	**1,980**	**11**	**0.6**	1,572	8	0.5	3,465	4	0.1
Foreign taxable	**60,093**	**310**	**0.5**	61,233	373	0.6	60,026	611	1.0
Foreign non-taxable									
Foreign total	**60,093**	**310**	**0.5**	61,233	373	0.6	60,026	611	1.0
Other interest-earning assets									
Domestic									
Foreign	**8,953**	**430**	**4.8**	7,143	439	6.1	12,001	501	4.2
Total interest-earning assets	**720,674**	**11,168**	**1.5**	850,037	13,718	1.6	901,496	15,624	1.7
Net interest income on swaps		**1,528**			1,804			1,923	
Interest income on off-balance sheet securities and other		**441**			446			422	
Interest income and average interest-earning assets	**720,674**	**13,137**	**1.8**	850,037	15,968	1.9	901,496	17,969	2.0
Non-interest-earning assets									
Positive replacement values	**337,092**			460,849			410,839		
Fixed assets	**6,054**			5,859			5,420		
Other	**115,921**			130,902			86,469		
Total average assets	**1,179,741**			1,447,647			1,404,224		

Average balances and interest rates (continued)

CHF million, except where indicated	31.12.13 Average balance	31.12.13 Interest expense	31.12.13 Average interest rate (%)	31.12.12 Average balance	31.12.12 Interest expense	31.12.12 Average interest rate (%)	31.12.11 Average balance	31.12.11 Interest expense	31.12.11 Average interest rate (%)
Liabilities and equity									
Due to banks									
Domestic	13,859	37	0.3	25,843	61	0.2	25,672	259	1.0
Foreign	4,073	24	0.6	7,709	65	0.8	10,250	93	0.9
Cash collateral on securities lent and repurchase agreements									
Domestic	5,344	2	0.0	6,289	7	0.1	8,836	12	0.1
Foreign	65,088	344	0.5	148,734	768	0.5	168,429	969	0.6
Trading portfolio liabilities									
Domestic	628	12	1.9	886	18	2.0	1,095	26	2.3
Foreign	29,874	1,834	6.1	47,002	2,424	5.2	52,373	2,826	5.4
Cash collateral payables on derivative instruments									
Domestic	540	0	0.0	1,131	0	0	357	0	0
Foreign	59,896	65	0.1	67,955	134	0.2	58,731	281	0.5
Financial liabilities designated at fair value									
Domestic	1,207	9	0.7	1,335	11	0.8	1,548	10	0.7
Foreign	79,182	1,188	1.5	90,007	1,733	1.9	91,920	1,982	2.2
Due to customers									
Domestic demand deposits	126,953	60	0.0	111,975	95	0.1	95,679	132	0.1
Domestic savings deposits	95,937	246	0.3	90,312	356	0.4	82,004	422	0.5
Domestic time deposits	4,379	15	0.3	4,821	30	0.6	6,672	41	0.6
Domestic total	227,268	321	0.1	207,108	481	0.2	184,355	595	0.3
Foreign [1]	155,312	373	0.2	153,379	594	0.4	145,772	696	0.5
Short-term debt									
Domestic	1,703	3	0.2	1,776	9	0.5	1,303	4	0.3
Foreign	33,363	170	0.5	48,525	365	0.8	57,873	382	0.7
Long-term debt									
Domestic	11,823	281	2.4	11,188	264	2.4	12,705	126	1.0
Foreign	50,053	2,131	4.3	62,053	2,525	4.1	57,830	2,394	4.1
Other interest-bearing liabilities									
Domestic									
Foreign	35,706	67	0.2	36,823	98	0.3	36,926	116	0.3
Total interest-bearing liabilities	774,920	6,863	0.9	917,743	9,557	1.0	915,975	10,772	1.2
Interest expense on off-balance sheet securities		489			433			371	
Interest expense and average interest-bearing liabilities	774,920	7,351		917,743	9,990		915,975	11,143	
Non-interest-bearing liabilities									
Negative replacement values	321,004			443,881			402,535		
Other	34,188			33,722			35,672		
Total liabilities	1,130,111			1,395,346			1,354,182		
Total equity	49,630			52,301			50,042		
Total average liabilities and equity	1,179,741			1,447,647			1,404,224		
Net interest income		5,786			5,978			6,826	
Net yield on interest-earning assets			0.8			0.7			0.8

1 Due to customers in foreign offices consists mainly of time deposits.

The percentage of total average interest-earning assets attributable to foreign activities was 71% for 2013 (76% for 2012 and 77% for 2011). The percentage of total average interest-bearing liabilities attributable to foreign activities was 66% for 2013 (72% for 2012 and 74% for 2011). All assets and liabilities are translated into CHF at uniform month-end rates. Interest income and expense are translated at monthly average rates.

Average rates earned and paid on assets and liabilities can change from period to period based on the changes in interest rates in general, but are also affected by changes in the currency mix included in the assets and liabilities. This is especially true for foreign assets and liabilities. Tax-exempt income is not recorded on a tax-equivalent basis. For all three years presented, tax-exempt income is considered to be insignificant and the impact from such income is therefore negligible.

Analysis of changes in interest income and expense

The following tables allocate, by categories of interest-earning assets and interest-bearing liabilities, the changes in interest income and expense due to changes in volume and interest rates for the year ended 31 December 2013 compared with the year ended 31 December 2012, and for the year ended 31 December 2012 compared with the year ended 31 December 2011.

Volume and rate variances have been calculated on movements in average balances and changes in interest rates. Changes due to a combination of volume and rates have been allocated proportionally. Refer to the appropriate section of Industry Guide 3 for a discussion of the treatment of impaired and non-performing loans.

	2013 compared with 2012			2012 compared with 2011		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	**Average volume**	**Average interest rate**	**Net change**	Average volume	Average interest rate	Net change
Interest income from interest-earning assets						
Due from banks						
Domestic	**(5)**	**(20)**	**(25)**	1	10	11
Foreign	**(82)**	**(118)**	**(200)**	57	83	140
Cash collateral on securities borrowed and reverse repurchase agreements						
Domestic	**7**	**(1)**	**6**	(6)	(5)	(11)
Foreign	**(406)**	**(174)**	**(580)**	(88)	(242)	(330)
Trading portfolio assets						
Domestic	**(32)**	**(26)**	**(58)**	(156)	92	(64)
Foreign taxable	**(991)**	**(520)**	**(1,511)**	(899)	(17)	(916)
Foreign non-taxable	**0**	**0**	**0**	(4)	0	(4)
Foreign total	**(991)**	**(520)**	**(1,511)**	(903)	(17)	(920)
Cash collateral receivables on derivative instruments						
Domestic	**0**	**0**	**0**	0	0	0
Foreign	**(29)**	**(44)**	**(73)**	(7)	(174)	(181)
Financial assets designated at fair value						
Domestic	**0**	**0**	**0**	0	0	0
Foreign	**56**	**(61)**	**(5)**	16	105	121
Loans						
Domestic	**92**	**(398)**	**(306)**	96	(420)	(324)
Foreign	**283**	**(13)**	**270**	148	(201)	(53)
Financial investments available-for-sale						
Domestic	**2**	**1**	**3**	(2)	6	4
Foreign taxable	**(7)**	**(56)**	**(63)**	12	(250)	(238)
Foreign non-taxable	**0**	**0**	**0**			0
Foreign total	**(7)**	**(56)**	**(63)**	12	(250)	(238)
Other interest-bearing assets						
Domestic	**0**	**0**	**0**	0	0	0
Foreign	**110**	**(119)**	**(9)**	(204)	142	(62)
Interest income						
Domestic	**64**	**(443)**	**(379)**	(67)	(316)	(383)
Foreign	**(1,066)**	**(1,105)**	**(2,171)**	(969)	(554)	(1,523)
Total interest income from interest-earning assets	**(1,002)**	**(1,548)**	**(2,550)**	(1,036)	(870)	(1,906)
Net interest on swaps			**(276)**			(119)
Interest income on off-balance sheet securities and other			**(5)**			24
Total interest income			**(2,831)**			(2,001)

Analysis of changes in interest income and expense (continued)

CHF million	2013 compared with 2012 – Increase / (decrease) due to changes in – Average volume	2013 compared with 2012 – Increase / (decrease) due to changes in – Average interest rate	2013 compared with 2012 – Net change	2012 compared with 2011 – Increase / (decrease) due to changes in – Average volume	2012 compared with 2011 – Increase / (decrease) due to changes in – Average interest rate	2012 compared with 2011 – Net change
Interest expense on interest-bearing liabilities						
Due to banks						
Domestic	(24)	0	(24)	2	(200)	(198)
Foreign	(29)	(12)	(41)	(23)	(5)	(28)
Cash collateral on securities lent and repurchase agreements						
Domestic	(1)	(4)	(5)	(3)	(2)	(5)
Foreign	(418)	(6)	(424)	(118)	(83)	(201)
Trading portfolio liabilities						
Domestic	(5)	(1)	(6)	(5)	(3)	(8)
Foreign	(891)	301	(590)	(290)	(112)	(402)
Cash collateral payables on derivative instruments						
Domestic	0	0	0	0	0	0
Foreign	(16)	(53)	(69)	46	(193)	(147)
Financial liabilities designated at fair value						
Domestic	(1)	(1)	(2)	(1)	2	1
Foreign	(206)	(339)	(545)	(42)	(207)	(249)
Due to customers						
Domestic demand deposits	15	(50)	(35)	16	(53)	(37)
Domestic savings deposits	22	(132)	(110)	42	(108)	(66)
Domestic time deposits	(3)	(12)	(15)	(11)	0	(11)
Domestic total	34	(194)	(160)	47	(161)	(114)
Foreign	8	(229)	(221)	38	(140)	(102)
Short-term debt						
Domestic	0	(6)	(6)	1	4	5
Foreign	(121)	(74)	(195)	(65)	48	(17)
Long-term debt						
Domestic	15	2	17	(15)	153	138
Foreign	(492)	98	(394)	173	(42)	131
Other interest-bearing liabilities						
Domestic	0	0	0	0	0	0
Foreign	(3)	(28)	(31)	0	(18)	(18)
Interest expense						
Domestic	18	(203)	(185)	26	(208)	(182)
Foreign	(2,168)	(342)	(2,510)	(281)	(752)	(1,033)
Total interest -bearing liabilities	(2,150)	(544)	(2,694)	(255)	(960)	(1,215)
Interest expense on off-balance sheet securities			56			62
Total interest expense			(2,639)			(1,153)

Deposits

The following table analyzes average deposits and average rates on each deposit category listed below for the years ended 31 December 2013, 2012 and 2011. The geographic allocation is based on the location of the office or branch where the deposit is made.

Deposits by foreign depositors in domestic offices were CHF 76,246 million, CHF 74,252 million and CHF 66,540 million as of 31 December 2013, 31 December 2012 and 31 December 2011, respectively.

	31.12.13		31.12.12		31.12.11	
CHF million, except where indicated	**Average deposits**	**Average rate (%)**	Average deposits	Average rate (%)	Average deposits	Average rate (%)
Banks						
Domestic offices						
Demand deposits	**8,513**	**(0.1)**	1,270	0.0	1,402	0.0
Time deposits	**5,346**	**0.8**	2,296	0.7	2,063	2.8
Total domestic offices	**13,859**	**0.3**	3,566	0.5	3,465	1.6
Foreign offices						
Interest-bearing deposits[1]	**3,763**	**0.6**	24,718	0.8	17,623	1.0
Total due to banks[2]	**17,622**	**0.3**	28,284	0.8	21,088	1.1
Customer accounts						
Domestic offices						
Demand deposits	**126,953**	**0.0**	111,975	0.1	95,679	0.1
Savings deposits	**95,937**	**0.3**	90,312	0.4	82,004	0.5
Time deposits	**4,379**	**0.3**	4,821	0.6	6,672	0.6
Total domestic offices	**227,268**	**0.1**	207,108	0.2	184,355	0.3
Foreign offices						
Demand deposits	**43,954**	**0.0**	38,707	0.1	34,414	0.1
Time and savings deposits[1]	**111,358**	**0.3**	114,672	0.5	111,358	0.6
Total foreign offices	**155,312**	**0.2**	153,379	0.4	145,772	0.5
Total due to customers	**382,580**	**0.2**	360,487	0.3	330,127	0.4

1 Mainly time deposits. 2 Due to banks is considered to represent short-term borrowings to the extent that the total Due to banks exceeds total Due from banks, without differentiating between domestic and foreign offices. The remainder of total Due to banks is considered to represent deposits for the purpose of this disclosure.

As of 31 December 2013, the maturity of time deposits was as follows:

CHF million	**Domestic**	**Foreign**
Within 3 months	**5,857**	**60,682**
3 to 6 months	**1,966**	**2,379**
6 to 12 months	**285**	**2,591**
1 to 5 years	**43**	**438**
Over 5 years	**5**	**159**
Total time deposits	**8,155**	**66,249**

Short-term borrowings

The following table presents the period-end, average and maximum month-end outstanding amounts for short-term borrowings, along with the average rates and period-end rates at and for the years ended 31 December 2013, 2012 and 2011.

	Short-term debt			Due to banks[1]			Repurchase agreements[2]		
CHF million, except where indicated	**31.12.13**	31.12.12	31.12.11	**31.12.13**	31.12.12	31.12.11	**31.12.13**	31.12.12	31.12.11
Period-end balance	**27,633**	32,493	71,377	**0**	1,782	6,966	**41,160**	73,358	152,121
Average balance	**35,067**	50,301	59,175	**309**	5,267	14,834	**61,251**	145,831	170,442
Maximum month-end balance	**44,789**	72,432	71,377	**1,370**	13,555	20,080	**76,014**	183,207	194,684
Average interest rate during the period (%)	**0.5**	0.7	0.7	**0.3**	0.4	1.0	**0.2**	0.3	0.4
Average interest rate at period-end (%)	**0.4**	0.7	0.7	**0.0**	0.2	1.0	**0.2**	0.2	0.3

1 Presented net of Due from banks to reflect short-term borrowings. The difference between the gross Due to banks amount and the amount disclosed here is presented as deposits from banks on the preceding page.
2 Repurchase agreements are presented on a gross basis, and therefore, for the purpose of this disclosure, do not reflect the effect of netting permitted under IFRS.

Contractual maturities of investments in debt instruments available-for-sale[1, 2]

	Within 1 year		1 up to 5 years		5 to 10 years		Over 10 years	
CHF million, except percentages	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**
31 December 2013								
Swiss national government and agencies			**43**	**0.46**	**1**	**3.55**		
US Treasury and agencies	**849**	**0.17**	**13,010**	**0.36**	**3**	**3.30**		
Foreign governments and official institutions	**25,483**	**0.27**	**7,277**	**0.55**	**63**	**0.98**	**19**	**12.16**
Corporate debt securities	**743**	**0.52**	**6,873**	**0.80**	**178**	**0.85**	**1**	**6.60**
Mortgage-backed securities					**0**	**4.71**	**4,017**	**2.09**
Total fair value[3]	**27,075**		**27,202**		**245**		**4,037**	

	Within 1 year		1 up to 5 years		5 to 10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2012								
Swiss national government and agencies	110	0.13	45	0.44			1	4.00
US Treasury and agencies	11,152	0.20	12,397	0.25	877	1.34		
Foreign governments and official institutions	23,189	0.27	3,869	0.74	2	3.11	18	8.15
Corporate debt securities	2,030	0.69	4,154	0.93	113	4.76	3	8.83
Mortgage-backed securities					0	4.62	7,313	1.51
Total fair value[3]	36,482		20,464		993		7,335	

	Within 1 year		1 up to 5 years		5 to 10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2011								
Swiss national government and agencies	226	0.21	130	0.88			1	4.00
US Treasury and agencies	10,082	0.24	5,891	0.21	1,157	0.76		
Foreign governments and official institutions	18,751	0.42	2,338	0.83	2	3.04	24	6.76
Corporate debt securities	3,267	0.73	1,592	1.47	6	10.87	7	10.54
Mortgage-backed securities					1	4.47	8,540	2.42
Total fair value[3]	**32,326**		**9,951**		**1,166**		**8,573**	

1 Debt instruments without fixed maturities are not disclosed in this table. 2 Average yields are calculated on an amortized cost basis. 3 Includes investments in debt instruments as of 31 December 2013 issued by US government and government agencies of CHF 17,876 million (31 December 2012: CHF 31,740 million, 31 December 2011: CHF 25,677 million), the German government of CHF 6,733 million (31 December 2012: CHF 6,669 million, 31 December 2011: CHF 1,991 million), and the UK government of CHF 8,089 million (31 December 2012: CHF 5,042 million, 31 December 2011: CHF 3,477 million).

Due from banks and loans (gross)

The Group's lending portfolio is widely diversified across industry sectors. CHF 174.5 billion (57.2% of the total) consists of loans to thousands of private households, predominantly in Switzerland, and mostly secured by mortgages, financial collateral or other assets. Exposure to Banks and Financial institutions amounted to CHF 65 billion (21.3% of the total). Exposure to banks includes money market deposits with highly rated institutions. Excluding Banks and Financial institutions, the largest industry sector exposure as of 31 December 2013 was CHF 20 billion (6.6% of the total) to Services. For further discussion of the loan portfolio, refer to the "Risk management and control" section of this report.

The following table illustrates the diversification of the loan portfolio among industry sectors as of 31 December 2013, 2012, 2011, 2010, and 2009. The industry categories presented are consistent with the classification of loans for reporting to the Swiss Financial Market Supervisory Authority (FINMA) and Swiss National Bank. Loans designated at fair value and loans held in the trading portfolio are excluded from the tables below.

CHF million	**31.12.13**	31.12.12	31.12.11	31.12.10	31.12.09
Domestic					
Banks	**736**	532	566	1,130	609
Construction	**1,429**	1,360	1,292	1,356	1,381
Financial institutions	**4,643**	4,265	4,257	3,735	4,370
Hotels and restaurants	**1,817**	1,745	1,831	1,803	1,882
Manufacturing	**2,512**	2,976	3,252	3,192	3,374
Private households	**124,569**	123,167	120,671	119,796	119,432
Public authorities	**2,415**	2,708	2,992	4,908	3,785
Real estate and rentals	**14,511**	13,682	13,169	12,252	11,745
Retail and wholesale	**3,784**	4,345	4,433	4,101	4,288
Services	**5,330**	5,862	5,770	5,718	5,702
Other[1]	**3,680**	3,538	3,131	3,117	3,423
Total domestic	**165,426**	164,180	161,364	161,108	159,991
Foreign					
Banks	**16,497**	20,711	22,669	16,028	16,227
Chemicals	**178**	254	392	351	2,358
Construction	**1,132**	1,731	750	952	741
Electricity, gas and water supply	**1,337**	1,205	746	525	653
Financial institutions	**43,125**	40,650	38,802	41,307	43,345
Manufacturing	**1,850**	1,828	1,955	2,010	2,547
Mining	**1,175**	1,279	1,979	2,463	2,217
Private households	**49,920**	46,458	41,045	31,361	33,166
Public authorities	**1,322**	4,319	5,459	9,858	10,781
Real estate and rentals	**2,995**	2,721	2,158	1,420	1,110
Retail and wholesale	**1,791**	2,063	2,044	1,711	1,438
Services	**14,733**	10,735	8,529	9,534	8,180
Transport, storage and communication	**2,809**	3,021	2,068	1,652	2,474
Other[2]	**606**	693	703	841	734
Total foreign	**139,471**	137,669	129,300	120,014	125,969
Total gross	**304,897**	301,849	290,664	281,121	285,960

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Includes food and beverages, hotels and restaurants.

Due from banks and loans (gross) (continued)

The following table analyzes the Group's mortgage portfolio by geographic origin of the client and type of mortgage as of 31 December 2013, 2012, 2011, 2010 and 2009. Mortgages are included in the industry categories mentioned on the previous page.

CHF million	**31.12.13**	31.12.12	31.12.11	31.12.10	31.12.09
Mortgages					
Domestic	**144,852**	142,143	138,204	136,687	136,029
Foreign	**15,235**	12,311	8,818	6,174	4,972
Total gross mortgages	**160,086**	154,454	147,022	142,861	141,001
Mortgages					
Residential	**137,370**	132,033	125,775	122,499	121,031
Commercial	**22,716**	22,421	21,247	20,362	19,970
Total gross mortgages	**160,086**	154,454	147,022	142,861	141,001

Due from banks and loan maturities (gross)

CHF million	Within 1 year	1 to 5 years	Over 5 years	**Total**
Domestic				
Banks	736	0	0	**736**
Mortgages	64,951	47,041	32,859	**144,852**
Other loans	15,641	2,992	1,206	**19,839**
Total domestic	81,328	50,033	34,066	**165,426**
Foreign				
Banks	16,322	148	26	**16,497**
Mortgages	11,438	1,376	2,420	**15,235**
Other loans	86,372	15,693	5,674	**107,739**
Total foreign	114,132	17,217	8,121	**139,471**
Total gross	195,460	67,250	42,186	**304,897**

As of 31 December 2013, the total amount of *Due from banks* and *Loans* due after one year granted at fixed- and floating-rates are as follows:

CHF million	1 to 5 years	Over 5 years	**Total**
Fixed-rate loans	59,710	37,239	**96,949**
Adjustable or floating-rate loans	7,540	4,947	**12,487**
Total	67,250	42,186	**109,437**

Impaired and non-performing loans

A loan (included in *Due from banks* or *Loans*) is classified as non-performing: (i) when the payment of interest, principal or fees is overdue by more than 90 days, (ii) when insolvency proceedings have commenced or (iii) when obligations have been restructured on concessionary terms. For IFRS reporting purposes, the definition of impaired loans is more comprehensive, covering both non-performing loans and other situations where objective evidence indicates that UBS may be unable to collect all amounts due. Refer to "Impaired loans" in the "Risk management and control" section of this report for comprehensive information on UBS's impaired loans, of which non-performing loans are a component. Also, refer to "Note 1 Summary of significant accounting policies" to the consolidated financial statements for more information on the various risk factors that are considered to be indicative of impairment.

The table below provides an analysis of the Group's non-performing loans.

CHF million	**31.12.13**	31.12.12	31.12.11	31.12.10	31.12.09
Non-performing loans:					
Domestic	**1,113**	1,121	1,199	1,164	1,462
Foreign	**469**	395	329	563	3,940
Total non-performing loans	**1,582**	1,516	1,529	1,727	5,402

CHF million	**31.12.13**	31.12.12	31.12.11	31.12.10	31.12.09
Gross interest income that would have been recorded on non-performing loans:					
Domestic	**6**	8	10	11	13
Foreign	**4**	3	9	35	89
Interest income included in Net profit for non-performing loans:					
Domestic	**23**	28	29	35	41
Foreign	**7**	6	6	19	30

UBS does not, as a matter of policy, typically restructure loans to accrue interest at rates different from the original contractual terms or reduce the principal amount of loans. Instead, specific loan allowances are established as necessary. Unrecognized interest related to restructured loans was not material to the results of operations in 2013, 2012, 2011, 2010 or 2009.

Cross-border outstandings

Cross-border outstandings consist of balances with central banks and other financial institutions, loans, reverse repurchase agreements and cash collateral on securities borrowed with counterparties domiciled outside Switzerland. Guarantees and commitments are provided separately in the table below.

The following tables list those countries for which cross-border outstandings exceeded 0.75% of total IFRS assets as of 31 December 2013, 2012 and 2011. As of 31 December 2013, there were no outstandings that exceeded 0.75% of total IFRS assets in any country currently facing debt restructuring or liquidity problems that the Group expects would materially impact the country's ability to service its obligations. Aggregate country risk exposures are monitored and reported on an ongoing basis by the risk control organization, based on an internal framework. The internal risk view is not directly comparable to the cross-border outstandings in the table below due to different approaches to netting, differing trade populations and differing approach to allocation of exposures to countries. For more information on the country framework within risk control, refer to "Country risk" in the "Risk management and control" section of this report.

	31.12.13					
CHF million	**Banks**	**Private sector**	**Public sector**	**Total outstandings**	**% of total assets**	**Guarantees and Commitments[1]**
USA	**23,167**	**76,047**	**51,287**	**150,501**	**14.9**	**38,778**
United Kingdom	**10,872**	**39,528**	**8,583**	**58,983**	**5.8**	**8,494**
Japan	**1,019**	**17,009**	**4,765**	**22,794**	**2.3**	**289**
France	**4,793**	**7,478**	**56**	**12,327**	**1.2**	**6,997**
Germany	**4,328**	**2,664**	**1,900**	**8,891**	**0.9**	**2,062**

	31.12.12					
CHF million	Banks	Private sector	Public sector	Total outstandings	% of total assets	Guarantees and Commitments[1]
USA	45,371	93,401	35,125	173,897	13.8	43,904
United Kingdom	13,366	36,960	4,287	54,613	4.3	12,106
Japan	2,014	21,943	4,707	28,663	2.3	2,208
France	4,885	5,955	409	11,250	0.9	9,161

	31.12.11					
CHF million	Banks	Private sector	Public sector	Total outstandings	% of total assets	Guarantees and Commitments[1]
USA	114,952	107,132	10,000	232,084	16.4	46,285
United Kingdom	13,679	37,945	6,116	57,740	4.1	13,487
Japan	3,799	13,566	3,020	20,385	1.4	7,090
France	5,220	12,830	72	18,122	1.3	8,034

1 Includes forward starting transactions (reverse repurchase agreements and securities borrowing agreements).

Summary of movements in allowances and provisions for credit losses

The following table provides an analysis of movements in allowances and provisions for credit losses.

UBS writes off loans against allowances only on final settlement of bankruptcy proceedings, the sale of the underlying assets and/or in the case of debt forgiveness. Under Swiss law, a creditor can continue to collect from a debtor who has emerged from bankruptcy, unless the debt has been forgiven through a formal agreement.

CHF million	31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
Balance at beginning of year	**794**	938	1,287	2,820	3,070
Domestic					
Write-offs					
Construction	**(2)**	(1)	(8)	(8)	(15)
Financial institutions	**(6)**	0	(17)	(47)	(2)
Hotels and restaurants	**0**	(1)	0	(1)	(2)
Manufacturing	**(4)**	(20)	(31)	(28)	(21)
Private households	**(38)**	(45)	(59)	(66)	(61)
Real estate and rentals	**0**	(2)	(3)	(2)	(19)
Retail and wholesale	**(11)**	(21)	(37)	(117)	(41)
Services	**(4)**	(6)	(21)	(49)	(3)
Other[1]	**(1)**	(17)	(6)	(16)	(12)
Total gross domestic write-offs	**(67)**	(112)	(183)	(332)	(177)
Foreign					
Write-offs					
Banks	**(1)**	0	(8)	(2)	(8)
Chemicals	**0**	0	0	(846)	(111)
Construction	**(6)**	0	0	0	(10)
Financial institutions	**(44)**	(106)	(39)	(267)	(685)
Manufacturing	**0**	0	0	(22)	(138)
Mining	**0**	0	0	0	(5)
Private households	**(6)**	(15)	(72)	(21)	(40)
Public authorities	**(1)**	(54)	(175)	(1)	(20)
Real estate and rentals	**(1)**	0	(7)	(1)	(196)
Retail and wholesale	**(1)**	0	0	(1)	(122)
Services	**0**	(19)	(1)	(9)	(413)
Transport, storage and communication	**0**	(5)	0	(3)	(37)
Other[2]	**0**	(2)	0	0	(80)
Total gross foreign write-offs	**(61)**	(201)	(303)	(1,173)	(1,865)
Total usage of provisions	**0**	0	(14)	0	(5)
Total write-offs / usage of provisions	**(128)**	(313)	(501)	(1,505)	(2,046)
Recoveries					
Domestic	35	43	50	38	44
Foreign	10	21	1	41	8
Total recoveries	**45**	63	51	79	52
Total net write-offs / usage of provisions	**(83)**	(250)	(450)	(1,427)	(1,994)
Increase / (decrease) in specific allowances and provisions recognized in the income statement	**144**	133	0	67	1,806
Increase / (decrease) in collective loan loss allowances recognized in the income statement	**(93)**	(15)	84	(2)	26
Foreign currency translation	**(9)**	(8)	(1)	(175)	(61)
Other	**(3)**	(3)	18	1	(26)[3]
Balance at end of year[4]	**750**	794	938	1,287	2,820

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Includes food and beverages, hotels and restaurants. 3 In 2009, the other adjustment was due to the sale of UBS Pactual. 4 Includes allowances for cash collateral on securities borrowed.

Allocation of the allowances and provisions for credit losses

The following table provides an analysis of the allocation of the allowances and provisions for credit loss by industry sector and geographic location as of 31 December 2013, 2012, 2011, 2010 and 2009. For a description of procedures with respect to allowances and provisions for credit losses, refer to the "Risk management and control" section of this report.

CHF million	31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
Domestic					
Banks	3	3	1	1	1
Construction	16	16	15	23	27
Financial services	16	21	19	28	126
Hotels and restaurants	12	9	6	5	6
Manufacturing	57	44	65	93	104
Private households	54	60	77	91	119
Public authorities	0	0	0	0	1
Real estate and rentals	9	10	14	19	21
Retail and wholesale	152	123	131	165	221
Services	23	24	24	45	99
Other[1]	24	16	28	27	43
Total domestic specific allowances	365	326	379	497	768
Foreign					
Banks[2]	13	19	16	23	31
Chemicals	0	1	8	8	1,037
Construction	17	20	6	2	1
Electricity, gas and water supply	1	1	1	0	0
Financial services	37	37	96	190	414
Manufacturing	18	23	23	15	83
Mining	2	0	0	0	0
Private households	66	45	60	139	171
Public authorities	16	39	33	171	18
Real estate and rentals	2	4	10	15	36
Retail and wholesale	77	39	15	8	17
Services	35	35	28	12	100
Transport, storage and communication	19	27	39	29	7
Other[3]	0	0	0	0	0
Total foreign specific allowances	303	290	335	613	1,913
Collective loan loss allowances	20	114	131	47	49
Provisions for loan commitments and guarantees	61	64	93	130	90
Total allowances and provisions for credit losses[4]	750	794	938	1,287	2,820

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Counterparty allowances only. 3 Includes food and beverages, hotels and restaurants. 4 Includes allowances for cash collateral on securities borrowed.

Due from banks and loans by industry sector (gross)

The following table presents the percentage of loans in each industry sector and geographic location to total loans. This table can be read in conjunction with the preceding table showing the breakdown of the allowances and provisions for credit losses by industry sectors to evaluate the credit risks in each of the categories.

In %	**31.12.13**	31.12.12	31.12.11	31.12.10	31.12.09
Domestic					
Banks	**0.2**	0.2	0.2	0.4	0.2
Construction	**0.5**	0.5	0.4	0.5	0.5
Financial services	**1.5**	1.4	1.5	1.3	1.5
Hotels and restaurants	**0.6**	0.6	0.6	0.6	0.7
Manufacturing	**0.8**	1.0	1.1	1.1	1.2
Private households	**40.9**	40.8	41.5	42.6	41.8
Public authorities	**0.8**	0.9	1.0	1.7	1.3
Real estate and rentals	**4.8**	4.5	4.5	4.4	4.1
Retail and wholesale	**1.2**	1.4	1.5	1.5	1.5
Services	**1.7**	1.9	2.0	2.0	2.0
Other[1]	**1.2**	1.2	1.1	1.1	1.2
Total domestic	**54.3**	54.4	55.5	57.3	55.9
Foreign					
Banks	**5.4**	6.9	7.8	5.7	5.7
Chemicals	**0.1**	0.1	0.1	0.1	0.8
Construction	**0.4**	0.6	0.3	0.3	0.3
Electricity, gas and water supply	**0.4**	0.4	0.3	0.2	0.2
Financial services	**14.1**	13.5	13.3	14.7	15.2
Manufacturing	**0.6**	0.6	0.7	0.7	0.9
Mining	**0.4**	0.4	0.7	0.9	0.8
Private households	**16.4**	15.4	14.1	11.2	11.6
Public authorities	**0.4**	1.4	1.9	3.5	3.8
Real estate and rentals	**1.0**	0.9	0.7	0.5	0.4
Retail and wholesale	**0.6**	0.7	0.7	0.6	0.5
Services	**4.8**	3.6	2.9	3.4	2.9
Transport, storage and communication	**0.9**	1.0	0.7	0.6	0.9
Other[2]	**0.2**	0.2	0.2	0.3	0.3
Total foreign	**45.7**	45.6	44.5	42.7	44.1
Total gross	**100.0**	100.0	100.0	100.0	100.0

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Includes food and beverages, hotels and restaurants.

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Introduction

This section of the report provides the BIS Basel III Pillar 3 supplementary disclosure information as of 31 December 2013 for UBS Group to the extent that these required Pillar 3 disclosures are not included in other sections of our Annual Report 2013. The Basel III Pillar 3 disclosures were previously provided in the Basel III Pillar 3 report for the first half 2013 published on the UBS website. The corresponding disclosures published in our Annual Report 2012 were prepared in accordance with Basel 2.5.

The capital adequacy framework consists of three pillars, each of which focuses on a different aspect of capital adequacy. Pillar 1 provides a framework for measuring minimum capital requirements for the credit, market and operational risks faced by banks. Pillar 2 addresses the principles of the supervisory review process, emphasizing the need for a qualitative approach to supervising banks. Pillar 3 aims to encourage market discipline by requiring banks to publish a range of disclosures, mainly on risk and capital.

This report is based on phase-in rules under the BIS Basel III framework, as implemented by the revised Swiss Capital Adequacy Ordinance issued by the Swiss Federal Council and required by Swiss Financial Market Supervisory Authority (FINMA) regulation. In addition, systemically relevant banks (SRB) in Switzerland (currently UBS, Credit Suisse and, since 1 November 2013, Zürcher Kantonalbank) are required to comply with Swiss SRB-specific rules.

➔ **Refer to the “Capital management” section of this report for more information on regulatory requirements including the differences between BIS Basel III and Swiss SRB**

FINMA requires us to publish comprehensive quantitative and qualitative Pillar 3 disclosures annually, as well as an update of quantitative disclosures and any significant changes to qualitative information semi-annually. The implementation of Basel III as of 1 January 2013 resulted in the introduction of new Pillar 1 concepts which required amendment of several Pillar 3 tables for 31 December 2013. Respective comparative 31 December 2012 tables and numbers are based on Basel 2.5 requirements and concepts. The numbers for 31 December 2012 presented in the Pillar 3 disclosures may be restated due to the retrospective implementation of IFRS 10.

➔ **Refer to “Note 1b Changes in accounting policies, comparability and other adjustments” in the “Financial information” section of this report for more information on the adoption of IFRS 10**

This section also contains a reference to the new Basel III disclosures of the indicators used in the calculation methodology for assessing the systemic importance of the G-SIBs and the resulting G-SIB buffer capital requirements.

Table 1a: Overview of disclosure requirements

The following table provides an overview of Pillar 3 disclosures in our Annual Report 2013.

Pillar 3 requirements	Location of disclosure: Annual Report section	Table in section "Supplemental disclosures required under Basel III Pillar 3 regulations"
Scope of consolidation	Financial information – Note 1 Summary of significant accounting policies Supplemental disclosures required under Basel III Pillar 3 regulations	Table 1c: Main legal entities according to the IFRS scope of consolidation not subject to the regulatory scope of consolidation
Capital structure	Capital management (on page 230)	
Capital adequacy	Capital management (on pages 226–248)	
Capital instruments	Refer to "Bondholder information" at *www.ubs.com/investors* for more information	
Risk management objectives, policies and methodologies (qualitative disclosures)	Risk management and control (on pages 150–212)	
Risk-weighted assets	Capital management Supplemental disclosures required under Basel III Pillar 3 regulations	Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets
Credit risk	Risk management and control Supplemental disclosures required under Basel III Pillar 3 regulations	Table 3: Counterparty credit risk by exposure segment and RWA Table 4: Regulatory gross credit exposure by geographical region Table 5: Regulatory gross credit exposure by counterparty type Table 6: Regulatory gross credit exposure by residual contractual maturity Table 7: Derivation of regulatory net credit exposure Table 8: Regulatory gross credit exposure covered by guarantees and credit derivatives Table 9a: Corporates – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings Table 9b: Sovereigns – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings Table 9c: Banks – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings Table 9d: Residential mortgages – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings Table 9e: Lombard – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings Table 9f: Other Retail – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings Table 10: Regulatory gross and net credit exposure by risk weight under the standardized approach Table 11: Eligible financial collateral recognized under the standardized approach Table 12: Credit exposure of derivative instruments Table 13: Credit derivatives

Table 1a: Overview of disclosure requirements (continued)

The following table provides an overview of Pillar 3 disclosures in our Annual Report 2013.

Pillar 3 requirements	Location of disclosure: Annual Report section	Table in section "Supplemental disclosures required under Basel III Pillar 3 regulations"
Equity instruments in the banking book	Supplemental disclosures required under Basel III Pillar 3 regulations	Table 14: Equity instruments in the banking book
Market risk	Risk management and control (on pages 188–204)	
Operational risk	Risk management and control (on pages 210–212)	
Interest rate risk in the banking book	Risk management and control (on pages 201–203)	
Securitization	Supplemental disclosures required under Basel III Pillar 3 regulations	Table 15: Securitization / re-securitization Table 16: Securitization activity of the year in the banking book Table 17: Securitization activity of the year in the trading book Table 18: Outstanding securitized exposures Table 19: Impaired or past due securitized exposures and losses related to securitized exposures in the banking book Table 20: Exposures intended to be securitized in the banking and trading book Table 21: Securitization positions retained or purchased in the banking book Table 22: Securitization positions retained or purchased in the trading book Table 23: Capital requirement for securitization / re-securitization positions retained or purchased in the banking book Table 24: Re-securitization positions retained or purchased in the banking book Table 25: Re-securitization positions retained or purchased in the trading book Table 26: Aggregated amount of securitized exposures subject to the market risk approach Table 27: Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk Table 28: Securitization positions and capital requirement for trading book positions subject to the securitization framework Table 29: Capital requirement for securitization positions related to correlation products
Composition of capital	Supplemental disclosures required under Basel III Pillar 3 regulations	Table 30: Reconciliation of accounting balance sheet to balance sheet under the regulatory scope of consolidation Table 31: Composition of capital
G-SIBs indicator	Refer to "SEC filings and other disclosures" at *www.ubs.com/investors*	
Remuneration	Compensation (on pages 302–340)	

Risk exposure measures and derivation of risk-weighted assets

Measures of risk exposure may differ depending on whether the exposures are calculated for financial accounting purposes under International Financial Reporting Standards (IFRS), for determining our regulatory capital or for risk management purposes. Our Basel III Pillar 3 disclosures are generally based on measures of risk exposure used to calculate the regulatory capital required to underpin those risks.

The table below provides a more detailed summary of the approaches we use for the main risk categories for determining regulatory capital.

The naming conventions for the exposure segments used in the following tables are based on BIS rules and may differ from those under Swiss and European Union (EU) regulations. For example, "sovereigns" under the BIS naming convention equate to what are termed "central governments and central banks" under the Swiss and EU regulations. Similarly, "banks" equate to "institutions" and "residential mortgages" equate to "claims secured on residential real estate."

Our risk-weighted assets (RWA) are published according to the BIS Basel III framework, as implemented by the revised Swiss Capital Adequacy Ordinance issued by the Swiss Federal Council and required by FINMA regulation.

➔ **Refer to the "Capital management" section of this report for more information on the differences between BIS Basel III and Swiss SRB**

Table 1b: Requirements by risk type

Category	UBS approach
Credit risk	Under the advanced internal ratings-based approach applied for the majority of our businesses, credit risk weights are determined by reference to internal counterparty ratings and loss given default estimates. We use internal models, approved by FINMA, to measure the credit risk exposures to third parties on over-the-counter derivatives and securities financing transactions. Our disclosure includes the Basel III requirements for credit risk that were adopted as of 1 January 2013 (e.g., stressed expected positive exposure, changes in the risk weighting of central counterparties, capital charge for credit valuation adjustments, asset value correlation (AVC) multiplier). For a subset of our credit portfolio, we apply the standardized approach, based on external ratings.
Equity instruments in the banking book	Simple risk-weight method under the advanced internal ratings-based approach.
Credit valuation adjustment (CVA)	The credit valuation adjustment (CVA) is an additional capital charge to the existing counterparty credit risk default charge. Banks are required to hold capital for the risk of mark-to-market losses (i.e., CVA) associated with the deterioration of counterparty credit quality.
Settlement risk	Capital requirements for failed transactions are determined according to the rules for failed trades and non-delivery-versus-payment transactions under the Basel III framework.
Non-counterparty-related risk	Non-counterparty-related assets such as our premises, other properties and equipment and deferred tax assets on temporary differences require capital according to prescribed regulatory risk weights.
Market risk	Regulatory capital requirement is calculated using a variety of methods approved by FINMA. The components are value-at-risk (VaR), stressed VaR (SVaR), an add-on for risks which are potentially not fully modeled in VaR, the incremental risk charge, the comprehensive risk charge for the correlation portfolio and the securitization framework for securitization positions in the trading book described below. Details on the derivation of RWA for each of these components are provided in the "Risk management and control" section.
Operational risk	We have developed a model to quantify operational risk, which meets the regulatory capital standard under the advanced measurement approach, that is approved by FINMA and includes the incremental operational risk RWA.
Securitization / re-securitization in the banking book (credit risk) and trading book (market risk)	Securitization / re-securitization exposures in the banking book are assessed using the advanced internal ratings-based approach, applying risk weights based on external ratings and for distinct deals the supervisory formula based approach is used. Securitization / re-securitization exposures in the trading book are assessed for their general market risk as well as for their specific risk. The capital charged for general market risk is determined by the value-at-risk (VaR), stressed VaR (SVaR) method, whereas the capital charge for specific risk is determined using the comprehensive risk measure method or the internal ratings-based approach applying risk weights based on external ratings.

➔ **Refer to the "Risk management and control" section of this report for more information**

Scope of regulatory consolidation

Generally, the scope of consolidation when calculating regulatory capital requirements follows the IFRS consolidation rules for subsidiaries directly or indirectly controlled by UBS AG that are active in the banking and finance business, but excludes subsidiaries in other sectors.

→ **Refer to "Note 1 Summary of significant accounting policies" and "Note 30 Interests in subsidiaries and other entities" in the "Financial information" section of this report for more information on the accounting policies and most relevant subsidiaries under the IFRS scope of consolidation, respectively**

The main differences in the basis of consolidation for IFRS and regulatory capital purposes relate to the following entities, and apply regardless of our level of control as of 31 December 2013:

- 178 real estate and commercial companies and investment schemes which were not consolidated for regulatory capital purposes, but are risk-weighted;
- Seven insurance companies which were not consolidated for regulatory capital purposes, but fall under the threshold rules for deduction under Basel III;
- Three joint ventures which were fully consolidated for regulatory capital purposes, and which were accounted for under the equity method for IFRS and
- Securitization vehicles which were not consolidated for regulatory capital purposes but which were treated under the securitization framework.

Subsidiaries which are not included in the regulatory consolidation did not report any capital deficiencies at year-end 2013. In the banking book, 97 equity instruments were not required to be consolidated under IFRS and the regulatory scope of consolidation. This category mainly covers infrastructure holdings and joint operations (for example, settlement and clearing institutions, stock and financial futures exchanges). These entities fall under the threshold rules for deduction under Basel III.

→ **Refer to "Table 14: Equity instruments in the banking book" in this section for more information on the measurement of these instruments**

→ **Refer to "Table 1c: Main legal entities according to the IFRS scope of consolidation not subject to the regulatory scope of consolidation" in this section for more information**

The table below provides a list of the most significant entities that are included in the IFRS scope of consolidation, but not in the regulatory capital scope of consolidation. We have no significant investments, which are included in the regulatory scope of consolidation but not in the IFRS scope of consolidation.

We have a significant participation in the SIX Group which is not part of the regulatory scope of consolidation. For regulatory capital purposes, it is risk-weighted.

→ **Refer to "Note 25 Restricted and transferred financial assets" in the "Financial information" section of this report for more information on transferability restrictions under IFRS 12**

Table 1c: Main legal entities according to the IFRS scope of consolidation not subject to the regulatory scope of consolidation

	31.12.13		
CHF million	**Total assets**[1]	**Total equity**[1]	**Purpose**
UBS Global Asset Management Life Ltd	10,023	14	Life insurance
UBS International Life Limited	5,066	58	Life Insurance
UBS A&Q Alternative Solution Master Limited	988	953	Investment vehicle for feeder funds[2]
UBS A&Q Alternative Solution Limited	969	953	Investment vehicle for multiple investors[2]
UBS Alpha Select Hedge Fund	680	664	Investment vehicle for multiple investors[2]
UBS Global Life AG – Vaduz	683	11	Life insurance
UBS Life AG – Zurich	581	58	Life insurance
UBS Life insurance company USA	283	38	Life insurance
O'Connor Global Multi-Strategy Alpha (Levered) Limited	262	254	Investment vehicle for multiple investors[2]
UBS Multi-Manager Alternative Commodities Fund Ltd.	258	220	Offshore hedge fund[2]
UBS Diversed Alpha XL Master Limited	255	254	Fund[2]
UBS ATF Trading Fund	189	156	Investment vehicle for multiple investors[2]

1 Total assets and Total equity on a standalone basis. 2 Represents the net asset value (NAV) of issued fund units. These fund units are subject to liability treatment in the Group Financial Statements under IFRS.

Risk-weighted assets

"Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" provides a breakdown of our RWA and includes the enhanced risk coverage for stricter market and counterparty credit risk requirements introduced through the implementation of Basel III. Table 2 and subsequent tables provide a breakdown according to BIS-defined exposure segments as follows:

- *Sovereigns (central governments and central banks as defined under Swiss regulations),* consisting of exposures relating to sovereign states and their central banks, the BIS, the International Monetary Fund, the EU (including the European Central Bank) and eligible multilateral development banks.
- *Banks (as defined under Swiss regulations),* consisting of exposures to legal entities holding a banking license. This segment also includes securities firms subject to supervisory and regulatory arrangements, including risk-based capital requirements, which are comparable to those applied to banks according to the framework. The BIS regulation also includes in this segment exposures to public sector entities with tax-raising power or entities whose liabilities are fully guaranteed by a public entity.
- *Corporates,* consisting of all exposures that do not fit into any of the other exposure segments listed below. This segment includes private commercial entities such as corporations, partnerships or proprietorships, insurance companies, funds, exchanges and clearing houses.
- *Central counterparties* – A central counterparty (CCP) is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement.
- *Retail* – Residential mortgages (claims secured on residential real estate as defined under Swiss regulations), consisting of residential mortgages, regardless of exposure size, if the obligor occupies or rents out the mortgaged property.
- *Retail* – Lombard lending, consisting of loans made against the pledge of eligible marketable securities or cash.
- *Retail* – Other retail, consisting of exposures to small businesses, private clients and other retail customers without mortgage financing.

Table 2 also shows the gross and net exposure at default (EAD) per risk type and exposure segment for the current disclosure period, which form the basis for the calculation of the RWA as well as the capital requirement per exposure category. The Basel III credit risk-related components "Credit valuation adjustment (CVA)" and "Stressed expected positive exposure (sEPE)" are disclosed separately in the table below, as is the net EAD and RWA for central counterparties.

➔ **Refer to the table "Basel III RWA by risk type, exposure and reporting segment" in the "Capital management" section of this report for more information on RWA by business division and Corporate Center**

Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets

	31.12.13									
	Basel III (phase-in)									
	Gross EAD	Net EAD			RWA			Capital requirement		
CHF million	Total	Advanced IRB / model-based approach	Standard-ized approach	Total	Advanced IRB / model-based approach	Standard-ized approach	Total	Advanced IRB / model-based approach	Standard-ized approach	Total[6]
Credit risk	644,448	460,505	164,328	624,833	97,472	26,783	124,255	8,349	2,294	10,643
Sovereigns	148,381	33,863	114,518	148,381	840	266	1,106	72	23	95
Banks	67,515	54,396	5,950	60,346	11,615	1,981	13,596	995	170	1,165
Corporates	143,106	118,279	18,848	137,127	34,659	13,606	48,265	2,969	1,165	4,134
Central counterparties	18,107		18,106	18,106		1,793	1,793		154	154
Retail	230,410	217,831	6,868	224,699	19,855	3,346	23,200	1,701	287	1,987
Residential mortgages	133,552	128,563	4,646	133,209	14,667	1,680	16,346	1,256	144	1,400
Lombard lending	92,661	87,293		87,293	4,437		4,437	380		380
Other retail	4,197	1,975	2,222	4,197	751	1,666	2,417	64	143	207
Counterparty credit risk by exposure segment (excl. sEPE)	607,518	424,369	164,290	588,660	66,969	20,992	87,960	5,736	1,798	7,534
Stressed EPE[1]	22,579	22,579		22,579	6,202		6,202	531		531
Counterparty credit risk by exposure segment (incl. sEPE)	630,097	446,948	164,290	611,239	73,171	20,992	94,163	6,267	1,798	8,065
Securitization / re-securitization in the banking book	12,569	11,928		11,928	8,352		8,352	715		715
Equity instruments in the banking book[2]	1,522	1,522		1,522	4,999		4,999	428		428
Credit valuation adjustment (CVA)					10,598	5,696	16,294	908	488	1,396
Settlement risk	260	107	37	144	352	95	447	30	8	38
Non-counterparty-related risk	19,491		19,491	19,491		12,634	12,634		1,082	1,082
Market risk	2,098	1,966		1,966	13,727		13,727	1,176		1,176
Value-at-risk (VaR)					1,746		1,746	150		150
Stressed value-at-risk (SVaR)					2,604		2,604	223		223
Add-on for risks-not-in-VaR (RniV)					2,025		2,025	173		173
Incremental risk charge (IRC)					1,377		1,377	118		118
Comprehensive risk measure (CRM)					4,176		4,176	358		358
Securitization / re-securitization in the trading book[3]	2,098	1,966		1,966	1,799		1,799	154		154
Operational risk					77,941		77,941	6,676		6,676
of which: incremental RWA[4]					22,500		22,500	1,927		1,927
Total Swiss SRB	666,036	462,471	183,818	646,289	189,141	39,417	228,557[5]	16,201	3,376	19,577

1 Majority relates to exposures with Banks and Corporates. 2 Simple risk-weight method. 3 In line with Basel III Pillar 1 requirements, RWA related to securitization / re-securitization in the trading book are newly presented as market risk RWA. Previously, these RWA were presented as credit risk RWA. Prior periods were restated for this change in presentation. 4 Incremental RWA reflect the effect of the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA. 5 Refer to the "Capital management" section of this report for more information on the difference between phase-in and fully applied RWA numbers. 6 As we are required to comply with regulations based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB), our capital disclosures are based on the Swiss SRB Basel III capital charge of 8.6% for 2013.

Table 2: Detailed segmentation of Basel 2.5 exposures and risk-weighted assets (continued)

	31.12.12									
	Basel 2.5									
	Gross EAD	Net EAD			RWA			Capital requirement		
CHF million	Total	Advanced IRB / model-based approach	Standard-ized approach	Total	Advanced IRB / model-based approach	Standard-ized approach	Total	Advanced IRB / model-based approach	Standard-ized approach	Total[5]
Credit risk	602,514	444,332	138,106	582,438	82,344	21,823	104,167	6,588	1,746	8,333
Sovereigns	*142,271*	*37,796*	*104,354*	*142,150*	*3,205*	*222*	*3,427*	*256*	*18*	*274*
Banks	*63,443*	*48,506*	*6,073*	*54,580*	*8,654*	*2,083*	*10,737*	*692*	*167*	*859*
Corporates	*162,925*	*132,829*	*21,604*	*154,433*	*43,250*	*16,312*	*59,562*	*3,460*	*1,305*	*4,765*
Central counterparties										
Retail	*216,324*	*209,382*	*5,960*	*215,342*	*18,737*	*3,116*	*21,854*	*1,499*	*249*	*1,748*
Residential mortgages	*129,657*	*125,051*	*3,625*	*128,676*	*13,888*	*1,362*	*15,250*	*1,111*	*109*	*1,220*
Lombard lending	*82,275*	*82,271*		*82,271*	*4,111*		*4,111*	*329*		*329*
Other retail	*4,392*	*2,060*	*2,336*	*4,396*	*739*	*1,754*	*2,493*	*59*	*140*	*199*
Counterparty credit risk by exposure segment	584,963	428,513	137,992	566,505	73,847	21,733	95,580	5,908	1,739	7,646
Securitization / re-securitization in the banking book[1]	*16,537*	*14,995*		*14,995*	*5,497*		*5,497*	*440*		*440*
Equity instruments in the banking book[2]	798	798		798	2,972		2,972	238		238
Credit valuation adjustment (CVA)										
Settlement risk	217	26	114	141	28	91	118	2	7	9
Non-counterparty-related risk	16,810[3]		16,810[3]	16,810[3]		6,248	6,248		500	500
Market risk	7,646	6,453		6,453	28,812		28,812	2,305		2,305
Value-at-risk (VaR)					*3,876*		*3,876*	*310*		*310*
Stressed value-at-risk (SVaR)					*5,852*		*5,852*	*468*		*468*
Add-on for risks-not-in-VaR (RniV)					*3,326*		*3,326*	*266*		*266*
Incremental risk charge (IRC)					*5,192*		*5,192*	*415*		*415*
Comprehensive risk measure (CRM)					*8,928*		*8,928*	*714*		*714*
Securitization / re-securitization in the trading book[4]	*7,646*	*6,453*		*6,453*	*1,639*		*1,639*	*131*		*131*
Operational risk					**53,277**		**53,277**	**4,262**		**4,262**
Total Swiss SRB	626,970	450,785	154,917	605,701	164,434	28,071	192,505	13,155	2,246	15,400

1 As of 31 December 2012, CHF 2.9 billion of the securitization exposures (including CHF 2.1 billion for the option to acquire the SNB StabFund's equity) were deducted from capital and therefore did not generate RWA. 2 Simple risk-weight method. 3 In 2013, the comparative period 31 December 2012 figure for net EAD was restated. On a restated basis, as of 31 December 2012, these had a regulatory credit exposure of CHF 16.8 billion. 4 In line with Basel III Pillar 1 requirements, RWA related to securitization / re-securitization in the trading book are newly presented as market risk RWA. Previously, these RWA were presented as credit risk RWA. Prior periods were restated for this change in presentation. 5 Our capital disclosures are based on Basel 2.5 capital charge of 8.0% for 2012.

Credit risk

The tables in this section provide details on the exposures used to determine the firm's credit risk-related regulatory capital. The parameters applied under the advanced internal ratings-based approach are generally based on the same methodologies, data and systems we use for internal credit risk quantification, except where certain treatments are specified by regulatory requirements. These include, for example, the application of regulatory prescribed floors and multipliers, and differences with respect to eligibility criteria and exposure definitions. The exposure information presented in this section therefore differs from that disclosed in the "Risk management and control" sections of our quarterly and annual reports. Similarly, the regulatory capital prescribed measure of credit risk exposure also differs from that required under IFRS. The following credit risk-related tables are based on Basel III phase-in and correspond to the counterparty credit risk by exposure segment excluding the stressed expected positive exposure (sEPE), which is shown in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets."

➔ **Refer to the "Risk management and control" section of this report for more information on credit risk**

The regulatory gross credit exposure for banking products is equal to the drawn loan amounts represented on the balance sheet, with the exception of off-balance sheet commitments where the regulatory gross credit exposure is calculated by applying a credit conversion factor to the undrawn amount or contingent claim.

For traded products, we determine the regulatory credit exposure on the majority of our derivative exposures by applying the effective expected positive exposure (EPE) and sEPE as defined in the Basel III framework. For a small portion of the derivatives portfolio we instead apply the current exposure method (CEM) based on the replacement value of derivatives in combination with a regulatory prescribed add-on. For a majority of securities financing transactions, we determine the regulatory gross credit exposure using the close-out period (COP) approach. The regulatory gross credit exposure for traded products is set equal to regulatory net credit exposure, in the credit risk tables on the following pages.

The regulatory net credit exposure detailed in the tables on the following pages is shown as the regulatory exposure at default after applying collateral, netting and other eligible risk mitigants permitted by the relevant regulations. The information on impaired and defaulted assets by segmentation, consistent with the regulatory capital treatment, is presented in the "Risk management and control" section of this report.

Table 3: Counterparty credit risk by exposure segment and RWA

This table shows the derivation of RWA from the regulatory gross credit exposure, broken down by major types of credit exposures according to classes of financial instruments.

	Exposure				Average regulatory risk-weighting[1]	RWA[2]
CHF million	Average regulatory gross credit exposure	Regulatory gross credit exposure	Less: regulatory credit risk offsets and adjustments	Regulatory net credit exposure		
Cash and balances with central banks	74,586	78,912		78,912	0%	75
Due from banks	19,765	19,773	(4,950)	14,823	27%	3,981
Loans	286,007	284,711	(11,026)	273,685	15%	41,159
Financial assets designated at fair value	4,908	2,782	(1,022)	1,759	32%	564
Off-balance sheet	36,242	33,774	(309)	33,465	27%	8,940
Banking products	**421,508**	**419,951**	**(17,308)**	**402,644**	**14%**	**54,719**
Derivatives	58,191	45,718		45,718	26%	11,911
Cash collateral receivables on derivative instruments	15,453	17,154		17,154	22%	3,766
Securities financing	54,404	49,753		49,753	7%	3,364
Traded products	**128,047**	**112,625**		**112,625**	**17%**	**19,041**
Trading portfolio assets	5,281	3,412	(26)	3,387	82%	2,761
Financial investments available-for-sale	61,269	58,236		58,236	2%	1,130
Accrued income and prepaid expenses	6,126	5,560	(53)	5,507	80%	4,415
Other assets	8,493	7,733	(1,472)	6,261	94%	5,895
Other products	**81,169**	**74,942**	**(1,551)**	**73,391**	**19%**	**14,200**
Total 31.12.13	**630,724**	**607,518**	**(18,859)**	**588,660**	**15%**	**87,960**
Total 31.12.12 (Basel 2.5)	627,142	584,963	(18,458)	566,505	17%	95,580

1 Average regulatory gross credit exposure is calculated using the four quarter averages. 2 The derivation of RWA is based on the various credit risk parameters of the advanced IRB approach and the standardized approach, respectively.

Table 4: Regulatory gross credit exposure by geographical region

This table provides a breakdown of our portfolio by major types of credit exposure according to classes of financial instruments and also by geographical regions. The geographical distribution is based on the legal domicile of the counterparty or issuer.

CHF million	Asia Pacific	Latin America	Middle East and Africa	North America	Switzerland	Rest of Europe	**Total regulatory gross credit exposure**	Total regulatory net credit exposure
Cash and balances with central banks	5,053	0		49,341	13,811	10,707	**78,912**	78,912
Due from banks	4,564	162	185	3,181	728	10,952	**19,773**	14,823
Loans	19,041	5,396	4,087	65,651	164,638	25,898	**284,711**	273,685
Financial assets designated at fair value	49		148	1,041	514	1,030	**2,782**	1,759
Off-balance sheet	1,098	713	408	17,420	7,074	7,061	**33,774**	33,465
Banking products	**29,805**	**6,270**	**4,828**	**136,635**	**186,764**	**55,649**	**419,951**	**402,644**
Derivatives	5,208	548	282	12,498	3,934	23,248	**45,718**	45,718
Cash collateral receivables on derivative instruments	3,503	4	37	3,147	279	10,184	**17,154**	17,154
Securities financing	4,467	243	1,704	11,236	3,285	28,818	**49,753**	49,753
Traded products	**13,178**	**795**	**2,022**	**26,881**	**7,499**	**62,249**	**112,625**	**112,625**
Trading portfolio assets	1,265	90	18	884	13	1,142	**3,412**	3,387
Financial investments available-for-sale	5,482	99	13	21,721	1,605	29,317	**58,236**	58,236
Accrued income and prepaid expenses	190	24	10	3,745	345	1,247	**5,560**	5,507
Other assets	221	16	15	2,642	4,081	759	**7,733**	6,261
Other products	**7,158**	**229**	**56**	**28,991**	**6,044**	**32,465**	**74,942**	**73,391**
Total 31.12.13	**50,141**	**7,294**	**6,907**	**192,507**	**200,307**	**150,363**	**607,518**	**588,660**
Total 31.12.12 (Basel 2.5)	41,690	6,798	6,564	194,557	210,112	125,242	584,963	566,505

Table 5: Regulatory gross credit exposure by counterparty type

This table provides a breakdown of our portfolio by major types of credit exposure according to classes of financial instruments and also by counterparty type. The classification of counterparty type applied here is also used for the grouping of the balance sheet. The counterparty type is different from the BIS-defined exposure segments used in certain other tables in this section.

CHF million	Private individuals	Corporates[1]	Public entities (including sovereigns and central banks)	Banks and multilateral institutions	**Total regulatory gross credit exposure**	Total regulatory net credit exposure
Cash and balances with central banks		0	78,686	226	**78,912**	78,912
Due from banks			2,407	17,366	**19,773**	14,823
Loans	181,855	99,120	3,736		**284,711**	273,685
Financial assets designated at fair value		2,200	32	550	**2,782**	1,759
Off-balance sheet	2,180	29,855	286	1,453	**33,774**	33,465
Banking products	**184,034**	**131,175**	**85,148**	**19,595**	**419,951**	**402,644**
Derivatives	1,530	18,828	6,143	19,217	**45,718**	45,718
Cash collateral receivables on derivative financial instruments	1	8,358	138	8,657	**17,154**	17,154
Securities financing	34	34,586	5,728	9,404	**49,753**	49,753
Traded products	**1,565**	**61,772**	**12,009**	**37,278**	**112,625**	**112,625**
Trading portfolio assets	1	2,588	301	523	**3,412**	3,387
Financial investments available-for-sale	7	9,864	40,699	7,665	**58,236**	58,236
Accrued income and prepaid expenses	3,678	1,082	157	643	**5,560**	5,507
Other assets	679	5,410	391	1,254	**7,733**	6,261
Other products	**4,365**	**18,944**	**41,549**	**10,085**	**74,942**	**73,391**
Total 31.12.13	**189,964**	**211,890**	**138,706**	**66,958**	**607,518**	**588,660**
Total 31.12.12 (Basel 2.5)	182,867	213,037	135,228	53,830	584,963	566,505

1 Also includes non-bank financial institutions.

Table 6: Regulatory gross credit exposure by residual contractual maturity

This table provides a breakdown of our portfolio by major types of credit exposure according to classes of financial instruments and also by residual contractual maturity, not taking into account any early redemption features.

CHF million	Callable and on demand[1]	Due in 1 year or less	Due between 1 year and 5 years	Due over 5 years	**Total regulatory gross credit exposure[2]**	Total regulatory net credit exposure
Cash and balances with central banks	78,912				**78,912**	78,912
Due from banks	15,407	4,213	127	26	**19,773**	14,823
Loans	79,965	92,219	68,282	44,246	**284,711**	273,685
Financial assets designated at fair value		295	1,852	635	**2,782**	1,759
Off-balance sheet	55	7,849	23,603	2,267	**33,774**	33,465
Banking products	**174,338**	**104,574**	**93,863**	**47,175**	**419,951**	**402,644**
Derivatives	70	24,598	8,155	12,895	**45,718**	45,718
Cash collateral receivables on derivative instruments	6,360	6,006	2,144	2,644	**17,154**	17,154
Securities financing	41,887	7,433	432	2	**49,753**	49,753
Traded products	**48,316**	**38,037**	**10,731**	**15,540**	**112,625**	**112,625**
Trading portfolio assets	201	1,318	887	1,007	**3,412**	3,387
Financial investments available-for-sale	16	26,967	26,995	4,258	**58,236**	58,236
Accrued income and prepaid expenses	2,470	362	1,728	1,000	**5,560**	5,507
Other assets	7,733				**7,733**	6,261
Other products	**10,420**	**28,647**	**29,610**	**6,265**	**74,942**	**73,391**
Total 31.12.13	**233,075**	**171,259**	**134,204**	**68,981**	**607,518**	**588,660**
Total 31.12.12 (Basel 2.5)	201,822	176,125	136,625	70,391	584,963	566,505

1 For example loans without a fixed term and cash collateral receivables on derivative instruments, on which notice of termination has not been given. 2 Amounts presented in this table are based on contractual maturities and do not take into account early redemption features.

Table 7: Derivation of regulatory net credit exposure

This table provides a derivation of the regulatory net credit exposure from the regulatory gross credit exposure according to the advanced internal ratings-based approach and the standardized approach.

CHF million	Advanced IRB approach	Standardized approach	**Total 31.12.13**	Total 31.12.12 (Basel 2.5)
Total regulatory gross credit exposure	436,764	170,754	**607,518**	584,963
Less: regulatory credit risk offsets and adjustments	(12,395)	(6,464)	**(18,859)**	(18,458)
Total regulatory net credit exposure	**424,369**	**164,290**	**588,660**	
Total 31.12.12 (Basel 2.5)	428,513	137,992		566,505

➔ **Refer to "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in this section for more information on the regulatory net credit exposure by exposure segment**

Table 8: Regulatory gross credit exposure covered by guarantees and credit derivatives

This table provides a breakdown of exposures covered by guarantees as well as those covered by credit derivatives, according to BIS-defined exposure segments. The amounts in the table reflect the values used for determining regulatory capital to the extent collateral are eligible under the BIS framework.

CHF million	Exposure covered by guarantees[1]	Exposure covered by credit derivatives
Exposure segment		
Corporates	4,231	12,300
Sovereigns	29	39
Banks	377	18
Central counterparties		
Retail		
Residential mortgages	*3*	
Lombard lending	*456*	
Other retail	*49*	
Total 31.12.13	**5,145**	**12,357**
Total 31.12.12 (Basel 2.5)	6,813	16,331

1 Includes guarantees and standby letters of credit provided by third parties, mainly banks.

Advanced internal ratings-based approach

UBS uses the advanced internal ratings-based (A-IRB) and standardized approaches for calculating credit risk exposures across all business divisions and the Corporate Center. Under the A-IRB approach, the required capital for credit risk is quantified through empirical models developed by the Bank for estimating the probability of default, loss given default, exposure at default and other parameters, subject to the approval of the regulator. Under the standardized approach, the Bank uses ratings from external credit rating agencies to quantify the required capital for credit risk. The A-IRB approach calculates RWA for the banking book using advanced IRB risk measures like probability of default (PD) and loss given default (LGD), based on internal assessments.

➔ **Refer to the "Risk management and control" section of this report for more information**

Tables 9a to 9f provide a breakdown of the regulatory net credit exposure-weighted average PD, LGD, RWA and the average risk weight by internal UBS ratings across BIS-defined exposure segments. In addition, a breakdown of the regulatory net credit exposure and RWA for which we apply the A-IRB approach by internal rating class is shown for each of the exposure segments.

Table 9a: Corporates – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings

	31.12.13					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0	10		0.0	45.5	**1**	7.0
Rating 1	10,199	*239*	0.0	24.0	**565**	5.5
Rating 2	28,845	*2,242*	0.0	22.1	**1,650**	5.7
Rating 3	17,027	*3,444*	0.1	32.8	**3,154**	18.5
Rating 4	10,317	*1,659*	0.2	37.6	**3,400**	33.0
Rating 5	11,673	*977*	0.4	31.2	**4,573**	39.2
Sub-Investment grade						
Rating 6	11,682	*595*	0.6	21.8	**4,853**	41.5
Rating 7	9,755	*519*	1.0	22.6	**4,473**	45.9
Rating 8	7,900	*907*	1.7	22.4	**3,983**	50.4
Rating 9	4,973	*576*	2.7	20.8	**2,766**	55.6
Rating 10	3,138	*1,238*	4.6	23.2	**2,606**	83.1
Rating 11	997	*403*	7.8	19.1	**797**	80.0
Rating 12	426	*122*	13.0	19.6	**406**	95.4
Rating 13	165	*54*	22.0	21.2	**187**	113.3
Total 31.12.13	**117,104**	***12,975***	**0.8**	**26.1**	**33,414**	**28.5**

1 Impaired and defaulted assets are excluded from this table (RWA in December 2013, CHF 1,245 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

	31.12.12					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0	28		0.0	42.9	2	7.4
Rating 1	7,752		0.0	23.0	489	6.3
Rating 2	29,450	*2,226*	0.0	20.7	1,906	6.5
Rating 3	25,340	*3,022*	0.1	30.2	4,028	15.9
Rating 4	16,042	*1,716*	0.2	30.9	4,755	29.6
Rating 5	11,446	*1,433*	0.4	31.2	8,598	75.1
Sub-Investment grade						
Rating 6	11,469	*695*	0.6	25.7	5,190	45.3
Rating 7	11,440	*642*	1.0	24.8	5,427	47.4
Rating 8	8,329	*777*	1.7	21.0	3,688	44.3
Rating 9	5,792	*775*	2.7	24.2	4,047	69.9
Rating 10	2,468	*1,022*	4.6	27.1	2,349	95.2
Rating 11	1,347	*487*	7.8	19.1	1,058	78.5
Rating 12	655	*239*	13.0	14.4	458	69.9
Rating 13	149	*22*	22.0	8.6	67	45.0
Total 31.12.12 (Basel 2.5)	131,708	13,057	0.7	25.9	42,063	31.9

1 Impaired and defaulted assets are excluded from this table (RWA in December 2012, CHF 1,188 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

Table 9b: Sovereigns – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings

	31.12.13					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0	25,714	*1*	0.0	39.4	**51**	0.2
Rating 1	4,273	*194*	0.0	31.3	**117**	2.7
Rating 2	2,652	*16*	0.0	42.5	**309**	11.7
Rating 3	882	*6*	0.1	43.5	**161**	18.2
Rating 4	267	*24*	0.2	58.6	**142**	53.4
Rating 5	10		0.4	11.5	**2**	22.8
Sub-Investment grade						
Rating 6	22	*0*	0.6	39.2	**14**	64.5
Rating 7	3	*0*	1.0	51.5	**4**	133.0
Rating 8	8		1.7	22.2	**6**	70.8
Rating 9	2	*0*	2.7	22.5	**1**	69.2
Rating 10	0		4.6	10.0	**0**	47.1
Rating 11	4		7.8	30.1	**6**	139.4
Rating 12	1		13.0	10.0	**1**	58.6
Rating 13	0		22.0	10.0	**0**	54.5
Total 31.12.13	**33,840**	***240***	**0.0**	**38.8**	**815**	**2.4**

1 Impaired and defaulted assets are excluded from this table (RWA in December 2013, CHF 25 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

	31.12.12					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0	27,851	*1*	0.0	25.9	45	0.2
Rating 1	4,508	*95*	0.0	32.6	165	3.7
Rating 2	2,321	*25*	0.0	41.3	443	19.1
Rating 3	723		0.1	47.0	189	26.2
Rating 4	2,271	*0*	0.2	70.0	2,270	99.9
Rating 5	32	*0*	0.4	77.7	27	83.1
Sub-Investment grade						
Rating 6	17	*0*	0.6	21.0	7	43.3
Rating 7	30	*1*	1.0	31.7	17	56.2
Rating 8	7		1.7	19.8	4	57.0
Rating 9	4	*0*	2.7	29.5	3	87.4
Rating 10	0		4.6	21.2	0	83.5
Rating 11	4		7.8	29.0	6	133.5
Rating 12	0		13.0	10.0	0	54.8
Rating 13	0		22.0	10.0	0	57.7
Total 31.12.12 (Basel 2.5)	37,769	122	0.0	30.8	3,177	8.4

1 Impaired and defaulted assets are excluded from this table (RWA in December 2012, CHF 29 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

Table 9c: Banks – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings

	31.12.13					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1	2,094	*0*	0.0	37.7	**174**	8.3
Rating 2	36,415	*7,724*	0.0	34.6	**6,823**	18.7
Rating 3	9,714	*1,449*	0.1	33.8	**1,586**	16.3
Rating 4	3,206	*45*	0.2	40.7	**1,189**	37.1
Rating 5	1,196	*42*	0.4	25.3	**415**	34.7
Sub-Investment grade						
Rating 6	414	*4*	0.6	37.0	**266**	64.2
Rating 7	383	*0*	1.0	43.5	**338**	88.3
Rating 8	517	*197*	1.7	16.2	**199**	38.5
Rating 9	118	*5*	2.7	36.7	**142**	119.7
Rating 10	32	*0*	4.6	41.6	**50**	159.5
Rating 11	69	*1*	7.8	38.0	**119**	172.3
Rating 12	67		13.0	41.9	**140**	210.2
Rating 13	0		22.0	19.0	**0**	112.3
Total 31.12.13	**54,225**	***9,466***	**0.1**	**34.7**	**11,441**	**21.1**

1 Impaired and defaulted assets are excluded from this table (RWA in December 2013, CHF 174 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

	31.12.12					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1	1,111	*8*	0.0	32.7	135	12.2
Rating 2	26,731	*10,072*	0.0	28.0	2,731	10.2
Rating 3	10,108	*1,795*	0.1	32.0	1,866	18.5
Rating 4	4,151	*15*	0.2	42.0	1,663	40.1
Rating 5	3,944	*29*	0.4	11.5	541	13.7
Sub-Investment grade						
Rating 6	854	*2*	0.6	24.8	331	38.8
Rating 7	424	*7*	1.0	41.6	344	81.1
Rating 8	645	*50*	1.7	13.1	185	28.6
Rating 9	29	*0*	2.7	38.8	29	102.1
Rating 10	104	*78*	4.6	32.5	116	111.8
Rating 11	96	*1*	7.8	39.3	179	185.8
Rating 12	1		13.0	40.0	3	189.7
Rating 13	231		22.0	31.0	450	194.6
Total 31.12.12 (Basel 2.5)	48,430	12,057	0.3	28.7	8,573	17.7

1 Impaired and defaulted assets are excluded from this table (RWA in December 2012, CHF 81 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

Table 9d: Residential mortgages – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings

	31.12.13					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1	22,895	*107*	0.0	9.8	**293**	1.3
Rating 2	9,825	*17*	0.0	9.7	**144**	1.5
Rating 3	16,970	*43*	0.1	10.3	**481**	2.8
Rating 4	17,212	*48*	0.2	10.6	**905**	5.3
Rating 5	17,126	*73*	0.4	11.5	**1,625**	9.5
Sub-Investment grade						
Rating 6	11,931	*57*	0.6	11.8	**1,740**	14.6
Rating 7	12,796	*281*	1.0	11.5	**2,474**	19.3
Rating 8	8,612	*117*	1.7	10.9	**2,157**	25.0
Rating 9	5,577	*24*	2.7	10.4	**1,806**	32.4
Rating 10	3,160	*21*	4.6	10.2	**1,358**	43.0
Rating 11	1,370	*16*	7.8	10.1	**756**	55.2
Rating 12	475	*7*	13.0	10.2	**320**	67.3
Rating 13	156	*5*	22.0	10.5	**122**	77.7
Total 31.12.13	**128,104**	***816***	**0.8**	**10.7**	**14,180**	**11.1**

1 Impaired and defaulted assets are excluded from this table (RWA in December 2013, CHF 487 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

	31.12.12					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1						
Rating 2	173	*0*	0.0	23.0	4	2.3
Rating 3	1,828	*6*	0.1	23.0	69	3.8
Rating 4	12,702	*12*	0.2	14.9	809	6.4
Rating 5	83,034	*60*	0.4	13.2	6,589	7.9
Sub-Investment grade						
Rating 6	14,285	*82*	0.6	16.0	2,024	14.2
Rating 7	6,125	*68*	1.0	19.8	1,361	22.2
Rating 8	3,253	*5*	1.7	19.3	943	29.0
Rating 9	1,355	*34*	2.7	17.5	496	36.6
Rating 10	543	*1*	4.6	14.2	250	46.0
Rating 11	596	*1*	7.8	12.7	330	55.5
Rating 12	323	*2*	13.0	12.7	222	68.7
Rating 13	394	*0*	22.0	12.9	323	81.9
Total 31.12.12 (Basel 2.5)	124,611	271	0.6	14.4	13,421	10.8

1 Impaired and defaulted assets are excluded from this table (RWA in December 2012, CHF 466 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

Table 9e: Lombard – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings

	31.12.13					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1						
Rating 2	47,034	*259*	0.0	20.0	**1,236**	2.6
Rating 3	26,482	*19*	0.1	20.0	**1,182**	4.5
Rating 4	2,598	*16*	0.2	20.0	**200**	7.7
Rating 5	6,646	*25*	0.4	20.0	**821**	12.3
Sub-Investment grade						
Rating 6	2,241	*3*	0.6	20.0	**387**	17.3
Rating 7	890	*1*	1.0	20.0	**192**	21.6
Rating 8	431	*25*	1.7	20.0	**111**	25.9
Rating 9	36	*0*	2.7	20.0	**11**	29.1
Rating 10	649	*3*	4.6	20.0	**201**	31.0
Rating 11	286		7.8	20.0	**95**	33.3
Rating 12						
Rating 13						
Total 31.12.13	**87,293**	***351***	**0.2**	**20.0**	**4,436**	**5.1**

1 Impaired and defaulted assets are excluded from this table (RWA in December 2013, CHF 0.5 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

	31.12.12					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1						
Rating 2	45,445	*210*	0.0	20.0	1,195	2.6
Rating 3	25,423	*13*	0.1	20.0	1,134	4.5
Rating 4	2,772	*25*	0.2	20.0	213	7.7
Rating 5	3,945	*14*	0.4	20.0	487	12.3
Sub-Investment grade						
Rating 6	2,170	*5*	0.6	20.0	375	17.3
Rating 7	668	*0*	1.0	20.0	144	21.6
Rating 8	544	*21*	1.7	20.0	141	25.9
Rating 9	212	*0*	2.7	20.0	62	29.1
Rating 10	590	*11*	4.6	20.0	183	31.0
Rating 11	487	*2*	7.8	20.0	162	33.3
Rating 12						
Rating 13						
Total 31.12.12 (Basel 2.5)	82,257	300	0.2	20.0	4,096	5.0

1 Impaired and defaulted assets are excluded from this table (RWA in December 2012, CHF 15 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

Table 9f: Other Retail – Advanced IRB approach: Regulatory net credit exposure, weighted average PD, LGD and RWA by internal UBS ratings

	31.12.13					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1	14		0.0	6.5	**0**	0.7
Rating 2	126		0.0	19.6	**3**	2.7
Rating 3	10		0.1	12.3	**0**	2.8
Rating 4	8		0.2	11.0	**0**	4.9
Rating 5	10		0.4	8.5	**1**	5.5
Sub-Investment grade						
Rating 6	6	*0*	0.6	10.7	**1**	9.6
Rating 7	135		1.0	26.3	**45**	33.6
Rating 8	2		1.7	6.2	**0**	8.1
Rating 9	1,644	*2*	2.7	43.6	**688**	41.9
Rating 10	10		4.6	21.7	**3**	34.0
Rating 11	1		7.8	7.3	**0**	12.3
Rating 12						
Rating 13						
Total 31.12.13	**1,966**	***2***	**2.4**	**39.8**	**742**	**37.8**

1 Impaired and defaulted assets are excluded from this table (RWA in December 2013, CHF 9 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

	31.12.12					
CHF million, except where indicated[1]	Regulatory net credit exposure	*of which: loan commitments*	Average PD in %[2]	Average LGD in %	RWA	Average risk weight in %
Investment grade						
Rating 0						
Rating 1						
Rating 2	127		0.0	20.0	4	2.8
Rating 3	1		0.1	20.0	0	4.7
Rating 4	19		0.2	8.6	1	3.6
Rating 5	61		0.4	7.1	3	4.3
Sub-Investment grade						
Rating 6	102		0.6	29.6	27	26.9
Rating 7	32		1.0	30.4	21	64.1
Rating 8	357	*2*	1.7	42.8	200	55.9
Rating 9	1,337		2.7	42.0	469	35.2
Rating 10	11		4.6	26.6	5	42.9
Rating 11	4		7.8	16.7	1	25.1
Rating 12						
Rating 13	0		22.0	9.8	0	26.0
Total 31.12.12 (Basel 2.5)	2,051	2	2.2	38.5	730	35.6

1 Impaired and defaulted assets are excluded from this table (RWA in December 2012, CHF 10 million). Refer to the "Risk management and control" section of this report for impaired and defaulted figures. 2 Average PD for the internal rating categories are based on median values.

Standardized approach

The standardized approach is generally applied where it is not possible to use the advanced internal ratings-based approach and/or where an exemption from the advanced internal ratings-based approach has been granted by FINMA. The standardized approach requires banks to use risk assessments prepared by external credit assessment institutions (ECAI) or export credit agencies to determine the risk weightings applied to rated counterparties. We use FINMA-recognized ECAI risk assessments to determine the risk weightings for certain counterparties according to the BIS-defined exposure segments

We use three FINMA-recognized ECAI for this purpose: Standard & Poor's Ratings Group, Moody's Investors Service and Fitch Ratings. The mapping of external ratings to the standardized approach risk weights is determined by FINMA and published on its website.

Table 10: Regulatory gross and net credit exposure by risk weight under the standardized approach

This table provides a breakdown of the regulatory gross and net credit exposure by risk weight according to BIS-defined exposure segments for those credit exposures for which we apply the standardized approach.

CHF million	Total exposure					Total exposure	
Risk weight	0%	>0–35%	36–75%	76–100%	150%	**31.12.13**	31.12.12 (Basel 2.5)
Regulatory gross credit exposure							
Corporates		5,982	1,080	17,773	132	**24,967**	25,730
Sovereigns	114,132	0	240	147	0	**114,518**	104,354
Banks		3,332	2,609	10		**5,950**	6,078
Central Counterparties		18,101		6	0	**18,107**	
Retail							
Residential mortgages		*4,522*	*110*	*358*		***4,989***	*4,606*
Lombard lending							
Other retail			*2,220*	*4*		***2,224***	*2,337*
Total 31.12.13	**114,132**	**31,936**	**6,258**	**18,297**	**132**	**170,754**	
Total 31.12.12 (Basel 2.5)	104,104	12,558	6,601	19,576	265		143,104
Regulatory net credit exposure							
Corporates		5,982	1,071	11,676	118	**18,848**	21,604
Sovereigns	114,132	0	240	147	0	**114,518**	104,354
Banks		3,331	2,609	10		**5,950**	6,073
Central Counterparties		18,100		6	0	**18,106**	
Retail							
Residential mortgages		*4,522*	*110*	*15*		***4,646***	*3,625*
Lombard lending							
Other retail			*2,218*	*4*		***2,222***	*2,336*
Total 31.12.13	**114,132**	**31,935**	**6,248**	**11,857**	**118**	**164,290**	
Total 31.12.12 (Basel 2.5)	104,104	12,540	6,601	14,498	249		137,992

Table 11: Eligible financial collateral recognized under the standardized approach

This table provides a breakdown of the financial collateral eligible for recognition in the regulatory capital calculation under the standardized approach, according to BIS-defined exposure segments.

CHF million	Regulatory net credit exposure under standardized approach		Eligible financial collateral recognized in capital calculation[1]	
	31.12.13	31.12.12 (Basel 2.5)	**31.12.13**	31.12.12 (Basel 2.5)
Exposure segment				
Corporates	**18,848**	21,604	**7,668**	6,821
Sovereigns	**114,518**	104,354	**25**	37
Banks	**5,950**	6,073	**500**	1,436
Central Counterparties	**18,106**		**887**	
Retail				
Residential mortgages	***4,646***	*3,625*	***343***	*981*
Lombard lending				
Other retail	***2,222***	*2,336*	***22***	0
Total	**164,290**	137,992	**9,444**	9,275

1 Reflects the impact of the application of regulatory haircuts for exposures not covered under an internal exposure model. The eligible financial collateral recognized in the capital calculation is based on the difference between the IFRS reported values and the regulatory net credit exposure. In 2013, the eligible financial collateral recognized under standardized approach for exposures covered under internal exposure models was restated as of 31 December 2012 from CHF 8,643 million to CHF 9,275 million.

Impairment, default and credit loss

The "Risk management and control" section of this report provides more information on the impaired, default and credit loss related disclosures.

➔ Refer to "Note 12 Allowances and provisions for credit losses" in the "Financial information" section of this report for more information

Derivatives credit risk

Table 12: Credit exposure of derivative instruments

This table provides an overview of our credit exposures arising from derivatives. Exposures are provided based on the balance sheet carrying values of derivatives as well as regulatory net credit exposures. The net balance sheet credit exposure differs from the regulatory net credit exposures because of differences in valuation methods, netting and collateral deductions used for accounting and regulatory capital purposes. Net current credit exposure is derived from gross positive replacement values, whereas regulatory net credit exposure is calculated using our internal credit valuation models.

CHF million	**31.12.13**	31.12.12 (Basel 2.5)
Gross positive replacement values	**245,835**	418,029
Netting benefits recognized	**(184,994)**	(327,320)
Collateral held	**(33,567)**	(55,890)
Net current credit exposure	**27,274**	34,818
Regulatory net credit exposure (total counterparty credit risk)	**45,718**	53,576
of which: treated with internal models (effective expected positive exposure [EPE])	***38,906***	*44,135*
of which: treated with supervisory approaches (current exposure method)	***6,812***	*9,441*
Breakdown of the collateral held		
Cash collateral	**27,900**	49,382
Securities collateral and debt instruments collateral (excluding equity)	**5,490**	6,236
Equity instruments collateral	**50**	101
Other collateral	**127**	171
Total collateral held	**33,567**	55,890

Other credit risk information

Our credit derivatives trading is predominantly on a collateralized basis. This means that our mark-to-market exposures arising from derivatives activities with collateralized counterparties are typically closed out in full or reduced to nominal levels on a regular basis by the use of collateral.

Derivatives trading with counterparties with high credit ratings, for example a large bank or broker-dealer, is typically conducted under an International Swaps and Derivatives Association (ISDA) master netting agreement. Credit exposures to those counterparties from credit default swaps (CDS), together with exposures from other over-the-counter (OTC) derivatives, are netted and included in the calculation of the collateral that is required to be posted. Trading with lower-rated counterparties such as hedge funds would generally require an initial margin to be posted by the counterparty.

We receive collateral from or post collateral to our counterparties based on our open net receivable or net payable from OTC derivative activities. Under the terms of the ISDA master netting agreement and similar agreements, this collateral, which generally takes the form of cash or highly liquid debt securities, is available to cover any amounts due under those derivative transactions.

The CDS settlement risk, including payment risk of CDS, has been mitigated to some extent by the development of a market-wide credit event auction process, which results in a wider use of cash settlement of CDS. We did not have any significant losses from failed settlements of CDS contracts in 2013.

Table 13: Credit derivatives[1, 2]

This table provides an overview of the notional amount of credit derivatives, including those used to manage risks within our banking and trading books.

	Regulatory banking book			Regulatory trading book			Total	
Notional amounts, CHF million	Protection bought	Protection sold	Total	Protection bought	Protection sold	Total	**31.12.13**	31.12.12 (Basel 2.5)
Credit default swaps	22,525	3,307	25,832	520,382	522,446	1,042,828	**1,068,660**	2,135,451
Total rate of return swaps	151		151	5,222	809	6,031	**6,182**	5,736
Options and warrants				3,597	61	3,658	**3,658**	3,559
Total 31.12.13[3]	**22,676**	**3,307**	**25,983**	**529,200**	**523,317**	**1,052,517**	**1,078,500**	
Total 31.12.12 (Basel 2.5)	13,711	119	13,831	1,070,580	1,060,336	2,130,916		2,144,747

1 Notional amounts of credit derivatives are based on accounting definitions and do not include any netting benefits. For capital underpinning of the counterparty credit risk of derivative positions, the effective expected positive exposure (or exposure according to current exposure method) is taken. 2 Notional amounts are reported based on regulatory scope of consolidation and only include amounts related to PRV and NRV. 3 The year-end 2013 numbers are based on a revised methodology for presenting credit derivatives in the trading book versus the banking book. Prior periods were not restated. The treatments of credit derivatives under Pillar 1 are unchanged.

Equity instruments in the banking book

The regulatory capital view for equity instruments in the banking book differs from the IFRS view primarily due to the following:
- Differences in the basis of valuation, for example financial investments available-for-sale are subject to fair value accounting under IFRS but have to be treated under the "lower of cost or market" or "cost less impairment" concept for regulatory capital purposes.
- The use of different frameworks to determine regulatory capital. Positions held in trading book, for example, are treated under market risk value-at-risk (VaR).
- Differences in the scope of consolidation.

➔ **Refer to "Scope of regulatory consolidation" in this section for more information**

Table 14: Equity instruments in the banking book

The table below shows the different equity instruments categories held in the banking book with their amounts as disclosed under IFRS, followed by the regulatory capital adjustment amount. This adjustment considers the abovementioned differences to IFRS resulting in the total regulatory equity instruments exposure under the BIS framework, the corresponding RWA and the capital charge. The table also shows net realized gains and losses and unrealized revaluation gains relating to equity instruments.

	Book value	
CHF million	**31.12.13**	31.12.12 (Basel 2.5)
Equity instruments		
Financial investments available-for-sale	**649**	572
Financial assets designated at fair value		25
Investments in associates	**842**	858
Total equity instruments under IFRS	**1,491**	1,455
Regulatory capital adjustment[1]	**885**	1,223
Total equity instruments under regulatory capital	**2,376**	2,678
of which: to be risk-weighted		
publicly traded	***132***	*184*
privately held[2, 3]	***1,225***	*1,198*
not deducted in application of threshold, but risk-weighted at 250%	***674***	*N/A*
of which: deduction from common equity tier 1 capital[4]	***344***	*1,297*
RWA according to simple risk-weight method[5]	**4,999**	2,972
Capital requirement according to simple risk-weight method[5]	**428**	238
Total capital charge	**772**	1,535
Net realized gains / (losses) and unrealized gains from equity instruments		
Net realized gains / (losses) from disposals	**122**	122
Unrealized revaluation gains	**11**	41
of which: included in tier 2 capital	***5***	*18*

1 Includes CHF 805 million investment fund units treated under debt investment under IFRS and other adjustments mainly due to trading book positions not treated under VaR, differences in the scope of consolidation and in the basis of valuation. 2 Includes CHF 509 million exposure booked in trust entities that did not generate risk-weighted assets (CHF 584 million on 31 December 2012). 3 Includes equity investments in companies active in the banking and finance business where UBS owns less than 10% of the entity's common equity. 4 Under Basel III, goodwill of investments in associates is deducted from common equity tier 1 capital. 5 The risk-weighted assets of CHF 5 billion and the capital requirements of CHF 0.4 billion, as of 31 December 2013, are also disclosed in the "Equity instruments in the banking book" line of "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets."

Market risk

The market risk related Pillar 3 disclosures that were shown previously in the Pillar 3 report are consolidated in the "Risk management and control" section of this report.

Securitization

This section provides details of traditional and synthetic securitization exposures in the banking and trading book based on the Basel III framework. Under this framework, low-rated and / or unrated securitization exposures are no longer deducted from eligible capital as used to be the case under Basel 2.5 but are instead risk-weighted with a 1,250% factor. Other securitized exposures continue to be risk-weighted, generally, based on their external ratings. This section also provides details of the regulatory capital requirement associated with these exposures.

In a traditional securitization, a pool of loans (or other debt obligations) is typically transferred to structured entities that have been established to own the loan pool and to issue tranched securities to third-party investors referencing this pool of loans. In a synthetic securitization, legal ownership of securitized pools of assets is typically retained, but associated credit risk is transferred to structured entities typically through guarantees, credit derivatives or credit-linked notes. Hybrid structures with a mix of traditional and synthetic features are disclosed as synthetic securitizations.

We act in different roles in securitization transactions. As originator, we create or purchase financial assets, which are then securitized in traditional or synthetic securitization transactions, enabling us to transfer significant risk to third-party investors. As sponsor, we manage, provide financing or advise securitization programs. In line with the Basel framework, sponsoring includes underwriting, that is, placing securities in the market. In all other cases, we act in the role of investor by taking securitization positions.

Basel III RWA attributable to securitization positions increased to CHF 10.2 billion as of 31 December 2013 from CHF 7.1 billion as of 31 December 2012 based on our Basel 2.5 RWA for securitizations. As of 31 December 2013, RWA for securitizations in Non-core and Legacy Portfolio stood at CHF 9.5 billion. This increase in the RWA due to the revised regulatory treatment of the low-rated or unrated securitization exposures, which are risk-weighted at 1,250% under Basel III, was offset mainly by sales and redemptions of student loan auction rate securities and commercial mortgage-backed securities during 2013. The exposures shown under other business divisions are all in the Investment Bank except for some positions deemed immaterial (based on RWA) relating to Wealth Management Americas.

➔ **Refer to "Note 30 Interests in subsidiaries and other entities" in the "Financial information" section of this report for more information on structured entities**

➔ **Refer to the tables "Composition of Non-core" and "Composition of Legacy Portfolio" in the "Risk management and control" section of this report for more information**

Table 15: Securitization / re-securitization

Basel III (phase-in)	31.12.13			
CHF million	**Gross EAD**	**Net EAD**	**RWA**	**Capital requirement**
Securitization / re-securitization in the banking book	12,569	11,928	8,352	715
CC – Non-core and Legacy Portfolio	*8,767*	*8,125*	*7,772*	*666*
Other business divisions	*3,803*	*3,803*	*580*	*50*
Securitization / re-securitization in the trading book	2,098	1,966	1,799	154
CC – Non-core and Legacy Portfolio	*1,896*	*1,799*	*1,711*	*147*
Other business divisions	*202*	*167*	*89*	*8*

Basel 2.5	31.12.12			
CHF million	**Gross EAD**	**Net EAD**	**RWA**	**Capital requirement**
Securitization / re-securitization in the banking book	16,537	14,995	5,497	440
Securitization / re-securitization in the trading book	7,646	6,453	1,639	131

Objectives, roles and involvement

Securitization in the banking book

Securitization positions held in the banking book include tranches of synthetic securitization of loan exposures and over-the-counter derivatives. These were primarily hedging transactions executed in 2013 and 2012 by synthetically transferring counterparty credit risk. In addition, securitization in the banking book includes legacy risk positions, some of which were (i) reclassified under IFRS from *Held for trading* to *Loans and receivables* in the fourth quarter of 2008 and the first quarter of 2009, or (ii) classified as *Loans and receivables* when acquiring student loan auction rate securities from clients. As of 31 December 2013, this portfolio included student loan auction rate securities, collateralized debt obligations and collateralized loan obligations, some of which have credit default swap protection purchased from monoline insurers, as well as commercial mortgage-backed securities, residential mortgage-backed securities and reference-linked note programs. In addition, credit-risk hedging transactions in 2013 and 2012 increased our position in synthetic securitizations of portfolios of counterparty credit risk in over-the-counter derivatives and loan exposures. These transactions are primarily used to reduce our credit risk by synthetically transferring counterparty risk.

In 2013, we acted in the roles of both originator and sponsor. As originator, we sold originated commercial mortgage loans into securitization programs. As sponsor, we managed or advised securitization programs and helped to place the securities in the market. Refer to "Table 16: Securitization activity of the year in the banking book" for an overview of our originating and sponsoring activities in 2013 and 2012, respectively.

Securitization and re-securitization positions in the banking book are measured either at fair value or at amortized cost less impairment. The impairment assessment for a securitized position is generally based on the net present value of future cash flows expected from the underlying pool of assets.

Securitization in the trading book

Securitizations (including correlation products) held in the trading book are part of the trading activities, which typically include market-making and client facilitation. During 2013 we were also involved in the placement of securitized assets originated by other institutions in the market, that is, we acted in the role of a sponsor. In one case, we provided warehouse financing to collateralized loan obligation managers but did not retain any positions from this type of sponsored deal. "Table 17: Securitization activity of the year in the trading book" provides an overview of our originating and sponsoring activities in full year 2013 and 2012, respectively. Included in the trading book are positions in our correlation book and legacy positions in leveraged super senior tranches. In the trading book, securitization and re-securitization positions are measured at fair value reflecting market prices where available or are based on our internal pricing models.

Type of structured entities and affiliated entities involved in the securitization transactions

For the securitization of third-party exposures, the type of structured entities employed is selected as appropriate based on the type of transaction undertaken. Examples of this include limited liability corporations, common law trusts and depositor entities.

We manage or advise significant groups of affiliated entities that invest in exposures we have securitized or in structured entities that we sponsor. Significant groups of affiliated entities include North Street, Brooklands/ELM, and East Street, which are involved in the US, European and Asia Pacific reference-linked note programs, respectively.

➔ **Refer to "Note 30 Interests in subsidiaries and other entities" in the "Financial information" section of this report for more information on structured entities**

➔ **Refer to the tables "Composition of Non-core" and "Composition of Legacy Portfolio" in the "Risk management and control" section of this report for more information on RWA by exposure category**

Managing and monitoring of the credit and market risk of securitization positions

The banking book securitization portfolio is subject to specific risk monitoring, which may include interest rate and credit spread sensitivity analysis, as well as inclusion in firm-wide earnings-at-risk, capital-at-risk and combined stress test metrics.

The trading book securitization positions are also subject to multiple risk limits in our Investment Bank, such as management VaR and stress limits as well as market value limits. As part of managing risks within the pre-defined risk limits, traders may utilize hedging and risk mitigation strategies. Hedging may however expose the firm to basis risks as the hedging instrument and the position being hedged may not always move in parallel. Such basis risks are managed within the overall limits. Any retained securitization from origination activities and any purchased securitiza-

tion positions are governed by risk limits together with any other trading positions. Legacy trading book securitization exposure is subject to the same management VaR limit framework. Additionally, risk limits are used to control the unwind, novation and asset sales process on an ongoing basis.

Regulatory capital treatment of securitization structures

Generally, in both the banking and trading book we apply the ratings-based approach to securitization positions using ratings, if available, from Standard & Poor's, Moody's and Fitch for all securitization and re-securitization exposures. The selection of the External Credit Assessment Institutions (ECAI) is based on the primary rating agency concept. This concept is applied, in principle, to avoid that the credit assessment by one ECAI is applied for one or more tranches and another ECAI for the other tranches unless this is the result of the application of the specific rules for multiple assessments. If any two of the abovementioned rating agencies have issued a rating for a particular position, we would apply the lower credit rating of the two. If all three rating agencies have issued a rating for a particular position, we would apply the middle credit rating of the three. Under the ratings-based approach, the amount of capital required for securitization and re-securitization exposures in the banking book is capped at the level of the capital requirement that would have been assessed against the underlying assets had they not been securitized. This treatment has been applied in particular to the US and European reference-linked note programs. For the purposes of determining regulatory capital and the Pillar 3 disclosure for these positions, the underlying exposures are reported under the standardized approach, the advanced internal ratings-based approach or the securitization approach, depending on the category of the underlying security. If the underlying security is reported under the standardized approach or the advanced internal ratings-based approach, the related positions are excluded from the tables on the following pages.

The supervisory formula approach is applied to synthetic securitizations of portfolios of counterparty credit risk inherent in over-the-counter derivatives and loan exposures for which an external rating was not sought. The supervisory formula approach is also applied to leveraged super senior tranches.

In the trading book, the comprehensive risk measure is used for the correlation portfolio as defined by Basel III requirements. This measure broadly covers securitizations of liquid corporate underlying assets as well as associated hedges that are not necessarily securitizations, for example, single-name credit default swaps and credit default swaps on indices.

We do not apply the concentration ratio approach or the internal assessment approach to securitization positions.

The counterparty risk of interest rate or foreign currency derivatives with securitization vehicles is treated under the advanced internal ratings-based approach and is therefore not part of this disclosure.

Accounting policies

Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report for information on our accounting policies that relate to our securitization activities, primarily "Note 1a) 3) Subsidiaries and structured entities" and "Note 1a) 12) Securitization structures set up by UBS."

We disclose our intention to securitize exposures as an originator if assets are designated for securitization and a tentative pricing date for a transaction is known as of the balance sheet date or if a pricing of a transaction has been fixed. Exposures intended to be securitized continue to be valued in the same way until such time as the securitization transaction takes place.

Presentation principles

It is our policy to present Pillar 3 disclosures for securitization transactions and balances in line with the capital adequacy treatments which were applied under Pillar 1 in the respective period presented.

We do not amend comparative prior period numbers for presentational changes triggered by new and revised information from third-party data providers, as long as the updated information does not impact the Pillar 1 treatments of prior periods.

Good practice guidelines

On 18 December 2008, the European Banking Federation, the Association for Financial Markets in Europe, the European Savings Banks Group and the European Association of Public Banks and Funding Agencies published the "Industry good practice guidelines on Pillar 3 disclosure requirement for securitization." These guidelines were slightly revised in 2009 and 2010, and this report complies with that publication in all material respects.

Securitization in the banking and trading book

Tables 16 and 17 outline the exposures, that is, the transaction size at inception we securitized in the banking and trading book during 2013 and 2012. The activity is further broken down by our role (originator/sponsor) and by type (traditional/synthetic).

Amounts disclosed under the *Traditional* column of these tables reflect the total outstanding notes at par value issued by the securitization vehicle at issuance. For synthetic securitization transactions, the amounts disclosed generally reflect the balance sheet carrying values of the securitized exposures at issuance.

For securitization transactions where we acted as originator, exposures are split into two parts, those in which we have retained securitization positions and/or continue to be involved on an ongoing basis (for example credit enhancement or implicit support), and those in which we have no retained securitization positions and/or have no further involvement.

Where we acted as both originator and sponsor to a securitization, originated assets are reported under *Originator* and the total amount of the underlying assets securitized is reported under *Sponsor*. As a result, as of 31 December 2013 and 31 December 2012, amounts of CHF 2.5 billion and CHF 3.8 billion, respectively, were included in "Table 16: Securitization activity of the year in the banking book" under both *Originator* and *Sponsor* and "Table 18: Outstanding securitized exposures."

Table 16: Securitization activity of the year in the banking book

	Originator					Sponsor	
	Traditional		Synthetic		Realized gains/(losses) on traditional securitizations	Traditional	Synthetic
CHF million	Securitization positions retained	No securitization positions retained	Securitisation positions retained	No securitization positions retained			
Residential mortgages							
Commercial mortgages	1,331	1,199			97	7,580	
Credit card receivables							
Leasing							
Loans to corporates or small and medium-sized enterprises							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other			876				
Total 31.12.13	**1,331**	**1,199**	**876**	**0**	**97**	**7,580**	**0**
Residential mortgages							
Commercial mortgages	3,768				166	7,189	
Credit card receivables							
Leasing							
Loans to corporates or small and medium-sized enterprises							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other			6,735				
Total 31.12.12 (Basel 2.5)	3,768	0	6,735	0	166	7,189	0

Table 17: Securitization activity of the year in the trading book

	Originator					Sponsor[1]	
	Traditional		Synthetic		Realized gains / (losses) on traditional securitizations	Traditional	Synthetic
CHF million	Securitization positions retained	No securitization positions retained	Securitization positions retained	No securitization positions retained			
Residential mortgages							
Commercial mortgages							
Credit card receivables							
Leasing							
Loans to corporates or small and medium-sized enterprises							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other							
Total 31.12.13	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Residential mortgages							
Commercial mortgages							
Credit card receivables							
Leasing							
Loans to corporates or small and medium-sized enterprises							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations						1,033	
Other							
Total 31.12.12 (Basel 2.5)	0	0	0	0	0	1,033	0

1 The scope of this disclosure such that we do not include sponsor-only activity where we do not retain a position. In these cases we advised the originator or placed securities in the market for a fee, and did not otherwise impact our capital. On this basis we did not report any securitization activity in the year 2013.

Table 18: Outstanding securitized exposures

This table outlines exposures (that is, outstanding transaction size) in which we have originated/sponsored and retained securitization positions at the balance sheet date in the banking or trading book and/or are otherwise involved on an ongoing basis (for example credit enhancement, implicit support).

Amounts disclosed under the *Traditional* column in this table reflect the total outstanding notes at par value issued by the securitization vehicle. For synthetic securitization transactions, we generally disclose the balance sheet carrying values of the exposures securitized or, for hybrid structures, the outstanding notes at par value issued by the securitization vehicle.

The table also includes securitization activities conducted in 2013 and 2012 in which we retained/purchased positions. These can also be found in "Table 16: Securitization activity of the year in the banking book" and "Table 17: Securitization activity of the year in the trading book." Where no positions were retained, the outstanding transaction size is only disclosed in the year of inception for originator transactions.

All values in this table are as of the balance sheet date.

	Banking Book				Trading Book[1,2]			
	Originator		Sponsor		Originator		Sponsor	
CHF million	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic	Traditional[3]	Synthetic
Residential mortgages	658		158		1,324		4,871	
Commercial mortgages	2,529		18,592				15,323	
Credit card receivables								
Leasing			553					
Loans to corporates or small and medium-sized enterprises			741					
Consumer loans								
Student loans			6,788				770	
Trade receivables								
Re-securitizations	585	390	3,426		181	951		
Other		8,659	754					
Total 31.12.13	**3,772**	**9,049**	**31,011**	**0**	**1,505**	**951**	**20,963**	**0**
Residential mortgages	1,288		2,474		554		7,578	
Commercial mortgages	3,768		14,772				17,989	
Credit card receivables			0					
Leasing			306					
Loans to corporates or small and medium-sized enterprises			394					
Consumer loans			0					
Student loans			13,296				908	
Trade receivables			0					
Re-securitizations	840	782	3,489		1,779	976	2,604	
Other		8,590	2,801				1,236	
Total 31.12.12 (Basel 2.5)	5,896	9,372	37,532	0	2,333	976	30,315	0

1 As per FINMA Circular "Market Risk – Banks," only the higher of the net long or the net short securitization positions in the trading book are to be underpinned for the regulatory capital purposes. This interim relief is granted until 31 December 2013. After the transition period both net long and net short positions require capital underpinning. 2 In line with our disclosure principles we disclose the UBS originated and sponsored deals only where the positions result in an RWA or capital deduction under Pillar 1. 3 The scope of this disclosure is such that we do not include sponsor-only activity where we do not retain a position. In these cases we advised the originator or placed securities in the market for a fee, and did not otherwise impact our capital.

Table 19: Impaired or past due securitized exposures and losses related to securitized exposures in the banking book

This table provides a breakdown of the outstanding impaired or past due exposures at the balance sheet date as well as losses recognized in our income statement for transactions in which we acted as originator or sponsor in the banking book. Losses are reported after taking into account the offsetting effects of any credit protection that is an eligible risk mitigation instrument under the Basel III framework for the retained or purchased positions.

Where we did not retain positions, impaired or past due information is only reported in the year of inception of a transaction. Where available, past due information was derived from investor reports. Past due is generally defined as delinquency above 60 days. Where investor reports do not provide this information, alternative methods have been applied, which may include an assessment of the fair value of the retained position or reference assets, or identification of any credit events.

	31.12.13				31.12.12 (Basel 2.5)			
	Originator		**Sponsor**		Originator		Sponsor	
CHF million	**Impaired or past due in securitized exposures**	**Recognized losses in income statement**	**Impaired or past due in securitized exposures**	**Recognized losses in income statement**	Impaired or past due in securitized exposures	Recognized losses in income statement	Impaired or past due in securitized exposures	Recognized losses in income statement
Residential mortgages	**323**		**21**		791	0	468	0
Commercial mortgages		**0**	**793**	**11**		1	761	0
Credit card receivables								
Leasing							0	
Loans to corporates or small and medium-sized enterprises								
Consumer loans								
Student loans			**321**	**3**			787	8
Trade receivables								
Re-securitizations	**307**			**0**	373	1		0
Other	**50**	**115**		**0**	67	67		1
Total	**680**	**115**	**1,134**	**15**	1,232	68	2,016	9

Table 20: Exposures intended to be securitized in the banking and trading book

This table provides the amount of exposures by exposure type we intend to securitize in the banking and trading book. We disclose our intention to securitize exposures as an originator if assets are designated for securitization and a tentative pricing date for a transaction is known at the balance sheet date or if a pricing of a transaction has been fixed.

	31.12.13		31.12.12 (Basel 2.5)	
CHF million	**Banking Book**	**Trading Book**	Banking Book	Trading Book
Residential mortgages				
Commercial mortgages			447	
Credit card receivables				
Leasing				
Loans to corporates or small and medium-sized enterprises				
Consumer loans				
Student loans				
Trade receivables				
Re-securitizations				
Other				
Total	**0**	**0**	447	0

Table 21: Securitization positions retained or purchased in the banking book

This table provides a breakdown of securitization positions we retained or purchased in the banking book, irrespective of our role in the securitization transaction. The value disclosed is the net exposure amount at default subject to risk-weighting at the balance sheet date.

	31.12.13		31.12.12 (Basel 2.5)	
CHF million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
Residential mortgages	541		600	
Commercial mortgages	351		553	
Credit card receivables				
Leasing	43		47	
Loans to corporates or small and medium-sized enterprises	349		240	
Consumer loans	1		1	
Student loans	1,060		3,892	
Trade receivables				
Re-securitizations	948	161	800	147
Other	8,403[3]	71	9,334[3]	33
Total[1,2]	11,696	232	15,466	180

1 The total exposure of CHF 11.9 billion as of 31 December 2013 is also disclosed in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in line "Securitization / re-securitization in the banking book." 2 The total exposure of CHF 15.0 billion as of 31 December 2012 is also disclosed in "Table 2: Detailed segmentation of Basel 2.5 exposures and risk-weighted assets" in line "Securitization / re-securitization in the banking book" and excludes the deductions compared with the 31 December 2012 numbers shown above (CHF 15.6 billion). 3 "Other" primarily includes securitization of portfolios of counterparty credit risk in over-the-counter (OTC) derivatives and loan exposures.

Table 22: Securitization positions retained or purchased in the trading book

This table provides a breakdown of securitization positions we purchased or retained in the trading book subject to the securitization framework for specific market risk, irrespective of our role in the securitization transaction. Gross long and gross short amounts reflect the positions prior to the eligible offsetting of cash and derivative positions. Net long and net short amounts are the result of offsetting cash and derivative positions to the extent eligible under Basel III. The amounts disclosed are either the fair value or, in the case of derivative positions, the aggregate of the notional amount and the associated replacement value at the balance sheet date.

	Cash positions		Derivative positions		Total	
CHF million	Gross long	Gross short	Gross long	Gross short	Net long[3]	Net short
Residential mortgages	86	2	1,036	1,196	109	199
Commercial mortgages	462	0	847	1,341	477	508
Credit card receivables						
Leasing						
Loans to corporates or small and medium-sized enterprises						
Consumer loans						
Student loans	0	0				
Trade receivables						
Re-securitizations	37	1	45	72	9	8
Other	16	0	269	269	16	
Total 31.12.13[1]	**601**	**3**	**2,197**	**2,878**	**611**	**715**
Residential mortgages	49		1,066	1,175	141	125
Commercial mortgages	869	25	5,871	6,704	923	926
Credit card receivables	3				3	
Leasing	7				7	
Loans to corporates or small and medium-sized enterprises	1				1	
Consumer loans						
Student loans						
Trade receivables						
Re-securitizations	411	3	235	551	168	81
Other	15	1			14	1
Total 31.12.12[1,2] (Basel 2.5)	1,355	29	7,172	8,430	1,257	1,134

1 Leveraged super senior tranches (subject to the securitization framework) are not included in this table, but disclosed in "Table 27: Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk." 2 The total exposure of CHF 6.4 billion as of 31 December 2012 is also disclosed in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" in line "Securitization / re-securitization in the trading book" and excludes the deductions compared with the 31 December 2012 numbers shown above (CHF 1.2 billion) and the leveraged super senior tranches as per footnote 1. 3 The net exposure at default of CHF 2.0 billion as of 31 December 2013 disclosed in "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets" (line "Securitization / re-securitization exposures") comprises total net long position of CHF 0.6 billion (included in this table) and CHF 1.4 billion for leveraged super senior tranches.

Table 23: Capital requirement for securitization / re-securitization positions retained or purchased in the banking book

The table provides the capital requirements for securitization and re-securitization positions we purchased or retained in the banking book, irrespective of our role in the securitization transaction, split by risk weight bands and regulatory capital approach. We disclose securitization and re-securitization positions which were previously deducted from capital under Basel 2.5 in the 1,250% risk-weighting band from 2013 onwards.

	31.12.13				31.12.12 (Basel 2.5)			
	Ratings-based approach		Supervisory formula approach		Ratings-based approach		Supervisory formula approach	
CHF million	Securitization	Re-securitization	Securitization	Re-securitization	Securitization	Re-securitization	Securitization	Re-securitization
over 0–20%	25		72		54		49	
over 20–35%	8	0			7	5		
over 35–50%	3	29			4	9		
over 50–75%	17	0			17	1		
over 75–100%	14	2			23			
over 100–250%	21	8			44	23		
over 250–1,249%	99	65			114	65		
1,250%	308	28	17					
Total[1,2]	494	132	89	0	263	103	49	0

1 Refer to "Table 2: Detailed segmentation of Basel III exposures and risk-weighted assets." On 31 December 2013, CHF 8.4 billion banking book securitization exposures translated to an overall capital requirement of CHF 0.7 billion. 2 On 31 December 2012, CHF 5.5 billion banking book securitization exposures translated to a capital requirement of CHF 0.4 billion without applying a scaling factor of 1.06.

Securitization exposures to be deducted from Basel III tier 1 capital

In 2013 and 2012, we have not retained any significant exposures relating to securitization for which we have recorded gains on sale.

Securitization exposures subject to early amortization in the banking and trading book

In 2013 and 2012, we had no securitization structures in the banking and trading book that are subject to early amortization treatment.

Table 24: Re-securitization positions retained or purchased in the banking book

The upper part of this table shows the total of re-securitization positions (cash as well as synthetic) held in the banking book, broken down into positions for which credit risk mitigation has been recognized and those for which no credit risk mitigation has been recognized. Credit risk mitigation includes protection bought by entering into credit derivatives with third-party protection sellers, as well as financial collateral received. Both bought credit protection and financial collateral must be eligible under Basel III regulations.

The lower part of this table shows the re-securitization positions which have an integrated insurance wrapper, split into positions with investment grade, sub-investment grade and defaulted insurance. The values disclosed in both tables are the net exposure amount at default at the balance sheet date.

CHF million	With credit risk mitigation	Without credit risk mitigation	Total
Total 31.12.13		**1,109**	**1,109**
Total 31.12.12 (Basel 2.5)		947	947

Re-securitization positions with integrated insurance wrapper broken down according to guarantor credit worthiness categories[1]

CHF million		
0–5	Investment grade	
6–13	Sub-investment grade	1
14	Defaulted	
Total 31.12.13		**1**
0–5	Investment grade	
6–13	Sub-investment grade	22
14	Defaulted	
Total 31.12.12 (Basel 2.5)		22

1 Internal UBS rating.

Table 25: Re-securitization positions retained or purchased in the trading book

The upper part of the table below outlines re-securitization positions retained or purchased subject to the securitization framework for specific market risk held in the trading book on a gross long and gross short basis, including synthetic long and short positions resulting from derivative transactions. It also includes positions on a net long and net short basis, that is, gross long and short positions after offsetting to the extent it is eligible under Basel III. The lower part of the table discloses the total re-securitization positions which have an integrated insurance wrapper, split by positions with investment grade, sub-investment grade and defaulted insurance. As of 31 December 2013, none of the retained or purchased trading book re-securitization positions had an integrated insurance wrapper.

CHF million		Gross long	Gross short	Net long	Net short
Total 31.12.13		**82**	**73**	**9**	**8**
Total 31.12.12 (Basel 2.5)		646	554	168	81
Re-securitization positions with integrated insurance wrapper broken down according to guarantor credit worthiness categories[1]					
CHF million					
0–5	Investment grade				
6–13	Sub-investment grade				
14	Defaulted				
Total 31.12.13		**0**	**0**	**0**	**0**
0–5	Investment grade	42	46	3	7
6–13	Sub-investment grade	2	0	2	
14	Defaulted	25	18	10	3
Total 31.12.12 (Basel 2.5)		69	64	15	10

1 Internal UBS rating.

Table 26: Aggregated amount of securitized exposures subject to the market risk approach

This table provides a split of the total outstanding exposures we have securitized in the trading book in the role of originator and/or sponsor. The table does not include positions from current year securitizations (where UBS was originator) unless they were retained at year-end. Disclosure is made only where we have retained positions in the trading book. The amount disclosed is the notional amount of the outstanding notes issued by the securitization vehicle at the balance sheet date.

	Originator		Sponsor	
CHF million	Traditional	Synthetic	Traditional	Synthetic
Residential mortgages	1,324		4,871	
Commercial mortgages			15,323	
Credit card receivables				
Leasing				
Loans to corporates or small and medium-sized enterprises				
Consumer loans				
Student loans			770	
Trade receivables				
Re-securitizations	181	951		
Other				
Total 31.12.13[1,2]	**1,505**	**951**	**20,693**	**0**
Residential mortgages	554		7,578	
Commercial mortgages			17,989	
Credit card receivables				
Leasing				
Loans to corporates or small and medium-sized enterprises				
Consumer loans				
Student loans			908	
Trade receivables				
Re-securitizations	1,779	976	2,604	
Other			1,236	
Total 31.12.12[12] (Basel 2.5)	2,333	976	30,315	0

1 As per FINMA Circular "Market risk – Banks" only the higher of the net long or the net short securitization positions in the trading book are to be underpinned for the regulatory capital purposes. This interim relief is granted until 31 December 2013. As of 1 January 2014, both net long and net short positions require capital underpinning. 2 In line with our disclosure principles, we disclose the UBS originated and sponsored deals only where the positions result in a RWA or capital deduction under Pillar 1.

Table 27: Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk

This table outlines products in the correlation portfolio that we retained or purchased in the trading book, irrespective of our role in the securitization transaction. They are subject to either the comprehensive risk measure or the securitization framework for specific risk. Correlation products subject to the securitization framework are leveraged super senior positions. The values disclosed are market values for cash positions, replacement values and notional values for derivative positions. Derivatives are split by positive replacement value and negative replacement value. The reduction in replacement values and notionals is a result of expiration or sales of positions in our correlation book.

	Cash positions		Derivative positions			
31.12.13	Assets	Liabilities	Assets		Liabilities	
CHF million	Market value	Market value	Positive replacement value	Positive replacement value notionals	Negative replacement value	Negative replacement value notionals
Positions subject to comprehensive risk measure	**71**	**615**	**998**	**30,645**	**1,298**	**20,532**
Positions subject to securitization framework[1]			**88**	**5,970**	**1**	**1,465**
31.12.12 (Basel 2.5)						
Positions subject to comprehensive risk measure	191	1,748	4,518	110,653	4,949	91,266
Positions subject to securitization framework[1]			152	12,316	52	20,810

1 Includes leveraged super senior tranches.

Table 28: Securitization positions and capital requirement for trading book positions subject to the securitization framework

This table outlines securitization positions we purchased or retained and the capital charge in the trading book subject to the securitization framework for specific market risk, irrespective of our role in the securitization transaction, broken down by risk weight bands and regulatory capital approach. The amounts disclosed for securitization positions are market values at the balance sheet date after eligible netting under Basel III. We disclose securitization positions which were previously deducted from capital under Basel 2.5 in the 1,250% risk-weighting band from 2013 onwards.

	31.12.13						31.12.12 (Basel 2.5)					
	Ratings-based approach			Supervisory formula approach			Ratings-based approach			Supervisory formula approach		
CHF million	Net long	Net short	Capital requirement	Net long	Net short	Capital requirement	Net long	Net short	Capital requirement	Net long	Net short	Capital requirement
over 0–20%	367	715[1]	4				449	987[1]	7			
over 20–35%	16		0				293		7			
over 35–50%	37		2				135		5			
over 50–75%	32		2				38		2			
over 75–100%	38		3				93		7			
over 100–250%	10		2				20		4			
over 250–1,249%	1						29		12			
1,250%	109		118									
Total[2]	611	715	132	0	0	0	1,057	987	45	0	0	0

1 As per FINMA Circular "Market risk – Banks" only the higher of the net long or the net short securitization positions in the trading book are to be underpinned for the regulatory capital purposes. This interim relief is granted until 31 December 2013. After the transition period both net long and net short positions require capital underpinning. The amount disclosed under net short is for information only, i.e., a 0% risk-weight was applied. 2 Leveraged super senior tranches (subject to the securitization framework) are not included in this table, but disclosed in "Table 27: Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk."

Table 29: Capital requirement for securitization positions related to correlation products

This table outlines the capital requirement for securitization positions in the trading book for correlation products, including positions subject to comprehensive risk measure and positions related to leveraged super senior positions and certain re-securitized corporate credit exposures positions subject to the securitization framework. Our model does not distinguish between "default risk," "migration risk" and "correlation risk."

CHF million	31.12.13	31.12.12 (Basel 2.5)
	Capital requirement	Capital requirement
Positions subject to comprehensive risk measure	358	714
Positions subject to securitization framework[1]	23	86
Total	381	800

1 Leveraged super senior tranches.

Composition of capital

With the objective of mitigating the risk of inconsistent disclosure formats undermining market participants' ability to compare capital adequacy of banks across jurisdictions, the Basel Committee on Banking Supervision and FINMA require banks to publish their capital positions according to common templates. The following tables provide the required information. In addition to the reconciliation provided in the following tables, an overview of the main features of our regulatory capital instruments as well as the full terms and conditions of those capital instruments are published in the "Bondholder information" section of our Investor Relations website.

➔ **Refer to "Bondholder information" at www.ubs.com/investors for more information on the capital instruments of UBS Group and UBS AG (Parent Bank)**

Table 30: Reconciliation of accounting balance sheet to balance sheet under the regulatory scope of consolidation

The table below provides a reconciliation of the IFRS balance sheet to the balance sheet according to the regulatory scope of consolidation. Lines in the balance sheet under the regulatory scope of consolidation are expanded and referenced where relevant to display all components that are used in "Table 31: Composition of capital."

	According to the financial statement	Effect of deconsolidated entities for regulatory consolidation	Effect of additional consolidated entities for regulatory consolidation	According to the regulatory consolidation scope	References[1]
CHF million	**31.12.13**				
Cash and balances with central banks	**80,879**	(0)		80,879	
Due from banks	**17,170**	(591)		16,579	
Cash collateral on securities borrowed	**27,496**			27,496	
Reverse repurchase agreements	**91,563**			91,563	
Trading portfolio assets	**122,848**	(16,538)		106,310	
Positive replacement values	**245,835**	23		245,858	
Cash collateral receivables on derivative instruments	**28,007**			28,007	
Financial assets designated at fair value	**7,364**			7,364	
Loans	**286,959**	198		287,156	
Financial investments available-for-sale	**59,525**	(58)		59,467	
Consolidated participations	**0**	205		205	
Investments in associates	**842**			842	
of which: goodwill	***344***			*344*	4
Property and equipment	**6,006**	(87)		5,919	
Goodwill and intangible assets	**6,293**	(0)		6,293	
of which: goodwill	***5,842***			*5,842*	4
of which: intangible assets	***451***			*451*	5
Deferred tax assets	**8,845**	9		8,854	
of which: deferred tax assets recognized for tax loss carry-forwards, less deferred tax liabilities, as applicable	***6,267***	*2*		*6,270*	9
of which: deferred tax assets on temporary differences, less deferred tax liabilities, as applicable	***2,577***	*7*		*2,584*	
Other assets	**20,228**	(176)	4	20,056	
of which: net defined benefit pension and other post-employment assets	***952***			*952*	10
Total assets	**1,009,860**	(17,015)	4	992,849	

1 References link respective lines of this table to the respective reference numbers provided in the column "References" in "Table 31: Composition of capital."

Table 30: Reconciliation of accounting balance sheet to balance sheet under the regulatory scope of consolidation (continued)

	According to the financial statement	Effect of deconsolidated entities for regulatory consolidation	Effect of additional consolidated entities for regulatory consolidation	According to the regulatory consolidation scope	References[1]
CHF million	**31.12.13**				
Due to banks	**12,862**	(49)	1	12,813	
Cash collateral on securities lent	**9,491**			9,491	
Repurchase agreements	**13,811**			13,811	
Trading portfolio liabilities	**26,609**	(53)		26,556	
Negative replacement values	**239,953**	226		240,179	
Cash collateral payables on derivative instruments	**49,138**			49,138	
Financial liabilities designated at fair value	**69,901**	38		69,939	
Due to customers	**390,825**	205	1	391,031	
Debt issued	**81,586**	(34)		81,552	
of which: amount eligible for low-trigger loss-absorbing tier 2 capital[2]	***4,710***			*4,710*	7
of which: amount eligible for capital instruments subject to phase-out from additional tier 1 capital[3]	***1,220***			*1,220*	6
of which: amount eligible for capital instruments subject to phase-out from tier 2 capital[4]	***2,971***			*2,971*	8
Provisions	**2,971**	(5)		2,966	
Other liabilities	**62,777**	(17,288)	2	45,491	
of which: amount eligible for high-trigger loss-absorbing tier 2 capital (Deferred Contingent Capital Plan (DCCP))[5]	***385***			*385*	7
Total liabilities	**959,925**	(16,959)	3	942,969	
Share capital	**384**	(2)	2	384	1
Share premium account	**33,952**	1	(1)	33,952	1
Treasury shares	**(1,031)**			(1,031)	3
Contracts on UBS shares with liability treatment	**(46)**			(46)	3
Retained earnings	**24,475**	(184)		24,291	2
Cumulative net income recognized directly in equity, net of tax	**(9,733)**	129	(1)	(9,605)	3
of which: unrealized (gains) / losses from cash flow hedges	***1,463***	*0*		*1,463*	11
Equity attributable to UBS shareholders	**48,002**	(57)	1	47,946	
Equity attributable to preferred noteholders and equity attributable to non-controlling interests	**1,934**	1		1,935	
of which: capital instruments subject to phase-out from additional tier 1 capital[2]	***1,893***			*1,893*	6
Total equity	**49,936**	(55)	1	49,881	
Total liabilities and equity	**1,009,860**	(17,015)	4	992,849	

1 References link respective lines of this table to the respective reference numbers provided in the column "References" in "Table 31: Composition of capital." 2 Represent IFRS book value. 3 IFRS book value is CHF 1,221 million. 4 IFRS book value is CHF 5,109 million. 5 Represent IFRS book value. Refer to the "Compensation" section of this report for more information on the Deferred Contingent Capital Plan.

Table 31: Composition of capital

The table below provides the "Composition of capital" as defined by the Basel Committee on Banking Supervision and FINMA. Reference is made to items reconciling to the balance sheet under the regulatory scope of consolidation as disclosed in "Table 30: Reconciliation of accounting balance sheet to balance sheet under the regulatory scope of consolidation." Where relevant, the effect of phase-in arrangements is disclosed as well.

➔ **Refer to the "Capital management" section of this report for more information on phase-in arrangements**

		Numbers fully applied	Effect of the transition phase	References[1]
CHF million, except where indicated		**31.12.13**	**31.12.13**	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	34,336		1
2	Retained earnings	24,291		2
3	Accumulated other comprehensive income (and other reserves)	(10,682)		3
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6	**Common equity tier 1 capital before regulatory adjustments**	**47,946**		
7	Prudential valuation adjustments	(107)		
8	Goodwill net of tax, less hybrid capital, as applicable	(6,157)[3]	3,113	4, 6
9	Intangible assets, net of tax	(435)[3]		5
10	Deferred tax assets recognized for tax loss carry-forwards, less deferred tax liabilities, as applicable[2]	(6,665)	6,665	9
11	Unrealized (gains) / losses from cash flow hedges, net of tax	(1,463)		11
12	Expected losses on advanced internal ratings-based portfolio less general provisions	(304)		
13	Securitization gain on sale			
14	Own credit related to financial liabilities designated at fair value and replacement values, net of tax	304		
15	Defined benefit pension and post-employment assets IAS 19R, net of tax	(952)	952	10
16	Compensation and own shares related capital components (not recognized in net profit)	(1,430)		
17	Reciprocal crossholdings in common equity			
17a	Holdings with a significant investments in the common stock			
17b	Consolidated investments (CET1 instruments)			
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)			
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)			
20	Mortgage servicing rights (amount above 10% threshold)			
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)			
22	Amount exceeding the 15% threshold			
23	*of which: significant investments in the common stock of financials*			
24	*of which: mortgage servicing rights*			
25	*of which: deferred tax assets arising from temporary differences*			
26	Expected losses on equity investments treated according to the PD / LGD approach			
26a	Other adjustments relating to the application of an internationally accepted accounting standard	(325)		
26b	Other deductions	(1,502)	2,540	7
27	Regulatory adjustments applied to common equity tier 1 due to insufficient additional tier 1 and tier 2 to cover deductions			
28	**Total regulatory adjustments to common equity tier 1**	**(19,037)**	**13,271**	
29	**Common equity tier 1 capital (CET1)**	**28,908**	**13,271**	
30	Directly issued qualifying additional tier 1 instruments plus related stock surplus			
31	*of which: classified as equity under applicable accounting standards*			
32	*of which: classified as liabilities under applicable accounting standards*			
33	Directly issued capital instruments subject to phase-out from additional tier 1		3,113	6
34	Additional tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group additional tier 1)			
35	*of which: instruments issued by subsidiaries subject to phase-out*			
36	**Additional tier 1 capital before regulatory adjustments**	**0**	**3,113**	

1 References link respective lines of this table to the respective reference numbers provided in the column "References" in "Table 30: Reconciliation of accounting balance sheet to balance sheet under the regulatory scope of consolidation." 2 The CHF 6,665 million deferred tax assets that rely on future profitability reported in line 10 differ from the CHF 6,269 million deferred tax assets shown in the line "Deferred tax assets" in Table 30 because the latter figure is shown after the offset of deferred tax liabilities for cash flow hedge gains (CHF 363 million) and other temporary differences, which are adjusted out in line 11 and other lines of this table. 3 The CHF 6,157 million reported in line 8 includes DTL on goodwill of CHF 29 million. The CHF 435 million reported in line 9 includes DTL on intangibles of CHF 16 million.

Table 31: Composition of capital (continued)

		Numbers fully applied	Effect of the transition phase	References[1]
CHF million, except where indicated		**31.12.13**	**31.12.13**	
37	Investments in own additional tier 1 instruments			
38	Reciprocal crossholdings in additional tier 1 instruments			
38a	Holdings with a significant investments in the common stock			
38b	Holdings in companies which are to be consolidated (additional tier 1 instruments)			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)			
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	National specific regulatory adjustments		(3,113)	
42	Regulatory adjustments applied to additional tier 1 due to insufficient tier 2 to cover deductions			
	Tier 1 adjustments on impact of transitional arrangements		**(3,113)**	
	of which: prudential valuation adjustment			
	of which: own CET1 instruments			
	of which: goodwill net of tax, offset against hybrid capital		*(3,113)*	*6*
	of which: other intangible assets (net of related tax liabilities)			
	of which: gains from the calculation of cash flow hedges			
	of which: IRB shortfall of provisions to expected losses			
	of which: gains on sales related to securitization transactions			
	of which: gains / losses in connection with own credit risk			
	of which: investments			
	of which: expected loss amount for equity exposures under the PD/LG approach and under the simple risk-weighting method			
	of which: mortgage servicing rights			
42a	Excess of the adjustments which are allocated to the CET1 capital			
43	**Total regulatory adjustments to additional tier 1 capital**	**0**	**(3,113)**	
44	**Additional tier 1 capital (AT1)**	**0**	**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**28,908**	**13,271**	
46	Directly issued qualifying tier 2 instruments plus related stock surplus	5,665		7[2]
47	Directly issued capital instruments subject to phase-out from tier 2		2,971	8
48	Tier 2 instruments (and CET1 and additional tier 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group tier 2)			
49	*of which: instruments issued by subsidiaries subject to phase-out*			
50	Provisions			
51	**Tier 2 capital before regulatory adjustments**	**5,665**	**2,971**	
52	Investments in own tier 2 instruments			
53	Reciprocal crossholdings in tier 2 instruments			
53a	Investments with a significant influence (tier 2 instruments)			
53b	Investments to be consolidated (tier 2 Instrumente)			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
56	National specific regulatory adjustments			
	Additional deductions on the impact of transitional arrangements (further half-half deduction)			
56a	Excess of the adjustments which are allocated to the additional tier 1 capital			
57	**Total regulatory adjustments to tier 2 capital**	**0**	**0**	
58	**Tier 2 capital (T2)**	**5,665**	**2,971**	
	of which: high-trigger loss-absorbing capital	*955*		*7*
	of which: low-trigger loss-absorbing capital	*4,710*		*7*
59	**Total capital (TC = T1 + T2)**	**34,573**	**16,242**	

1 References link respective lines of this table to the respective reference numbers provided in the column "References" in "Table 30: Reconciliation of accounting balance sheet to balance sheet under the regulatory scope of consolidation." 2 The CHF 5,665 million reported in line 46 includes the following positions: CHF 4,710 million low-trigger loss-absorbing tier 2 capital recognized in the line "Debt issued" in table 30, CHF 385 million DCCP recognized in the line "Other liabilities" in table 30 and CHF 570 million recognized in DCCP-related charge for regulatory capital purpose in line 26b of this table.

Table 31: Composition of capital (continued)

		Numbers fully applied	Effect of the transition phase	References[1]
	CHF million, except where indicated	**31.12.13**	**31.12.13**	
	Amount with risk-weight pursuant the transitional arrangement (phase-in)		3,404	
	of which: defined benefit pension fund assets		*3,460*	
	of which: deferred tax assets on temporary differences		*(56)*	
60	**Total risk-weighted assets**	**225,153**	**3,404**	
	Capital ratios and buffers			
61	Common equity tier 1 (as a percentage of risk-weighted assets)	12.8		
62	Tier 1 (Pos 29 as a percentage of risk-weighted assets)	12.8		
63	Total capital (pos 45 as a percentage of risk-weighted assets)	15.4		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation and countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk-weighted assets)	7.1		
65	*of which: capital conservation buffer*	*3.6*		
66	*of which: bank-specific countercyclical buffer requirement*	*0.1*		
67	*of which: G-SIB buffer requirement*			
68	Common equity tier 1 available to meet buffers (as a percentage of risk-weighted assets)	18.5		
68a	Common equity tier 1 requirement including countercyclical buffer according to FINMA RS 11/2	7.1		
68b	Available common equity tier 1 (in percentage of risk-weighted assets)	18.5		
68c	Tier 1 requirement including countercyclical buffer according to FINMA RS 11/2	7.1		
68d	Available tier 1 (in percentage of risk-weighted assets)	18.5		
68e	Total capital requirement including countercyclical buffer according to FINMA RS 11/2	8.6		
68f	Available total capital (in percentage of risk-weighted assets)	22.2		
72	Non significant investments in the capital of other financials	1,591		
73	Significant investments in the common stock of financials	697		
74	Mortgage servicing rights (net of related tax liability)			
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,565		
	Applicable caps on the inclusion of provisions in tier 2			
76	Provisions eligible for inclusion in tier 2 in respect of exposures subject to standardised approach (prior to application of cap)			
77	Cap on inclusion of provisions in tier 2 under standardized approach			
78	Provisions eligible for inclusion in tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79	Cap for inclusion of provisions in tier 2 under internal ratings-based approach			

1 References link respective lines of this table to the respective reference numbers provided in the column "References" in "Table 30: Reconciliation of accounting balance sheet to balance sheet under the regulatory scope of consolidation."

G-SIBs indicator

For the financial year ended 2013, all banks that qualify as global systemically important banks (G-SIBs) are required to disclose, as defined by the Basel Committee on Banking Supervision, the 12 indicators for assessing the systemic importance of G-SIBs. UBS, being classified as a G-SIB in 2013, is required to comply with these additional disclosure requirements. These 12 indicators fall under the five categories of size, cross-jurisdictional activity, interconnectedness, substitutability/financial institution infrastructure and complexity, which are weighted equally and will be used for the G-SIB score calculation that drives the G-SIB surcharge to the CET1 capital ratio of 1.5%.

➔ **Refer to “SEC filings and other disclosures” at www.ubs.com/investors for more information on G-SIBs indicators**

Abbreviations frequently used in our financial reports

A

ABS asset-backed securities
AGM annual general meeting of shareholders
AMA advanced measurement approach
AoA articles of association
APAC Asia Pacific
ARS auction rate securities

B

BCBS Basel Committee on Banking Supervision
BIS Bank for International Settlements
bps basis points

C

CC Corporate Center
CCF credit conversion factors
CCP central counterparty
CDO collateralized debt obligations
CDR constant default rate
CDS credit default swaps
CET1 common equity tier 1
CHF Swiss franc
CLN credit-linked notes
CLO collateralized loan obligations
CMBS commercial mortgage-backed securities
CVA credit valuation adjustments

D

DBO defined benefit obligation
DCCP deferred contingent capital plan
DVA debit valuation adjustments

E

EAD exposure at default
ECB European Central Bank
EEA European Economic Area
EMEA Europe, Middle East and Africa
EPS earnings per share
ETD exchange-traded derivatives
ETF exchange-traded funds
EU European Union
EUR euro
EURIBOR Euro Interbank Offered Rate

F

FCA UK Financial Conduct Authority
FINMA Swiss Financial Market Supervisory Authority
FRA forward rate agreements
FTD first to default swaps
FTP funds transfer price
FX foreign exchange

G

GAAP generally accepted accounting principles
GBP British pound
G-SIB global systemically important banks

I

IASB International Accounting Standards Board
IFRS International Financial Reporting Standards
IRB internal ratings-based
IRC incremental risk charge

K

KPI key performance indicator

L

LAC loss-absorbing capital
LAS liquidity adjusted stress
LCR Liquidity Coverage Ratio
LGD loss given default
LIBOR London Interbank Offered Rate
LRD leverage ratio denominator
LTV loan-to-value

M

MTN medium-term notes

N

NAV net asset value
NRV negative replacement values
NSFR Net Stable Funding Ratio

O

OECD Organization for Economic Cooperation and Development
OCI other comprehensive income
OTC over-the-counter

P

PD probability of default
PRA UK Prudential Regulation Authority
PRV positive replacement values

R

RBC risk-based capital
RLN reference-linked notes
RMBS residential mortgage-backed securities
RoAE return on attributed equity
RoE return on equity
RV replacement values
RWA risk-weighted assets

S

SE structured entity
SEC US Securities and Exchange Commission
SNB Swiss National Bank
SRB systemically relevant banks

U

UK United Kingdom
US United States of America
USD US dollar

V

VaR value-at-risk

Information sources

Reporting publications

Annual publications: *Annual report (SAP no. 80531):* Published in both English and German, this single volume report provides a description of our Group strategy and performance, the strategy and performance of the business divisions and the Corporate Center, risk, treasury and capital management, corporate governance, responsibility and senior management compensation, (including compensation to the Board of Directors and the Group Executive Board members) and financial information, including the financial statements. *Review (SAP no. 80530):* The booklet contains key information on our strategy and financials. It is published in English, German, French and Italian. *Compensation Report (SAP no. 82307):* The report discusses our compensation framework and provides information on compensation to the Board of Directors and the Group Executive Board members. It is published in English and German.

Quarterly publications: *Letter to shareholders:* The letter provides a quarterly update from executive management on our strategy and performance. The letter is published in English, German, French and Italian. *Financial report (SAP no. 80834):* The quarterly financial report provides an update on our strategy and performance for the respective quarter. It is published in English.

How to order reports: The annual and quarterly publications are available in PDF format on the internet at *www.ubs.com/investors* in the "Financial information" section. Printed copies can be ordered from the same website in the "Investor services" section, which can be accessed via the link on the left-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference where applicable, from UBS AG, F4UK–AUL, P.O. Box, CH-8098 Zurich, Switzerland.

Other information

Website: The "Investor Relations" website at *www.ubs.com/investors* provides the following information on UBS: news releases, financial information (including results-related filings with the US Securities and Exchange Commission), corporate information, including UBS share price charts and data and dividend information, the UBS corporate calendar and presentations by management for investors and financial analysts. Information on the internet is available in English and German.

Result presentations: Our quarterly results presentations are webcast live. A playback of most presentations is downloadable at *www.ubs.com/presentations*.

Messaging service / UBS news alert: On the *www.ubs.com/newsalerts* website, it is possible to subscribe to receive news alerts about UBS via SMS or e-mail. Messages are sent in English, German, French or Italian and it is possible to state theme preferences for the alerts received.

Form 20-F and other submissions to the US Securities and Exchange Commission: We file periodic reports and submit other information about UBS to the US Securities and Exchange Commission (SEC). Principal among these filings is the annual report on Form 20-F, filed pursuant to the US Securities Exchange Act of 1934. The filing of Form 20-F is structured as a "wrap-around" document. Most sections of the filing can be satisfied by referring to parts of the annual report. However, there is a small amount of additional information in Form 20-F which is not presented elsewhere, and is particularly targeted at readers in the US. Readers are encouraged to refer to this additional disclosure. Any document that we file with the SEC is available to read and copy on the SEC's website, *www.sec.gov,* or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Please call the SEC by dialing +1-800-SEC-0330 for further information on the operation of its public reference room. Please visit *www.ubs.com/investors* for more information.

Cautionary Statement Regarding Forward-Looking Statements | This report contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, 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: (i) the degree to which UBS is successful in executing its announced strategic plans, including its efficiency initiatives and its planned further reduction in Basel III risk-weighted assets (RWA); (ii) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS's clients and counterparties; (iii) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings, or arising from requirements for bail-in debt or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose more stringent capital (including leverage ratio), liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve reductions to the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA effective 31 December 2013, or will approve a limited reduction of capital requirements due to measures to reduce resolvability risk; (vi) possible changes to the legal entity structure or booking model of UBS Group in response to enacted, proposed or future legal and regulatory requirements, including capital requirements, the proposal to require non-US banks to establish intermediate holding companies for their US operations, resolvability requirements and the pending Swiss parliamentary proposals and proposals in other countries for mandatory structural reform of banks; (vii) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (viii) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations; (ix) the effects on UBS's cross-border banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (x) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xi) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xii) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiii) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xiv) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (xv) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth 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 2013. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Rounding | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.

Tables | Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Zero values generally indicate that the respective figure is zero on an actual or rounded basis.

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Appendix H

Annual Report 2012 of UBS AG as at 31 December 2012

Our *performance* in 2012

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Dear shareholders,

2012 was an important milestone in our firm's history. We celebrated our 150th anniversary and also began executing our strategy to position the bank for sustainable success amidst the ongoing changes in our industry. Our anniversary gave us the opportunity to reflect on our strong heritage together with clients and other stakeholders around the globe, deepening existing relationships and establishing new ones. UBS has a long tradition of adapting successfully to change while maintaining the qualities of excellence and client focus which have always been our hallmarks. 2012 was such a year of adaptation, during which we took decisive action to prepare the bank for the future.

At the end of 2011, we defined a clear strategic direction for our firm designed to address the challenges of an operating and regulatory environment that is fundamentally changing. Our strategy is shaped by the firm's guiding principles that place our clients' interests first and demands we aim for excellence in everything we do in order to deliver sustainable performance. We believe our capital strength, enhanced risk controls and efforts to drive operational efficiency are also prerequisites for success in the changed environment.

Our strategy focuses on our pre-eminent wealth management businesses and leading universal bank in Switzerland, complemented by Global Asset Management and the Investment Bank. In 2012, we made excellent progress in further building our industry-leading capital position and exceeded our targets for risk-weighted asset reduction. We continued to implement Group-wide cost reduction and efficiency measures, and strengthened our operational risk controls significantly. In October, from a position of strength, we announced the acceleration of the implementation of our strategy in two crucial areas: significantly reducing the risk, complexity and balance sheet usage associated with our Investment Bank's activities; and implementing firm-wide programs to enhance operational excellence and efficiency. We are pleased that our actions have been well received by our clients, shareholders and bondholders.

As the world's leading wealth management firm we consider capital strength to be crucial for future success and, on a Basel III fully applied basis, we believe we are the best-capitalized global bank. Our fully applied Basel III common equity tier 1 ratio[1] increased by 310 basis points to end the year at 9.8%, already very close to our regulator's minimum 2019 requirement of 10%. On a phase-in basis, our Basel III common equity tier 1 ratio[1] increased 460 basis points to 15.3%. Another notable achievement during the year was the successful issuance of USD 4 billion of Basel III-compliant, low-trigger, loss-absorbing capital bonds. Reducing risk-weighted assets and our balance sheet size is crucial to our plans to further strengthen our capital ratios. We reduced our Basel III fully applied risk-weighted assets significantly, finishing the year 32% lower than at the end of 2011. We were particularly effective in reducing risk-weighted assets in the Investment Bank and our Legacy Portfolio. The vast majority of the reductions achieved in our Investment Bank and in our Legacy Portfolio resulted from sales and other reductions of exposures. Over the year we reduced our balance sheet by CHF 158 billion, which we expect will lower our funding costs in future. We maintained our strong liquidity and funding positions, ending 2012 with a Basel III estimated pro-forma liquidity coverage ratio of 113% and an estimated pro-forma net stable funding ratio of 108%. Both ratios are comfortably above the regulatory requirements of 100%. Our increased financial strength allowed us the flexibility to execute our strategy, provided reassurance for our clients, shareholders and other stakeholders, and enabled us to address issues of the past, both those specific to UBS and others that apply to the industry as a whole.

Maintaining cost discipline and ensuring we operate as effectively as possible is also critical to the long-term success of the firm. As previously announced, we are targeting total cost savings of CHF 5.4 billion, including incremental cost savings of CHF 3.4 billion in addition to the CHF 2 billion cost-savings program announced in August 2011. In 2012, we continued to make progress in reducing our underlying cost base, and have achieved CHF 1.4 billion of effective run-rate cost-reductions since mid-2011, excluding foreign exchange movements and the increase in legal expenses in 2012. Over the next three years we expect to make significant investments that will enable us to serve our clients with greater agility, improving quality and speed to market.

Strong operational risk controls enable us to deploy appropriate levels of risk in order to better serve our clients and generate sustainable financial performance. During the year we strengthened these controls further and stepped up our efforts to reinforce a culture of accountability and responsibility. Nevertheless, there is no room for complacency and we will remain vigilant to ensure that the appropriate checks and balances are in place. As a result of our success in building our capital ratios and our efforts to re-

[1] The pro-forma Basel III information is not required to be presented because Basel III requirements were not in effect on 31 December 2012. Such measures are non-GAAP financial measures as defined by SEC regulations. We nevertheless include information on the basis of Basel III requirements because they are effective as of 1 January 2013 and significantly impact our RWA and eligible capital. The calculation of our pro-forma Basel III RWA combines existing Basel 2.5 RWA, a revised treatment for low-rated securitization exposures that are no longer deducted from capital but are risk-weighted at 1250%, and new model-based capital charges. Some of these new models require final regulatory approval and therefore our pro-forma calculations include estimates (discussed with our primary regulator) of the effect of these new capital charges which will be refined as models and the associated systems are enhanced.

Axel A. Weber Chairman of the Board of Directors **Sergio P. Ermotti** Group Chief Executive Officer

duce costs and operational risks we will be better able to focus our energies and resources on driving growth in our businesses.

In 2012, we made substantial progress towards achieving our strategic objectives and recorded a resilient underlying performance. However, our overall results for the year were affected by the costs involved in shaping the business for future success and in connection with litigation and regulatory matters to address issues from the past, including the settlements reached in relation to LIBOR. Consequently, we reported a pre-tax loss of CHF 1,774 million and a net loss attributable to UBS shareholders of CHF 2,511 million. Diluted earnings per share for the year were negative CHF 0.67. Adjusted for the effects of own credit, restructuring charges, goodwill impairments, and credits related to changes in benefit and pension plans, we recorded a pre-tax profit of CHF 3.0 billion.

We made solid progress across all businesses in 2012. Notably, our Wealth Management business continued to see success in the fastest growing global markets while adapting to the new cross-border paradigm. Together, our wealth management businesses attracted strong net new money inflows totaling almost CHF 47 billion, an increase of over CHF 11 billion on 2011 and an illustration of our clients' trust. Wealth Management Americas continued to make strong progress and achieved a record pre-tax profit of USD 873 million, an increase of 40% on 2011. Our Retail & Corporate business delivered a resilient pre-tax performance and continued to regain market share. It performed exceptionally well in relation to net new business volume growth, which reached almost 5%, and recorded deposit inflows of CHF 14 billion, including the highest net new client assets for retail clients in Switzerland since 2001. Global Asset Management achieved an increased pre-tax profit in a difficult year for the asset management industry, as it delivered stronger investment performance to its clients. The Investment Bank beat our targets in relation to risk-weighted asset and balance-sheet reductions, allowing the firm to reach its current industry-leading capital ratios. It performed well in many of its traditional areas of competitive strength, expanding in equity and debt capital markets and global syndicated finance. Its foreign exchange business continued to benefit from the investments we made in cutting edge e-trading systems, enabling it to grow volumes significantly.

As a result of our achievements in 2012, particularly in relation to capital, and as a sign of confidence in our continued ability to execute our strategy in a disciplined manner, we are recommending a 50% increase in our dividend for our shareholders for 2012 to CHF 0.15 per share.

As a firm, we believe that it is important that we play an active and constructive role within the communities in which we do business. Throughout 2012, our employee volunteering and community affairs programs contributed to a wide variety of community-based projects around the world. We remained focused on supporting education and entrepreneurship alongside efforts to promote sustainable business practices, including environmental practices. In 2012, we supported educational and entrepreneurship activities around the world, investing over CHF 40 million. A large part of this investment was allocated to the new UBS International Center of Economics in Society at the University of Zurich, which we set up to commemorate the firm's 150th anniversary. The center facilitates top-quality international economic research that examines interrelationships between society and the economy and promotes the transfer of knowledge. On the environmental front, we continue to take our responsibilities very seriously and are pleased to report that we met our ambitious CO2 emissions reduction target. External experts from the most significant climate change-focused investors' initiative, the Carbon Disclosure Project, ranked UBS as the industry leader in the banking sector and among the top 10 companies worldwide for our measures to combat climate change. Shareholders can also help us to achieve our environmental ambitions by opting to read our financial publications electronically through our Investor Relations website instead of taking delivery of printed copies.

During the year, the Board of Directors ensured that UBS remained focused on its priorities. It successfully oversaw the continued implementation of our strategy designed to create a firm that will thrive in the new banking environment. It ensured that we made progress in addressing the issues of the past while driving measures to reinforce a culture of accountability and responsibility. It also continued to engage in dialogue with stakeholders on a broad range of issues important to the firm and its future. Together with the bank's management, the Board initiated in-depth discussions with our larger shareholders to gain a better understanding of their views with regard to improving the firm's compensation plans and disclosures. As part of this report, you will see we took this feedback into account in developing our best practice compensation structures for 2012. We believe the changes we implemented better align the interests of our shareholders, bondholders, regulators and other stakeholders with those of the firm, specifically its need to continue executing its strategy successfully going forward. To strengthen our corporate governance, we have established an integrated shareholder portal which will be operational from the end of March 2013. Our registered shareholders will be able to use the portal to issue instructions for the exercise of their voting rights after having provided a written appointment of an independent proxy. In addition, the Board has decided that the firm will no longer act as a corporate proxy and will no longer represent the voting rights carried by deposited shares at the next annual general meeting.

In other Board-related developments, Wolfgang Mayrhuber has announced his decision not to stand for re-election to the Board of Directors at the firm's Annual General Meeting (AGM) of Shareholders on 2 May 2013. We would like to express our gratitude to Wolfgang for his dedication and commitment to UBS and the valuable expertise he brought to the firm as a member of the Board of Directors, Chair of the Corporate Responsibility Committee and member of the Human Resources and Compensation Committee. The Board has announced that it will nominate Reto Francioni for election to the Board at the AGM in May. Reto has been Chief Executive Officer of the Deutsche Börse AG since 2005. Prior to this he was President and Chairman of the SWX Group in Zurich and is an internationally acknowledged expert with a long track record in international capital markets and banking. Subject to his election at the AGM, we believe Reto Francioni will further strengthen the Board bringing his unique experience and insights to the firm.

Ultimately the firm's success rests upon the endeavors of all our employees. We would both like to take this opportunity to thank our employees for their continued hard work, dedication and professionalism throughout what was a challenging year. In 2012, our employees continued to put our clients' interests first while adapting to and implementing the transformation of the firm. Through their efforts we made demonstrable progress in executing our strategy, putting our firm in a far stronger position than it was a year ago. We are convinced our strategy is the right one for UBS, and are determined to maintain our track record of successful execution in 2013 for the benefit of all our stakeholders.

14 March 2013

Yours sincerely,

UBS

Axel A. Weber
Chairman of the
Board of Directors

Sergio P. Ermotti
Group Chief Executive Officer

Key figures

	As of or for the year ended		
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10
Group results			
Operating income	**25,443**	27,788	31,994
Operating expenses	**27,216**	22,482	24,650
Operating profit / (loss) from continuing operations before tax	**(1,774)**	5,307	7,345
Net profit / (loss) attributable to UBS shareholders	**(2,511)**	4,138	7,452
Diluted earnings per share (CHF)[1]	**(0.67)**	1.08	1.94
Key performance indicators[2], balance sheet and capital management, and additional information			
Performance			
Return on equity (RoE) (%)	**(5.2)**	9.1	18.0
Return on tangible equity (%)[3]	**1.6**	11.9	24.7
Return on risk-weighted assets, gross (%)[4]	**12.0**	13.7	15.5
Return on assets, gross (%)	**1.9**	2.1	2.3
Growth			
Net profit growth (%)[5]	**N/A**	(44.5)	N/A
Net new money growth (%)[6]	**1.6**	1.9	(0.8)
Efficiency			
Cost / income ratio (%)	**106.5**	80.7	76.9
Capital strength			
BIS tier 1 capital ratio (%)[7]	**21.3**	15.9	17.8
FINMA leverage ratio (%)[7]	**6.3**	5.4	4.5
Balance sheet and capital management			
Total assets	**1,259,232**	1,416,962	1,314,813
Equity attributable to UBS shareholders	**45,895**	48,530	43,728
Total book value per share (CHF)[8]	**12.25**	12.95	11.53
Tangible book value per share (CHF)[8]	**10.52**	10.36	8.94
BIS core tier 1 capital ratio (%)[7]	**19.0**	14.1	15.3
BIS total capital ratio (%)[7]	**25.2**	17.2	20.4
BIS risk-weighted assets[7]	**192,505**	240,962	198,875
BIS tier 1 capital[7]	**40,982**	38,370	35,323
Additional information			
Invested assets (CHF billion)[9]	**2,230**	2,088	2,075
Personnel (full-time equivalents)	**62,628**	64,820	64,617
Market capitalization[10]	**54,729**	42,843	58,803

1 Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of this report for more information. 2 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 3 Net profit attributable to UBS shareholders before amortization and impairment of goodwill and intangible assets / average equity attributable to UBS shareholders less average goodwill and intangible assets. 4 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010. 5 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 6 Group net new money includes net new money for Retail & Corporate and excludes interest and dividend income. 7 Capital management data is disclosed in accordance with the Basel 2.5 framework for 31 December 2012 and 31 December 2011, and in accordance with the Basel II framework for 31 December 2010. Refer to the "Capital management" section of this report for more information. 8 Refer to the "Capital management" section of this report for more information. 9 In 2012, we refined our definition of invested assets. Refer to "Note 35 Invested assets and net new money" in the "Financial information" section of this report for more information. Group invested assets includes invested assets for Retail & Corporate. 10 Refer to the appendix "UBS shares" of this report for more information.

Corporate information

The legal and commercial name of the company is UBS AG. The company was formed on 29 June 1998, when Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872) merged to form UBS AG.

UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Company Law and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

The addresses and telephone numbers of our two registered offices are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 11 11; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, phone +41-61-288 50 50.

UBS AG shares are currently listed on the SIX Swiss Exchange and the New York Stock Exchange.

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Corporate calendar

Publication of the first quarter 2013 report
Tuesday, 30 April 2013

Annual General Meeting
Thursday, 2 May 2013

Publication of the second quarter 2013 report
Tuesday, 30 July 2013

Publication of the third quarter 2013 report
Tuesday, 29 October 2013

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UBS and its businesses

We draw on our 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. Our business strategy is centered on our pre-eminent global wealth management businesses and our leading universal bank in Switzerland. Together with a client-focused Investment Bank and a strong, well-diversified Global Asset Management business, we will expand our premier wealth management franchise and drive further growth across the Group. Headquartered in Zurich and Basel, Switzerland, we have offices in more than 50 countries, including all major financial centers, and approximately 63,000 employees. UBS AG is the parent company of the UBS Group (Group). Under Swiss company law, UBS AG is organized as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors. The operational structure of the Group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate.

Wealth Management provides comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services. An open product platform provides clients with access to a wide array of products from third-party providers that complement our own product lines.

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US business, the domestic Canadian business and international business booked in the US.

The *Investment Bank* provides a range of products and services in equities, fixed income, foreign exchange and commodities to corporate and institutional clients, sovereign and government bodies, financial intermediaries, alternative asset managers and UBS's wealth management clients. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities. It provides financial solutions to its clients, and offers advisory and analytics services in all major capital markets.

Starting with reporting for the first quarter of 2013, it offers investment banking and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through its two business units, Corporate Client Solutions and Investor Client Services.

Global Asset Management is a large-scale asset manager with businesses diversified across regions, capabilities and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services, including fund set-up, accounting and reporting for traditional investment funds and alternative funds.

Retail & Corporate provides comprehensive financial products and services to our retail, corporate and institutional clients in Switzerland and maintains a leading position in these client segments. It constitutes a central building block of our universal bank model in Switzerland, delivering growth to our other businesses. It supports them by cross-selling products and services provided by our asset-gathering and investment banking businesses, by referring clients to them and by transferring private clients to Wealth Management due to increased client wealth.

The *Corporate Center* provides control functions for the business divisions and the Group in such areas as risk control, legal and compliance as well as finance including treasury services, funding, balance sheet and capital management. The Corporate Center – Core Functions provides all logistics and support functions including information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical and information security, offshoring as well as Group-wide operations. It allocates most of its treasury income, operating expenses and personnel associated with these activities to the businesses based on capital and service consumption levels. The Corporate Center also encompasses certain centrally managed positions, including the SNB StabFund option, the Legacy Portfolio and, starting with reporting for the first quarter of 2013, non-core businesses previously part of the Investment Bank.

Our Board of Directors

The Board of Directors (BoD) is our most senior body. Under the leadership of the Chairman, it determines the strategy of the Group based upon the recommendations of the Group Chief Executive Officer (Group CEO). It exercises ultimate supervision of management and is responsible for the appointment and dismissal of all Group Executive Board (GEB) members, the Company Secretary and the Head of Group Internal Audit as well as supervising and setting appropriate risk management and control principles for the firm. With the exception of its current Chairman, Axel A. Weber, all members of the BoD are independent.

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1 **Axel A. Weber** Chairman of the Board of Directors, Chairperson of the Governance and Nominating Committee and member of the Corporate Responsibility Committee 2 **Isabelle Romy** Member of the Audit Committee and the Governance and Nominating Committee 3 **David Sidwell** Senior Independent Director, Chairperson of the Risk Committee and member of the Governance and Nominating Committee 4 **Beatrice Weder di Mauro** Member of the Audit Committee and Corporate Responsibility Committee 5 **William G. Parrett** Chairperson of the Audit Committee and member of the Corporate Responsibility Committee 6 **Wolfgang Mayrhuber** Chairperson of the Corporate Responsibility Committee and member of the Human Resources and Compensation Committee 7 **Michel Demaré** Independent Vice Chairman, member of the Audit Committee and the Governance and Nominating Committee 8 **Axel P. Lehmann** Member of the Governance and Nominating Committee and the Risk Committee 9 **Ann F. Godbehere** Chairperson of the Human Resources and Compensation Committee and member of the Audit Committee 10 **Rainer-Marc Frey** Member of the Human Resources and Compensation Committee and the Risk Committee 11 **Joseph Yam** Member of the Corporate Responsibility Committee and the Risk Committee 12 **Helmut Panke** Member of the Human Resources and Compensation Committee and the Risk Committee

Our Group Executive Board

The management of the firm is delegated by the Board of Directors to the Group Executive Board. Under the leadership of the Group Chief Executive Officer, the Group Executive Board has executive management responsibility for the Group and its businesses. It assumes overall responsibility for the development of the Group and business division strategies and the implementation of approved strategies.

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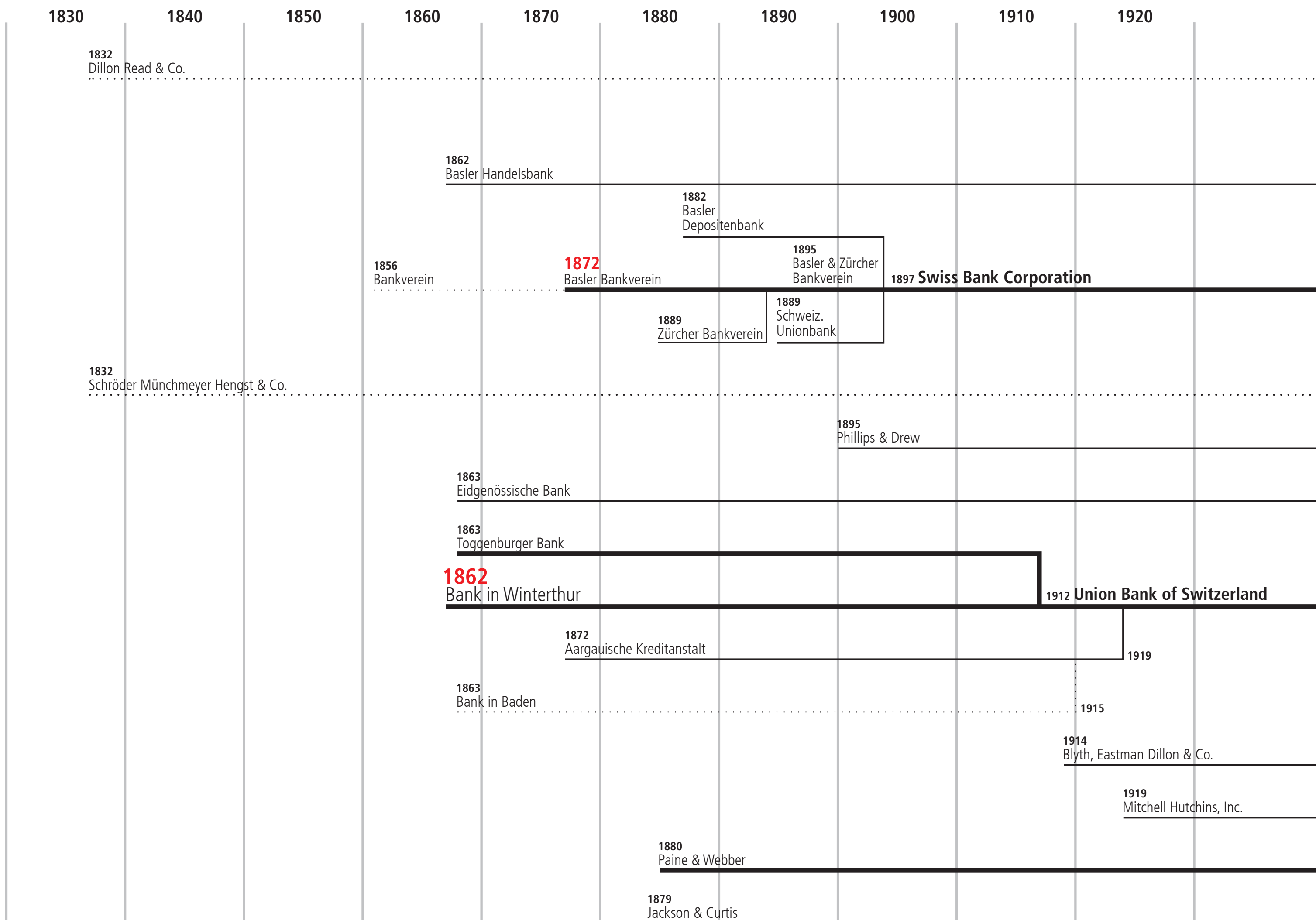
1 **Sergio P. Ermotti** Group CEO 2 **Lukas Gähwiler** CEO UBS Switzerland and CEO Retail & Corporate 3 **Ulrich Körner** Group Chief Operating Officer and CEO UBS Group Europe, Middle East and Africa 4 **Philip J. Lofts** Group Chief Risk Officer 5 **Robert J. McCann** CEO Wealth Management Americas and CEO UBS Group Americas 6 **Jürg Zeltner** CEO UBS Wealth Management 7 **Tom Naratil** Group CFO 8 **Chi-Won Yoon** CEO UBS Group Asia Pacific 9 **Andrea Orcel** CEO Investment Bank 10 **John A. Fraser** Chairman and CEO Global Asset Management 11 **Markus U. Diethelm** Group General Counsel

The making of UBS

UBS has played a pivotal role in the development and growth of Switzerland's banking tradition since the firm's origins in the mid-19th century. In 2012, the year of our 150th anniversary, we accelerated our strategic transformation of the firm to create a business model that is better adapted to the new regulatory and market circumstances and that we believe will result in more consistent and high-quality returns.

The origins of the banking industry in Switzerland can be traced back to medieval times. This long history may help explain the widespread impression, reinforced in popular fiction, that Switzerland has always possessed a strong financial sector. In reality, the size and international reach of the Swiss banking sector we know today is largely a product of the second half of the 20th century, strongly influenced by two banks: Union Bank of Switzerland and Swiss Bank Corporation (SBC), which merged to form UBS in 1998.

At the time of the merger, both banks were already well-established and successful in their own right. Union Bank of Switzerland celebrated its 100th anniversary in 1962, tracing its origins back to



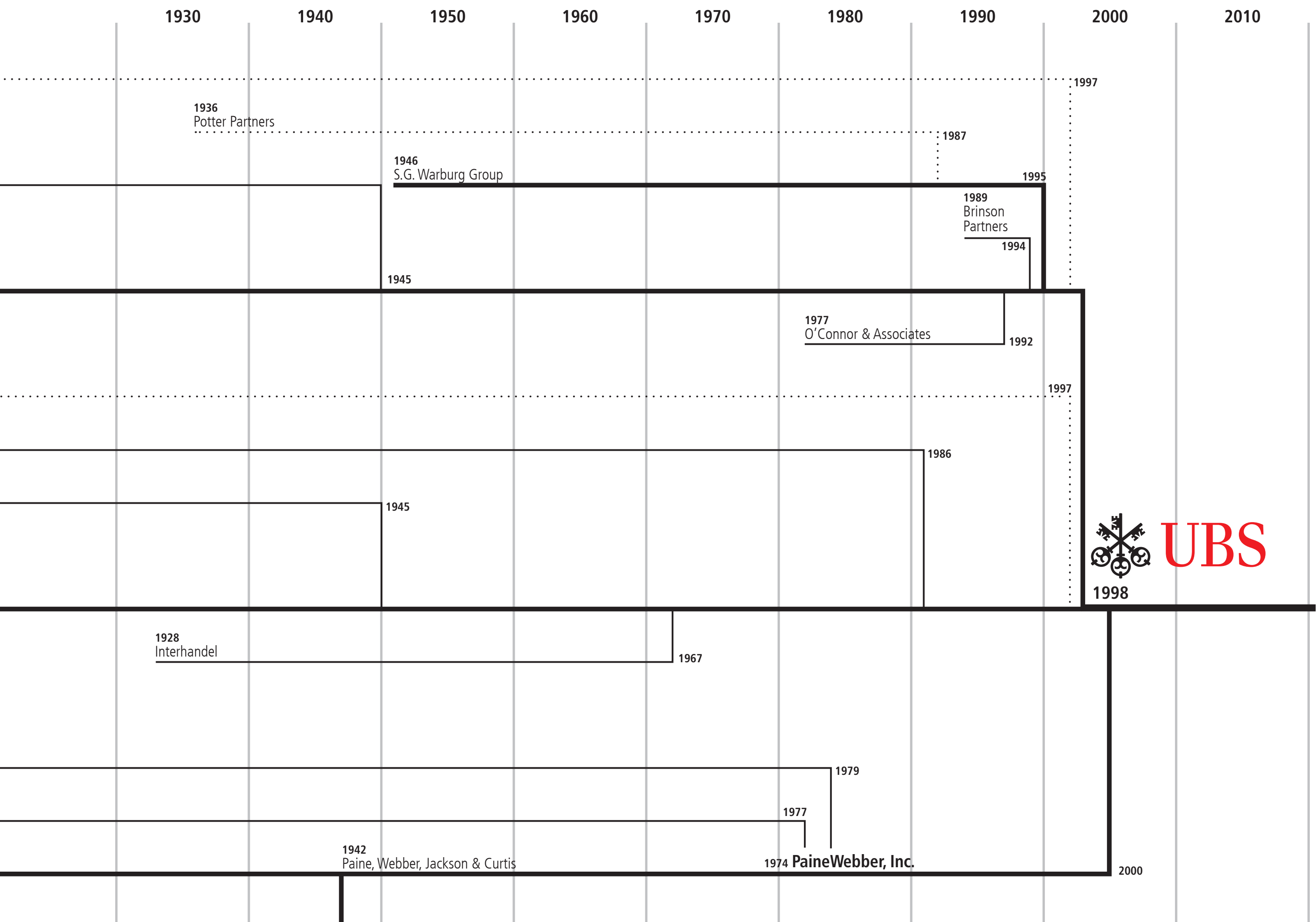
the Bank in Winterthur. SBC marked its centenary in 1972 with celebrations in honor of its founding forebear, the Basler Bankverein. The historical roots of Paine-Webber, acquired by UBS in 2000, go back to 1879, while S.G. Warburg, the central pillar upon which UBS's Investment Bank was built, commenced operations in 1946.

In the early 1990s, SBC and Union Bank of Switzerland were both commercial banks operating mainly out of Switzerland. The banks shared a similar vision: to become a world leader in wealth management, a successful global investment bank and a top-tier global asset manager, while remaining an important commercial and retail bank in their home market of Switzerland.

Union Bank of Switzerland, the largest and best-capitalized Swiss bank of its time, pursued these goals primarily through a strategy of organic growth. In contrast, SBC, then the third-largest Swiss bank, grew through a combination of partnership and acquisition. In 1989, SBC started a joint venture with O'Connor, a leading US derivatives firm noted for its dynamic and innovative culture, its meritocracy and its team-oriented approach. O'Connor brought state-of-the-art risk management and derivatives technology to SBC, and in 1992 SBC moved to fully acquire O'Connor. In 1994, SBC added to its capabilities when it acquired Brinson Partners, a leading US-based institutional asset management firm.

The next major milestone was in 1995, when SBC acquired S.G. Warburg, the British merchant bank. The deal helped SBC fill a strategic gap in its corporate finance, brokerage, and research capabilities and, most importantly, brought with it an institutional client franchise that remains crucial to our equities business to this day.

The 1998 merger of SBC and Union Bank of Switzerland into the firm we know today created a world-class wealth manager and the largest universal bank in Switzerland, complemented by a strong investment bank and a leading global institutional asset manager. In 2000, UBS grew further with the acquisition of PaineWebber, establishing the firm as a significant player in the US.



Since 2000, UBS has established a strong footprint in the Asia-Pacific region and the emerging markets based on a presence in many of these countries going back decades. Our new global reach found expression through our new global UBS brand identity, introduced in 2003.

The firm's progress was evident in 2006, the most successful year in its history. However, in 2007 the effects of the global financial crisis started to be felt across the financial industry. This crisis had its origins in the securitized financial product business linked to the US residential real estate market. Between the third quarter of 2007 and the fourth quarter of 2009, UBS incurred significant losses on these assets. The firm responded with decisive action designed to reduce risk exposures and stabilize its businesses, including raising capital on multiple occasions.

More recently, UBS continued to improve its capital strength to meet new and enhanced industry-wide regulatory requirements. Our position as one the world's best-capitalized banks, together with our stable funding and sound liquidity positions, provide us with a solid foundation for our success. In October 2012, from this position of strength, we announced a significant acceleration in the implementation of our strategy. This announcement underlined our commitment to transform UBS into a less capital- and balance-sheet-intensive business that is more focused on serving clients and more capable of maximizing value for shareholders. We are well prepared for the future with a clear strategy and a solid financial foundation.

➔ **Refer to *www.ubs.com/history* for more detailed information on UBS's 150 years of history**

Our 150th anniversary: an occasion to build and deepen relationships

In 2012, we celebrated our firm's 150th anniversary, marking the occasion by redoubling efforts to enhance our social and charitable commitments around the world. Throughout our anniversary year, we connected with thousands of our clients worldwide through celebrations in Switzerland and at our major business locations. All business regions organized and undertook events and other activities focused on our employees. In October 2012, a global volunteering recognition program gave awards to individual employees and groups of employees for outstanding community involvement.

In Switzerland, our anniversary activities leveraged existing marketing and sponsorship programs such as our collaboration with Switzerland Tourism, the UBS KeyClub bonus program and the UBS Kids Cup, which had nearly 100,000 participants in 2012. On 25 June 2012, we distributed more than one million vouchers to clients and the general public for boat trips on Swiss lakes.

We also launched a key education initiative in April 2012 as part of our anniversary celebrations. Consisting of six sub-projects, the UBS Education Initiative centers on the UBS International Center of Economics in Society at the University of Zurich. The initiative will enable the creation of up to five professorships in coming years, starting in 2013, to stimulate cutting-edge international research into the economic sector. Other sub-projects go beyond academia. One example is Explore-it, which aims to encourage school children's interest in science and technology. We also support Young Enterprise Switzerland, an initiative which helps school children learn how the business world works. Other organizations we work with include Genilem, which helps young entrepreneurs and start-up companies to establish their businesses, and KMU Next, an organization for entrepreneurs who are planning their succession. As part of a lifelong learning project, we aim to support employees of all age groups on their career paths. UBS is also continuing to invest in the next generation of talented individuals with the creation of 150 extra apprenticeships over the next five years and 150 extra internships over the next three years.

To convey these initiatives and events to our stakeholders, we launched a special 150th anniversary microsite. We also distributed a 38-page UBS history brochure entitled "150 years of banking" to our employees, pensioners and clients worldwide, and we published additional feature articles on UBS's history that appeared in our internal media.

Our activities throughout 2012 signaled our optimism and confidence in the future. For the remainder of 2013 and beyond, we will continue to build on our heritage by strengthening and deepening our business relationships, and by helping the communities in which we live and work through long-lasting and valuable programs.

➔ **Refer to the corporate responsibility section for more information on UBS's social and charitable commitments**

Operating environment and strategy

Current market climate and industry drivers

Global stock markets rebounded strongly in 2012, supported by confidence-boosting measures in Europe and expansive monetary policy. However, the macroeconomic environment worsened, especially in Europe, as the sovereign debt crisis spilled over to eurozone core countries in the second half of the year. The resulting eurozone recession weakened global economic activity.

Subdued recovery despite expansive monetary measures

While a series of interventions from central banks gave confidence to stock markets over the year, the macroeconomic environment in Europe deteriorated, especially in the second half of 2012, as the unresolved sovereign debt and banking crisis spread beyond peripheral countries and began to affect core countries such as France and Germany. The situation worsened with public spending in eurozone countries contracting as a result of the necessary fiscal consolidation of public finances and as a decline in consumers' expenditure reduced the pace of economic activity. At the same time, the macroeconomic environment and stricter regulatory requirements prompted banks to speed up deleveraging, putting an additional dampening effect on economic growth.

In the US, some sectors of the economy, especially housing and the labor market showed signs of improvement, predominantly in the second half of the year. However, overall economic performance remained lackluster and continued to be subject to uncertainty primarily surrounding fiscal policy, despite a last-minute compromise at the turn of the year to avoid the fiscal cliff.

Emerging economies remained the global drivers of growth, but their improvement, particularly China's, lagged behind that of previous recoveries, as structural advantages that benefited emerging economies in the past are gradually fading. Furthermore, growth in emerging countries was also slowed by spillover effects from recessionary developments in Europe and the slow recovery of the US. In addition, China was negatively affected by uncertainty surrounding domestic political developments prior to the formation of its new government.

Euro crisis persists

In 2012, the European sovereign debt crisis continued to be among the most significant factors influencing the global economy, despite a series of policy actions aimed at resolving it.

At the beginning of 2012, the rating agency Standard & Poor's downgraded the credit ratings of nine eurozone governments, including France and Austria, both previously AAA-rated countries. Shortly afterwards, Standard & Poor's also downgraded the rating of the European Financial Stability Facility (EFSF). Measures initiated by the European Central Bank (ECB) to calm markets, such as the second tranche of its longer-term refinancing operation, only resulted in short-term relief. The unresolved sovereign debt and banking crises in peripheral countries threatened to affect larger nations like Italy and Spain, and as a result more fundamental measures were introduced aimed toward a sustainable crisis resolution. In June, the European Stability Mechanism (ESM) was granted additional powers, which provided the ESM with the flexibility to purchase government bonds directly in the primary market as well as to recapitalize banks directly. In September, the ECB announced the technical framework for its outright monetary transactions program that allows the ECB unlimited purchases of government bonds, provided the issuing countries meet certain conditions regarding their economic policies associated with the EFSF/ESM.

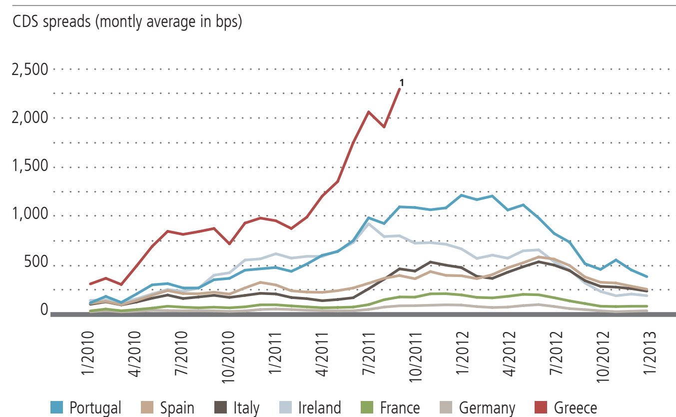
The economic environment in Greece deteriorated during 2012 and at the end of the first quarter, the eurozone finance ministers agreed on a further rescue package, which included a writedown of 53% of the face value of Greek government bonds. This measure proved insufficient to stabilize the economic situation in Greece, making a further support program necessary, which was agreed at the end of the year.

Toward the end of the year, financial conditions in Europe improved and sovereign credit default swap spreads narrowed significantly. Nevertheless, the financial stability of the eurozone continues to be fragile, and significant challenges lie ahead, including large-scale bond issuance in Spain during 2013.

The Swiss economy, despite outperforming its European peers, was also affected by recessionary tendencies in the euro-

Development of sovereign 5-year CDS spreads of selected eurozone countries

CDS spreads (montly average in bps)



1 After 14 September 2011, no indicative 5-year CDS prices could be observed for Greece.

zone, given its strong economic links. As a consequence, economic growth in Switzerland declined to 1% in 2012, from 1.9% in 2011.

Outlook for 2013

While long-term structural issues such as high debts across advanced economies and unbalanced growth models in emerging economies remain unsettled, 2013 could mark the dawn of the post-crisis era. We expect global economic growth to increase modestly to 3.0% in 2013 from 2.7% in 2012. In the US, headwinds of private sector deleveraging are receding and recession in several of the peripheral eurozone countries is expected to be less significant than previously projected. However, considerable uncertainties related to the debt crisis, fiscal austerity and widespread deleveraging remain, potentially resulting in only slightly positive growth in the eurozone in 2013. As we expect global inflationary pressures to remain limited, monetary policy in advanced economies will probably remain accommodative.

Industry drivers

Despite strong share price performance within the financial industry during the year, banks faced a number of challenges.

Regulatory developments remain the main driver behind structural changes in the industry

Regulators and legislators in 2012 continued to put pressure on the financial industry to become simpler and more transparent, more risk-averse and less leveraged. The year was characterized on one hand by progress in implementing existing regulations, such as Basel III and recovery and resolution planning. The year was also characterized on the other hand by new, far-reaching reform proposals such as the recommendations of the European Commission's High-level Expert Group on reforming the structure of the EU banking sector. These suggested, amongst others, that deposit-taking operations should be separated from large trading activities at European banks. Discussions on the issue are ongoing in Europe, and the European Commission may propose legislation in 2013.

Over the course of 2012, the financial industry continued to adjust to new, stricter capital and liquidity rules related to Basel III, which became effective in Switzerland on 1 January 2013. Over time, these rules may lead to a fundamental change in the financial industry's structure, discouraging many investment banking and trading strategies. As a consequence, financial institutions are expected to focus even more on fee-generating business that requires less capital and funding, with increased competition in these businesses also likely to put pressure on returns.

Despite progress in the implementation of many regulatory initiatives in 2012, the financial industry continued to face regulatory uncertainties on multiple fronts that weigh on the growth appetite and earning power of the sector. Examples include discrepancies in the way Basel III has been incorporated into national rules and its postponed implementation in a number of participating countries. Uncertainty also remains with regard to the implementation of the Volcker Rule in the US, for which several key elements have yet to be fully defined.

Macroeconomic environment impacting the industry

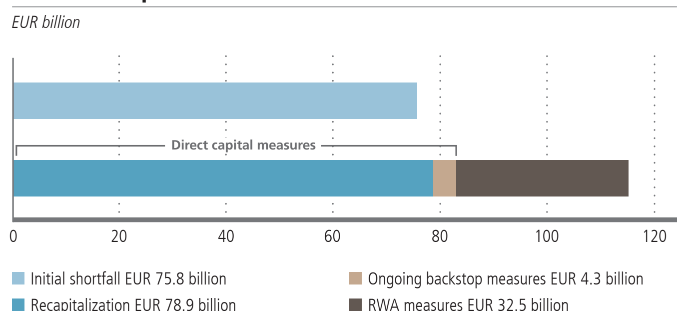
The macroeconomic environment remained extremely challenging for the financial industry. While top-line growth was constrained by stricter regulatory requirements, especially around capital and liquidity standards, the prevailing low-yield environment and flat yield curve put further pressure on net interest margins and revenues. Additionally, credit demand was low, also as a result of spillover effects following the overall economic downturn. The weak revenue environment prompted the industry to focus on increasing operational efficiency, resulting in widespread cost-saving initiatives, which included personnel reductions, branch optimization, and other measures to realign cost structures with the subdued revenue levels.

From funding challenge to capital challenge in the eurozone

While obtaining sufficient medium- and long-term funding to maintain a cost-efficient and balanced liquidity and funding position was a key challenge in 2011, a series of central bank measures, such as the ECB's longer-term refinancing operation, have somewhat eased funding pressure on EU banks. In 2012, the challenge was rather meeting minimum capital requirements defined by regulators and policy makers. For example the European Banking Authority required banks to build up additional capital buffers to reach a level of 9% core tier 1 capital ratio by the end of June 2012. Following this recommendation an EU-wide recapitalization exercise was initiated to close the capital requirements of certain banks. This exercise resulted in an increase in banks' capital positions in Europe of more than EUR 115 billion by means of multiple recapitalization measures. The majority of the required recapitalization was achieved through direct capital measures, which included the issuance of new ordinary shares, the payment of dividends in shares, retained earnings and the conversion of hybrid capital into common capital. Further measures included a reduction of risk-weighted assets, for instance through the disposal of assets and continued deleveraging.

Final recapitalization amount against the initial shortfall of EBA recapitalization exercise

EUR billion



Source: EBA Final Report on the implementation of Capital Plans, October 2012

In Switzerland, the two largest banks face new capital requirements, which were defined as part of the revisions of the capital adequacy and banking ordinances, issued on 1 June 2012 to implement the "too-big-to-fail" law and Basel III.

➔ **Refer to the "Regulatory developments" section of this report for more information**

Continued pressure on client confidentiality

Pressure on client confidentiality continued to increase worldwide. In this context, Switzerland's bilateral withholding tax agreements with the United Kingdom and Austria came into force on 1 January 2013. Under these agreements, residents of both countries can have their existing banking relationships in Switzerland retrospectively treated as declared either by making a one-time tax payment or by disclosing their accounts. Future investment income and capital gains of residents of Austria and the United Kingdom with undisclosed accounts in Switzerland will be subject to a final withholding tax, with Switzerland transferring the proceeds to the respective authorities. While additional withholding tax negotiations between Switzerland and other EU countries are ongoing, Switzerland's bilateral tax treaty with Germany was rejected by the German Bundesrat in November 2012 and a specially appointed mediation committee within the German parliament was unable to reach agreement on the treaty in December 2012.

Furthermore, the Swiss Federal Council announced the overall direction regarding the new financial integrity strategy (*Weissgeldstrategie*), which foresees that by implementing enhanced due diligence requirements, banks and other financial intermediaries should be prevented from accepting assets that are not tax-compliant.

Pressure on client confidentiality will have an impact on the business of banks serving cross-border clients, particularly in Switzerland. As a consequence, the financial services industry will need to adapt to new client demands, rethink its cross-border value propositions and make significant efforts to ensure operational readiness and compliance. This is likely to be a challenge, particularly for smaller banks, and is expected to lead to further consolidation in the sector.

Regulatory developments

In 2012, many regulatory initiatives, launched following the 2007–2009 financial crisis, progressed toward implementation. In particular, changes to capital adequacy and banking ordinances to implement the "too-big-to-fail" law and Basel III in Switzerland were finalized and entered into force on 1 January 2013.

Regulatory developments in Switzerland

The Swiss "too-big-to-fail" (TBTF) law, a revision of the Swiss banking law, or *Bankengesetz*, was adopted on 30 September 2011. Related changes to Swiss capital adequacy and banking ordinances were issued on 1 June 2012, which also supported the implementation of Basel III. Following the revision of the Capital Adequacy Ordinance, Swiss banks have to comply with the Basel III-related requirements based on a transitional timetable, according to which requirements are phased in from 1 January 2013 and will take effect on a fully applied basis on 1 January 2019.

On top of the Basel III requirements, specific TBTF rules apply for systemically relevant banks in Switzerland (currently defined as UBS and Credit Suisse by the Swiss National Bank). These institutions will have to fulfill the following capital requirements: (i) a minimum of 4.5% of risk-weighted assets (RWA) in the form of Basel III common equity tier 1 (CET1) capital, (ii) a buffer of 8.5% composed of a minimum of 5.5% of RWA in the form of Basel III CET1 capital and up to 3% of RWA in the form of high-trigger loss-absorbing capital, which can also be substituted by Basel III CET1 capital, and (iii) a progressive component that depends on the total exposure and market share of the bank and that should be fulfilled with low-trigger loss-absorbing capital. We expect our requirement for this progressive component in 2019 to fall to 4.5% from 6.0% due to our planned reduction in balance sheet size related to the accelerated implementation of our strategy announced in October 2012 and the resulting reduction in total exposure. We expect this to reduce our total capital requirement to 17.5% by 2019.

Furthermore, the Capital Adequacy Ordinance introduces a new minimum leverage ratio. The leverage ratio requirement is set at a level of 24% of the minimum capital ratio requirement for the capital base, the buffer capital and the progressive component. Based on our expected total capital requirement of 17.5%, we estimate that this leverage ratio will be approximately 4.2% as of 1 January 2019.

In addition, systemically relevant banks are required to produce recovery plans and resolution planning materials, including an emergency plan which demonstrates how systemically important functions in Switzerland are to be maintained in the event of impending insolvency. UBS submitted the plans and planning materials to the Swiss Financial Market Supervisory Authority (FINMA) in 2012. UBS was also required to submit initial recovery and resolution planning documentation to authorities in the UK, the US and Germany.

Under the new Swiss TBTF regulation, systemically relevant banks are eligible for a capital rebate on the progressive component if they take actions that facilitate recovery and resolvability beyond the minimum requirements to ensure the integrity of systemically important functions in the case of impending insolvency. The regulation does not specify what actions would be sufficient to justify a rebate or the magnitude of any rebate, both of which would be determined by FINMA.

Finally, with the revision of the Capital Adequacy Ordinance, a mechanism for activating a countercyclical capital buffer was introduced. If activated, banks would be required to fulfill additional capital requirements of up to 2.5% of RWA on some or all risk exposures in Switzerland in the form of Basel III CET1 capital. The Swiss National Bank can, after consulting with FINMA and informing the Federal Department of Finance, formally propose the activation of the buffer to the Federal Council, which decides on its activation on a case-by-case basis, depending on credit growth and the systemic risk situation in Switzerland. In February 2013, following such a proposal by the Swiss National Bank, the Federal Council decided to activate the countercyclical capital buffer with respect to mortgage loans financing residential property located in Switzerland. The buffer has been set at 1% of associated RWA. Banks in Switzerland must fulfill this additional requirement by 30 September 2013. The effect of the activation of the countercyclical buffer on our capital requirements is not material.

A further important development in Switzerland was FINMA's decision to apply a bank-specific multiplier for banks using the internal ratings-based (IRB) approach when calculating RWA for Swiss residential mortgages. The purpose of the multiplier is to reduce the difference in RWA between the IRB and the standardized approach as well as to improve resilience to periods of stress in the Swiss real estate market. This multiplier is designed to be applied to new and renewed mortgages starting on 1 January 2013 and as a result, the entire Swiss residential mortgage portfolio will become subject to this multiplier over several years. Starting 1 January 2013, we apply a multiplier to the portfolio, phasing in the effect over the next seven years. Assuming no change in the portfolio size or other characteristics, we expect this multiplier to result in increased RWA of CHF 2–3 billion each year from 2013 through 2019.

With regard to the Basel III liquidity framework, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced a summary of amendments to the liquidity coverage ratio (LCR). These revi-

sions include a broadening of the range of assets eligible as high-quality liquid assets as well as some amendments to the assumed outflow rates to reflect actual experience in periods of stress more accurately. In addition, banks were given more time to build up required liquidity as the implementation of the LCR will be staggered, starting at 60% in 2015 and rising in annual steps to meet the 100% minimum standard by 2019. The impact of these changes on UBS will depend on whether and to what degree FINMA makes corresponding changes to its Basel III liquidity ratio rules.

➔ Refer to the "Our strategy" and the "Risk, treasury and capital management" sections of this report for more information

In a referendum in March 2013, the Swiss cantons and voters accepted an initiative to give shareholders of Swiss listed companies more influence over board and management compensation. The Federal Council must issue an ordinance within one year of the vote, and parliament must subsequently enact legislation to implement the requirements of the constitutional provisions. It will only be possible to assess the impact of the vote on UBS once concrete legislation and implementation measures are in place. UBS, together with the Swiss Business Federation, will play a constructive part in the process of developing implementation measures, with the aim of maintaining Switzerland's competitiveness as an international business location.

A number of key initiatives continue to be delayed in the EU

In 2012, the European Commission initiated a number of regulatory initiatives, forming part of the EU response to the 2007–2009 financial crisis. Key new legislative proposals included (i) a proposal for a banking union, which includes a single supervisory mechanism that would provide the ECB with supervisory powers over large EU banks, (ii) the Crisis Management Directive, which addresses recovery and resolution of banks and investment firms, and (iii) the Undertakings for Collective Investment in Transferable Securities V Directive, which provides new requirements for depositaries and fund managers.

An agreement was reached on the European Markets Infrastructure Regulation, which fulfills the G20's commitment to clear standardized over-the-counter (OTC) derivative contracts through a central counterparty and to report derivative transactions to trade repositories. However, political agreement on the Capital Requirements Directives IV, implementing Basel III in the EU, was not reached before the end of 2012. Therefore, the implementation of Basel III is being delayed in the EU. In addition, the review of the Markets in Financial Instruments Directive was another high priority dossier on which no political agreement was reached in 2012.

The financial transaction tax is another topic likely to shape the political agenda in 2013. Following an agreement among Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain to implement such a tax, the European Commission published its legislative proposal in February 2013. The text will now be discussed in the Council, while the Parliament will provide a non-binding opinion. Furthermore, in October 2012, the European Commission's High-level Expert Group on reforming the structure of the EU banking sector issued its recommendations in the so-called Liikanen report, including the mandatory separation of significant trading activities. The European Commission may now decide whether to legislate on further structural reforms of the banking sector following these recommendations. In the UK, work continues on the recommendations of the Independent Commission on Banking (ICB), which proposed in particular the ring-fencing of large retail operations in the UK. To give effect to the ICB's recommendations, on 4 February 2013 the Financial Services (Banking Reform) Bill was introduced in the country's parliament.

In the US significant progress was made on the implementation of Dodd-Frank

Developments in US regulatory initiatives related primarily to rulemaking stemming from the Dodd-Frank Act passed in July 2010. Regulators made significant progress and many rules were issued in final form during 2012.

UBS AG registered as a swap dealer in the US at the end of 2012 enabling the continuation of swaps business with US persons. Regulations issued by the Commodity Futures Trading Commission (CFTC) impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. The CFTC has granted time-limited relief to initially limit the scope of new requirements to transactions with US persons. Certain of the CFTC's regulations, including those relating to swap data reporting, recordkeeping, compliance and supervision, are expected to apply to UBS AG globally once this time-limited relief expires. Application of these requirements to UBS's swaps business with non-US persons will present a substantial implementation burden, will likely duplicate or conflict with legal requirements applicable to UBS outside of the United States and may place UBS at a competitive disadvantage to firms that are not CFTC-registered swap dealers. The Securities and Exchange Commission (SEC) is expected to propose rules for the extraterritorial application of its regulation of securities-based swaps in the first half of 2013, and to require registration of securities-based swap dealers in the US following adoption of such rules. SEC regulation of securities-based swaps may present similar risks to CFTC rules.

Another key topic remains the Volcker Rule, which would prohibit banking entities from engaging in proprietary trading, subject to permitted exceptions, including market-making, hedging and underwriting activities. The rule would also limit banking entities from investing in hedge funds, private equity funds and other similar "covered funds" except under limited circumstances, and broadly limit investments and other transactional activities between banks and covered funds. The two-year transition period to comply with the Volcker Rule's prohibition commenced in July 2012. US regulators proposed regulations to further implement the Volcker Rule, and additional regulations are expected in the first half of 2013. It is unclear if the next issuance of Volcker regulations will be proposed or final. Depending on the nature of the final rules, as well as the manner in which they are implemented, the Volcker Rule could have a substantial impact on market liquidity and the economics of market-making. We are not able to estimate the effect of the implementation of the Volcker Rule compliance program on permitted trading activities until regulations, including the required metrics, are finalized and these required metrics are calculated and calibrated.

The regulation of foreign banking organizations within the US became a key Dodd-Frank Act topic at the end of 2012. The Federal Reserve Board issued proposed rules for foreign banking organizations in the US (under sections 165 and 166 of Dodd-Frank Act) that include (i) a requirement for an intermediate holding company to hold US subsidiary operations, (ii) risk-based capital and leverage requirements, (iii) liquidity requirements (both substantive and procedural), (iv) single-counterparty credit limits, (v) risk management and risk committee requirements, (vi) stress test requirements, including public disclosure of the results, (vii) a debt-to-equity limit, and (viii) a framework for early remediation of financial weaknesses. Requirements differ based on the overall size of the foreign banking organization and the size of its US-based assets. UBS will be subject to the most stringent requirements based on the current size of its global and US operations.

The Dodd-Frank Act and the Foreign Account Tax Compliance Act both require UBS to look at the activities conducted through all legal entities across the UBS Group to determine the applicability of the rules. These regulatory regimes impose registration and ongoing reporting obligations. UBS will need to implement a comprehensive compliance program to address these requirements, which will extend to all business divisions and legal entities, not just those based in the US.

Other important regulations in the US include mortgage lending and consumer finance reform as well as changes to the requirements for financial advisors.

Finally, while initial proposals on Basel III rules were issued for consultation in June 2012 in the US, final rules are still pending and implementation is being delayed beyond the internationally agreed timetable.

H-27

Our strategy

We are committed to providing clients with superior financial advice and solutions while generating attractive and sustainable returns for shareholders. Our strategy centers on our Wealth Management and Wealth Management Americas businesses and our leading universal bank in Switzerland, supported by our Global Asset Management business and our Investment Bank. Our strategy builds on the strengths of all of our businesses. It focuses our efforts on areas in which we excel and seeks to capitalize on the compelling growth prospects in the businesses and regions in which we operate.

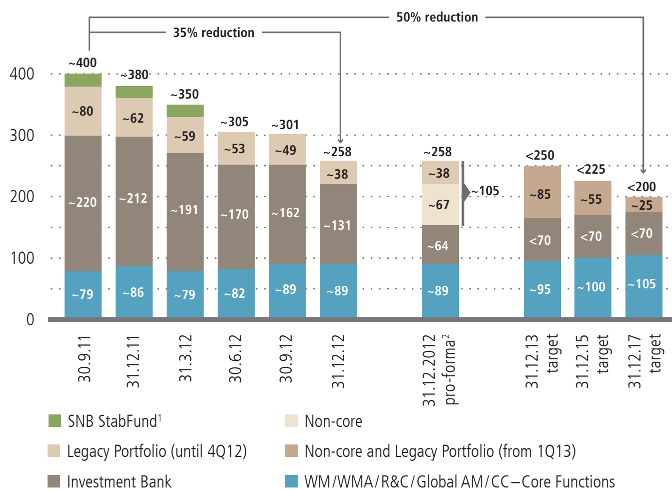
Acceleration of our strategic transformation

Since presenting our strategy at our Investor Day in November 2011, we have successfully executed on our plans to improve our already strong capital position and reduce Basel III risk-weighted assets (RWA) and costs. Just over one year into the transformation of our firm, our Basel III capital ratios remain among the highest in our peer group, and we have reduced Basel III RWA[1] by 35%. Furthermore, we are on track with our CHF 2.0 billion cost reduction program announced in August 2011.

In October 2012, from this position of strength, we announced a significant acceleration in the implementation of our strategy.

Basel III – Risk-weighted assets

Significant reduction in Basel III RWA



1 RWA associated with UBS's option to purchase the SNB StabFund's equity (treated as a participation with full deduction from CET1 capital starting from the second quarter of 2012). 2 In 1Q13, we transferred approximately CHF 67 billion of RWA from the Investment Bank to the Corporate Center. On a pro-forma basis as of year-end, the RWA for the Non-core and Legacy Portfolio would have represented approximately CHF 105 billion, while for the Investment Bank it would have been CHF 64 billion.

This announcement underlined our commitment to transform our Group into a less capital- and balance-sheet-intensive business that is more focused on serving clients and capable of maximizing value for shareholders. We are transforming our Investment Bank, focusing on its traditional strengths in advisory, research, equities, foreign exchange and precious metals, and we are taking additional action to reduce costs and improve efficiency across the Group.

We are exiting certain business lines, predominantly those in fixed income, that have been rendered less attractive by changes in regulation and market developments. After transferring the non-core businesses and positions to be exited to the Corporate Center, we have retained limited credit and rates trading in our Investment Bank, along with structured financing capabilities, to support its solutions-focused businesses. Our leading equities and foreign exchange businesses, including our emerging markets foreign exchange capabilities, continue to be cornerstones of our Investment Bank's services. We have not significantly altered our advisory and capital markets businesses, but have reorganized our existing business functions to better serve our clients. As a result of the abovementioned transfers and additional RWA reductions, our Investment Bank started 2013 operating with approximately CHF 64 billion of Basel III RWA, within its target RWA of CHF 70 billion or less. We are convinced that our new Investment Bank is capable of delivering returns well in excess of its cost of capital, and we are targeting a pre-tax return on attributed equity of greater than 15% starting in 2013 in this division.

Our Corporate Center is tasked with managing non-core assets, previously part of the Investment Bank, in the most value-accretive way for shareholders. These diversified assets will be reported within our "Non-core and Legacy Portfolio" unit within the Corporate Center from the first quarter of 2013. At the end of 2012, this portfolio represented approximately CHF 105 billion in Basel III RWA, which we aim to reduce progressively to approximately CHF 25 billion by the end of 2017. As a result, we are targeting Group RWA of less than CHF 200 billion on a fully applied Basel III basis by the end of 2017.

1 The pro-forma Basel III information is not required to be presented because Basel III requirements were not in effect on 31 December 2012. Such measures are non-GAAP financial measures as defined by SEC regulations. We nevertheless include information on the basis of Basel III requirements because they are effective as of 1 January 2013 and significantly impact our RWA and eligible capital. The calculation of our pro-forma Basel III RWA combines existing Basel 2.5 RWA, a revised treatment for low-rated securitization exposures that are no longer deducted from capital but are risk-weighted at 1250%, and new model-based capital charges. Some of these new models require final regulatory approval and therefore our pro-forma calculations include estimates (discussed with our primary regulator) of the effect of these new capital charges, which will be refined as models and the associated systems are enhanced.

Maintaining cost discipline is critical to our long-term success and is a key element of the cost reduction plans we announced in October 2012. To this end, we announced measures to achieve additional annual costs savings of CHF 3.4 billion by 2015 that include reducing our Investment Bank's complexity and size, improving organizational effectiveness, primarily in our Corporate Center, and introducing lean front-to-back processes across our Group. These savings come in addition to the CHF 2.0 billion annual cost reduction program that we announced in 2011 and expect to complete by the end of 2013. As a consequence of our measures to support the long-term efficiency of our firm, we expect our headcount to be around 54,000 in 2015 compared with approximately 63,000 at the end of 2012. Our investment in these initiatives is reflected in restructuring charges of CHF 258 million in the fourth quarter of 2012 and expectations of further incremental charges of approximately CHF 1.1 billion in 2013, CHF 0.9 billion in 2014 and CHF 0.8 billion in 2015.

Our efficiency programs will free up resources to make investments over the next three years to support growth across our firm and enable us to service our clients with greater agility and effectiveness, improving quality and speed to market. These investments are expected to reach CHF 1.5 billion over the next three years.

2013 and 2014 will be key years of transition for our Investment Bank and our Group as we work through our plans to restructure our businesses and reduce our cost base. As a result, during these years we expect our Group to deliver a return on equity in the mid-single digits as we transform our business. We believe the changes we are making will enable us to deliver improved returns and thus we have set a Group return on equity target of more than 15% from 2015 onwards. We are also targeting a Group cost/income ratio of 60% to 70% from 2015 onwards.

We are well prepared for the future with a clear strategy and a solid financial foundation. We are firmly committed to returning capital to our shareholders and plan to continue our program of progressive returns to shareholders with a proposed 50% increase in dividends to CHF 0.15 per share for the financial year 2012. Once we have achieved our capital targets, we are aiming for a total payout ratio of 50%, consisting of a baseline dividend and supplementary returns. We intend to set a baseline dividend at a sustainable level, taking into account normal economic fluctuations. The supplementary capital returns will be balanced with our need for investment and any buffer we choose to maintain for a more challenging economic environment or other stress scenarios. Through the successful implementation of our strategy, we believe we can sustain and grow our business and maintain a prudent capital position.

Annual performance targets[1]

Group targets:

Basel III CET1 ratio fully applied	**11.5% in 2013** **13.0% in 2014**
Cost / income ratio	**60–70% from 2015**
Return on equity[2]	**> 15% from 2015**

Business division targets:

Wealth Management	Net new money growth rate	**3–5%**
	Gross margin	**95–105 bps**
	Cost / income ratio	**60–70%**
Wealth Management Americas	Net new money growth rate	**2–4%**
	Gross margin	**75–85 bps**
	Cost / income ratio	**80–90%**
Investment Bank (effective from 1.1.2013)	Pre-tax RoAE[3]	**> 15%**
	Basel III RWA	**< CHF 70 billion**
	Cost / income ratio	**65–85%**
Global Asset Management	Net new money growth rate	**3–5%**
	Gross margin	**32–38 bps**
	Cost / income ratio	**60–70%**
Retail & Corporate	Net new business volume growth	**1–4%**
	Net interest margin	**140–180 bps**
	Cost / income ratio	**50–60%**

Non-core and Legacy Portfolio[4] targets:

Basel III RWA	31.12.13	**~CHF 85 billion**
	31.12.15	**~CHF 55 billion**
	31.12.17	**~CHF 25 billion**

1 Excluding own credit and significant non-recurring items (e.g. restructuring costs) unless otherwise stated; targets assume constant FX rates. 2 Group RoE as reported is expected to average in the mid-single digits in 2013–2014. 3 RoAE = return on attributed equity. 4 Comprises Legacy Portfolio as well as non-core assets, previously part of the Investment Bank and reported in Corporate Center from the first quarter of 2013.

Our business divisions

Our *Wealth Management* business provides comprehensive financial services to high net worth and ultra high net worth individuals in over 40 countries. We will continue to strengthen Wealth Management's industry-leading position, particularly in growth markets such as Asia-Pacific and the emerging markets. This will enable us to capitalize on wealth generation growth rates that are expected to continue outstripping economic growth. We are developing our business model as a dynamic wealth manager with investment management capabilities at its core. We are transforming our European operating model to reflect our clients' converging needs, to increase efficiency and to anticipate the changing regulatory environment in this market. Our clients continue to benefit from our global research, superior investment advice and solutions, execution competencies and access to global financial markets. To this end, and with the ultimate goal of improving our clients' investment performance, our Chief Investment Officer organization synthesizes the research and expertise of our global network of economists, strategists, analysts and investment specialists from across all business divisions and asset classes. Wealth Management aims to achieve a net new money growth rate of 3% to 5%, a gross margin of 95 to 105 basis points and a cost/income ratio of 60% to 70%.

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully-integrated set of products and services to individuals and families mainly in the

United States and Canada. We remain committed to our client-focused and advisor-centric strategy and consider ourselves uniquely positioned to serve high net worth and ultra high net worth individuals and families in the world's largest wealth market. We believe the long-term growth prospects of wealth management are attractive in the Americas, with our target high net worth and ultra high net worth markets expected to be the fastest-growing segments in terms of invested assets. We will continue our strategic banking initiatives, including mortgage and securities-based lending initiatives, to ensure continued growth in balances from our target client base. Our Wealth Management Americas business targets a net new money growth rate of 2% to 4%, a gross margin of 75 to 85 basis points and a cost/income ratio of 80% to 90%.

Our *Investment Bank* is among the global market leaders in its core businesses of advisory, research, equities, foreign exchange and precious metals. We will continue to invest in these areas and compete to increase market share. In order to align the delivery of our services and the execution of our strategy with the needs of our core clients, the Investment Bank has been reorganized into two segments, Corporate Client Solutions and Investor Client Services, effective from the beginning of 2013. Corporate Client Solutions includes all advisory and solutions businesses and execution for corporate, financial institutions and sponsor clients. Investor Client Solutions includes execution, distribution and trading for institutional investors, and will provide support to our Group's wealth management businesses. We aim to capitalize on attractive opportunities in less capital-intensive businesses by focusing on delivering best-in-class expertise, solutions-led advisory, thought leadership and global execution capabilities. Operating with under CHF 70 billion of Basel III RWA and less than CHF 200 billion of funded assets, our Investment Bank aims to deliver a pre-tax return on attributed equity in excess of 15%, with a cost/income ratio of 65% to 85%.

Our *Global Asset Management* business is a large-scale asset manager with businesses well-diversified across regions, capabilities and distribution channels. We work closely with our clients in pursuit of their investment goals with long-term performance as our focus. The diversification of our business places us in a good position to benefit from shifting market dynamics and provides a solid foundation for capturing industry growth opportunities arising from savings and pensions growth. We will continue investing in our fast-growing passive capabilities and expanding our strong third-party institutional business while also expanding third-party wholesale distribution and remaining committed to delivering distinctive products and solutions to the clients of our Group's wealth management businesses. We also continue to expand our successful alternatives platform, building on our established positions in real estate and fund of hedge funds businesses. These measures will support us as we seek to deliver a net new money growth rate of 3% to 5%, a gross margin of 32 to 38 basis points and a cost/income ratio of 60% to 70% in Global Asset Management.

Retail & Corporate maintains a leading position across its client segments in Switzerland and constitutes a central building block of our universal bank model in Switzerland. We aim to provide comprehensive financial products and services to our retail, corporate and institutional clients in Switzerland. We will continue to enhance the range of life cycle products and services we offer our clients, while capitalizing on additional growth opportunities in advisory and execution. From a financial perspective, we expect this business to continue to provide a stable and substantial source of profits and funding for our Group and to generate revenue growth opportunities for other businesses within our Group. Our Retail & Corporate business aims to achieve new business volume growth of 1% to 4%, a net interest margin of 140 to 180 basis points and a cost/income ratio of 50% to 60%.

UBS Switzerland

UBS is the preeminent universal bank in Switzerland, the only country where we operate and maintain leading positions in all five of our business areas of retail, wealth management, corporate and institutional banking, asset management and investment banking. We are fully committed to our home market as our leading position in Switzerland is crucial in terms of profit stability, sustaining our global brand and growing our global core business. Drawing on our network of around 300 branches and our 4,700 client-facing staff, complemented by state-of-the-art electronic and mobile banking services and customer service centers open to our clients around the clock seven days a week, we are able to reach approximately 80% of Swiss wealth, one in three households, one in three wealthy individuals and almost half of all Swiss companies. Euromoney and The Banker, two of the world's leading financial markets magazines, acknowledged our preeminent position in Switzerland with their prestigious "Best Bank in Switzerland 2012" and "Bank of the Year 2012 in Switzerland" awards, respectively.

We strive to be the strongest bank in Switzerland and our unique universal bank model is central to our success. Our dedicated Swiss management team has representatives from all five business areas and ensures we apply a consistent approach to the market when offering our full range of banking products, expertise and services. Our cross-divisional management approach allows us to utilize our existing resources efficiently, promotes cross-divisional thinking and enables seamless collaboration across all business areas. As a result, we are in a unique position to serve our clients efficiently with a comprehensive range of banking products and services to fit their needs. We are able to differentiate ourselves by leveraging our strengths across all segments while ensuring stability and continuity throughout the client's life cycle. Our universal bank model has proven itself to be highly effective in Switzerland and consistently provides a substantial part of the Group's revenues.

Given the strength of the economy and the stable political environment in Switzerland, the country remains an attractive financial market. This inherent stability and growth has been the basis for UBS Switzerland's success and its contribution to the Group's financial performance. Thanks to our universal bank model, broad client base and seamless multi-channel offering, we are well-positioned to capture future market growth and to strengthen our leading position in our home market.

UBS – leading the way on Basel III

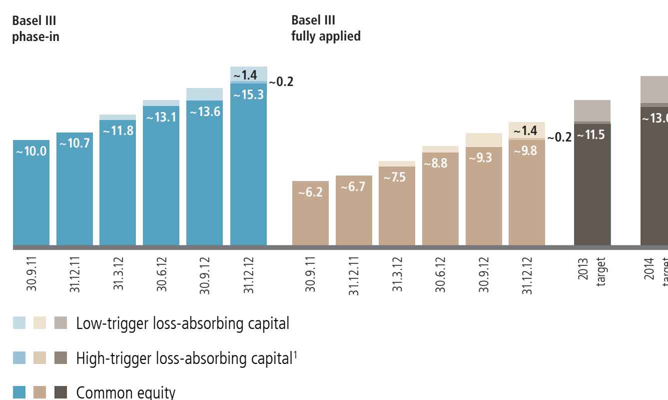
Our position as one the world's best-capitalized banks under Basel III, together with our stable funding and sound liquidity positions, provides us with a solid foundation for our success. We have a proven track record of Basel III RWA reduction, surpassing our 2012 Basel III RWA targets ahead of schedule. At the end of 2012, our Basel III pro-forma common equity tier 1 (CET1) ratio was 15.3% calculated on a phase-in basis and 9.8% on a fully applied basis, while our Basel 2.5 capital ratio was 21.3%, giving us one of the highest capital ratios in our peer group. We are committed to continuing to improve these ratios through a combination of retained earnings and efforts to reduce Basel III RWA. By the end of 2012, our pro-forma fully applied Basel III RWA had decreased to CHF 258 billion, a reduction of 35% from the level recorded at the end of the third quarter of 2011, prior to our announcing our strategy at our Investor Day in November of that year. Our goal of reducing Basel III RWA to less than CHF 200 billion by 2017 means that we plan to operate with less than half of the Basel III RWA we had at the end of September 2011.

We are targeting fully applied Basel III CET1 ratios of 11.5% and 13% in 2013 and 2014, respectively. By achieving our targets, we will exceed the regulatory requirements both under FINMA and Basel Committee on Banking Supervision rules. We believe this will provide even greater comfort to our clients and further increase confidence in the firm.

Our progress towards meeting FINMA's capital requirements, which are stricter than Basel Committee on Banking Supervision requirements, was evidenced in February and again in August 2012 by our issuance of Basel III-compliant tier 2 loss-absorbing notes in a nominal amount of USD 2 billion on each occasion. These issuances qualify as tier 2 capital under Basel III rules and as progressive capital buffer in compliance with the "too-big-to-fail" law under Swiss regulations for systemically important banks, and contribute to our targeted loss-absorbing capital. For 2012, the significant changes we made to our compensation framework included the introduction of a deferred contingent

Basel III – Capital ratios

Targeting a 13% fully applied CET1 ratio in 2014
In %



1 Debt issued as part of UBS's 2012 deferred compensation programs.

capital plan, under which employees will forfeit deferred compensation balances if a 7% Basel III CET1 ratio level is breached or if a non-viability event occurs during the five-year period after the award date. These new high-trigger loss-absorbing instruments will be counted towards our tier 2 capital by our primary regulator. Over the next five years, we could build approximately 100 basis points of such high-trigger loss-absorbing capital from this program.

Our Investment Bank started 2013 with approximately CHF 64 billion in Basel III RWA. Having fully adapted its business to Basel III, it will continue to operate with RWA of less than CHF 70 billion. In line with our strategy to deploy capital efficiently, RWA will continue to grow both in our wealth management businesses and in Retail & Corporate as we deliver attractive lending and mortgage opportunities to our clients.

The non-core assets previously in our Investment Bank have been transferred to our Corporate Center, where they will be reported from the first quarter of 2013 within our Non-core and Legacy Portfolio unit. Our Corporate Center is tasked with managing these diversified assets in the most value-accretive way for shareholders and within the same robust oversight structure that has successfully supported our RWA reduction in our Legacy Portfolio. In total, our Corporate Center manages approximately CHF 105 billion of pro-forma Basel III RWA in our Non-core and Legacy Portfolio unit. We aim to reduce these to around CHF 85 billion by the end of 2013, CHF 55 billion by the end of 2015 and CHF 25 billion by the end of 2017.

In addition to our leading position on capital ratios, our liquidity and funding positions are strong and will be further enhanced as we work to improve our leverage ratio. Our estimated pro-forma regulatory Basel III liquidity coverage ratio (LCR) of 113% and estimated pro-forma net stable funding ratio (NSFR) of 108% at the end of 2012 (both based on current regulatory guidance) exceeded our future minimum regulatory requirement of 100% for both LCR and NSFR for 2019 and 2018, respectively. Our pro-forma FINMA Basel III leverage ratio on a phase-in total capital requirement basis was 3.6% at the end of 2012 compared with an estimated target requirement of 4.2% on 1 January 2019. We have a stable mix of funding sources that is well-diversified by market, product and currency, with client deposits providing the single largest source of funding for our firm. We plan to reduce our Group's funded balance sheet by around a third by the end of 2015 from approximately CHF 900 billion at the end of the third quarter of 2012. This smaller funded balance sheet will improve our leverage ratios substantially and increase the proportion of deposits as a funding source. Reducing our balance sheet will also lower our funding requirements, enabling us to continue buying back debt selectively, following our cash tender offer in February 2013 in which we bought back approximately CHF 5 billion in certain outstanding bonds. In addition, we expect our FINMA total capital requirement in 2019 to fall to 17.5% from 19% due to our planned decrease in total exposure.

Basel III / "too-big-to-fail" at a glance

The Basel III global regulatory rules were agreed upon by the Basel Committee on Banking Supervision between 2010 and 2011, mainly in response to the 2007 to 2009 financial crisis. Swiss banks are required to comply with the Basel III-related requirements, as implemented by the revised Capital Adequacy Ordinance, based on a transitional timetable. The capital requirements under the Basel III framework are being phased in from 1 January 2013 and will take effect on a fully applied basis on 1 January 2019. The changes made by the Basel III framework will have an increasing impact on the calculation of our phase-in capital ratios during this transition period, mainly due to the deduction of deferred tax assets on net operating losses, the inclusion of the effects of changes to the accounting standard relating to pension liabilities and the phasing out of hybrid tier 1 capital instruments for the calculation of common equity. Further, tier 2 capital instruments that are not compliant with Basel III will be gradually excluded from phase-in total capital. Systemically relevant banks in Switzerland (currently UBS and Credit Suisse) have to comply with the so-called "too-big-to-fail" (TBTF)-specific rules, which come on the top of the Basel III requirements. This means that we have to fulfill stricter regulatory requirements than most other banks in the world.

Key Basel III elements:

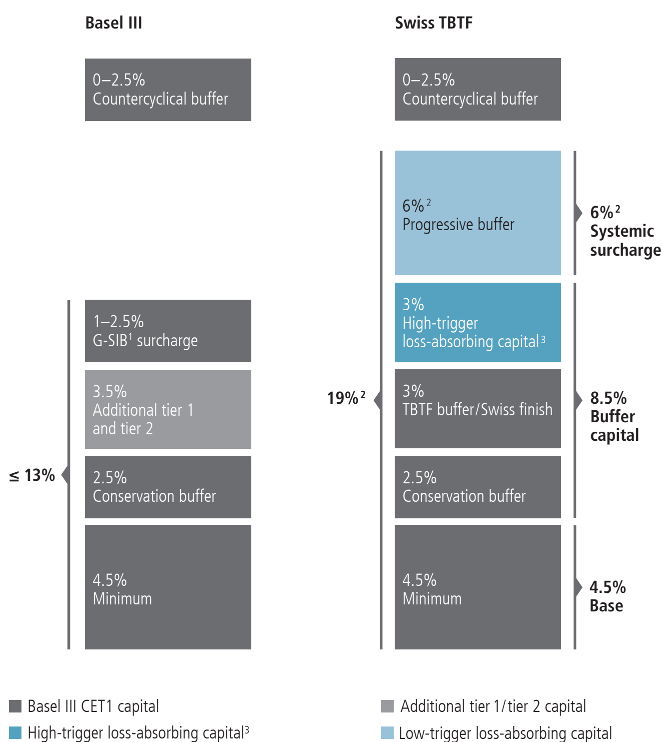
- Increased quality of regulatory capital base
- New capital buffers including capital conservation buffer and countercyclical buffer
- Enhanced risk coverage with stricter market and counterparty credit risk requirements
- Minimum leverage ratio requirement to constrain excess leverage, independent of risk levels
- Increased liquidity requirements such as liquidity coverage ratio and net stable funding ratio

Key regulatory requirements for us on a Basel III fully applied basis[1]:

Capital and buffers[2]

We have total projected minimum capital requirements of 17.5% to 19.0%[3], consisting of the following elements:

Swiss TBTF rules are much stricter than Basel III requirements



1 Global systemically important banks (G-SIBs) according to the Financial Stability Board. 2 We expect our requirement for the progressive buffer in 2019 to fall to 4.5% from 6.0% due to our planned reduction in balance sheet related to the accelerated implementation of our strategy announced in October 2012 and the resulting reduction in total exposure. We expect this to reduce our total capital requirement to 17.5% by 2019. Systemically relevant banks are eligible for a capital rebate on the progressive buffer if they take actions that facilitate recovery and resolvability beyond the minimum requirements to ensure the integrity of systemically important functions in the case of impending insolvency. 3 Can be substituted by Basel III CET1 capital.

- 4.5% Basel III common equity tier 1 (CET1) capital
- 8.5% capital buffer (5.5% Basel III CET1 capital and up to 3% high-trigger loss-absorbing capital[4])
- 4.5% to 6.0%[3] projected low-trigger loss-absorbing capital as a progressive buffer, depending on our total exposure and market share in Switzerland.

In addition, the Swiss National Bank[5] (SNB) can (after consulting with FINMA and informing the Federal Department of Finance)

formally propose the activation of a countercyclical buffer of up to 2.5% Basel III CET1 capital, to be applied to RWA on some or all risk exposures in Switzerland. The proposal must be made to the Federal Council, which decides on its activation on a case-by-case basis, depending on credit growth and the systemic risk situation in Switzerland. In February 2013, following such a proposal by the SNB, the Federal Council decided to activate the countercyclical capital buffer in Switzerland with respect to mortgage loans financing residential property located in Switzerland. The buffer has been set at 1% of associated Basel III RWA. Banks in Switzerland must fulfill this additional requirement by 30 September 2013. The effect of the activation of the countercyclical buffer on our capital requirements is not material.

Calculating the FINMA Basel III leverage ratio

Our FINMA Basel III leverage ratio was 3.6% on 31 December 2012

FINMA Basel III leverage ratio	=	**Total capital** Phase-in CET1 + loss-absorbing capital ――― **Total exposure**[1] Total IFRS assets **+ adjustments**	=	**CHF 44.2 billion** = CHF 40.0 billion + CHF 4.2 billion ――― **CHF 1,216 billion** = CHF 1,271 billion – CHF 55 billion	= 3.6%

Deducting CHF 375 billion: derivatives (CHF 332 billion), repurchase agreements covered by eligible netting agreements under the Basel II framework (CHF 21 billion) and other factors (CHF 22 billion)

Adding CHF 320 billion: OTC derivatives (CHF 184 billion), off-balance sheet commitments and contingent liabilities (CHF 102 billion) and other factors (CHF 34 billion)

1 3-month average. IFRS assets, based on a capital adequacy scope of consolidation, adjusted for replacement value netting and other adjustments, including off-balance sheet items. As agreed with FINMA, the FINMA Basel III leverage ratio denominator temporarily excludes forward starting repos, securities lending indemnifications and current exposure method (CEM) add-ons for ETDs (proprietary and agency transactions) until the Basel III definition has been finalized.

Leverage ratio (non-risk-based)

As of 1 January 2013, FINMA has established a new FINMA Basel III minimum leverage ratio for systemically important banks (FINMA Basel III leverage ratio). The ratio consists of three components (capital base, buffer capital and progressive component) and is broadly calculated by dividing the relevant capital basis by IFRS assets, based on a capital adequacy scope of consolidation, adjusted for replacement value netting and other adjustments, including off-balance sheet items. The leverage ratio requirement is set at a level of 24% of the minimum capital ratio requirement for the capital base, the buffer capital and the progressive component. As a result, the minimum leverage ratio applying to us will depend on our future total capital requirements and vice versa. Two possible outcomes could be as follows:
- 4.2% assuming total capital requirements of 17.5%[3]
- 4.6% assuming total capital requirements of 19.0%[3]

Liquidity[6]

- The liquidity coverage ratio (LCR) ensures that banks hold sufficient high-quality liquid assets to survive short-term (30-day) severe general market and firm-specific stress. Under Basel III, the LCR will be phased in gradually, starting at 60% in 2015 and rising in annual steps to meet the 100% minimum standard by 2019.
- The net stable funding ratio (NSFR), intended for preventing liquidity mismatch, assigns a required stable funding factor to assets (representing the illiquid part of the assets) and assigns all liabilities an available stable funding factor (representing the stickiness of a liability) in order to ensure that banks are not overly reliant on short-term funding and have sufficient long-term funding for illiquid assets. The NSFR is expected to become fully effective with a minimum requirement of 100% on 1 January 2018.

➔ Refer to the "Regulatory developments" section of this report for more information on Basel III and TBTF rules

1 All numbers are valid from 1 January 2019, except where indicated. 2 All percentage amounts are expressed in terms of risk-weighted assets. 3 We expect our requirement for the progressive buffer in 2019 to fall to 4.5% from 6.0% due to our planned reduction in balance sheet related to the accelerated implementation of our strategy announced in October 2012 and the resulting reduction in total exposure. We expect this to reduce our total capital requirement to 17.5% by 2019. Systemically relevant banks are eligible for a capital rebate on the progressive buffer if they take actions that facilitate recovery and resolvability beyond the minimum requirements to ensure the integrity of systemically important functions in the case of impending insolvency. 4 This can be substituted by Basel III CET1 capital. 5 The countercyclical buffer can not only be triggered by the Swiss National Bank but by any regulator for the credit risk in its jurisdiction. 6 The final implementation of these rules is subject to the interpretation of national supervisors.

Measurement of performance

Performance measures

Key performance indicators

Our key performance indicators (KPI) framework focuses on key drivers of total shareholder return, which measures the total return of a UBS share in terms of both the dividend yield and the capital appreciation of the share price. The KPI framework is reviewed by our senior management on a regular basis to ensure that it is always aligned with changing business conditions. The KPI are disclosed consistently in our quarterly and annual reporting to facilitate comparison of our performance over the reporting periods.

The Group and business divisions are managed based on this KPI framework, which emphasizes risk awareness, effective risk and capital management, sustainable profitability, and client focus. Both Group and business division KPI are taken into account in determining variable compensation of executives and personnel.

➔ **Refer to the "Compensation" section for more information on performance criteria for compensation**

In addition to the KPI, we also disclose performance targets. These performance targets may include the KPI as well as additional balance sheet and capital management performance measures to track the achievements of our strategy. The performance targets are outside the scope of our KPI framework.

➔ **Refer to the the discussion about the "Acceleration of our strategic transformation" in the "Our Strategy" section for more information on performance targets**

The Group and business division KPI are explained in the "Group/business division key performance indicators" table.

In keeping with our focus on the key performance metrics of growth, profitability and efficiency, we made the following enhancements to the KPI framework in 2012:

- We introduced two new KPI for our Retail & Corporate business division. "Net new business volume growth (%)" measures our success in expanding Retail & Corporate's business volume from lending to clients, as well as acquiring client assets. "Net interest margin (%)" measures Retail & Corporate's ability to generate net interest income in relation to the average loan volume. While this measure is currently under structural pressure given the continued low interest environment, it is supported by active management of the balance sheet and pricing measures.
- For the Wealth Management Americas business division, we implemented a new KPI "Share of recurring revenue (%)".
- We replaced our "Net new money (CHF billion)" KPI with "Net new money growth (%)", as we consider the rate of growth a more meaningful measurement of performance in terms of net new money than a measurement of absolute change. This new KPI applies to the Group as well as our Wealth Management, Wealth Management Americas and Global Asset Management business divisions.

Client/invested assets reporting

We report two distinct metrics for client funds:

- The measure "client assets" encompasses all client assets managed by or deposited with us, including custody-only assets.
- The measure "invested assets" is more restrictive and includes only client assets managed by or deposited with us for investment purposes.

Of the two, invested assets is our central measure and includes, for example, discretionary and advisory wealth management portfolios, managed institutional assets, managed fund assets and wealth management securities or brokerage accounts. It excludes all assets held for custody-only purposes, as we only administer the assets and do not offer advice on how these assets should be invested. Non-bankable assets (for example, art collections) and deposits from third-party banks for funding or trading purposes are excluded from both measures.

Net new money in a reported period is the amount of invested assets that are entrusted to us by new or existing clients less those withdrawn by existing clients or clients who terminated their relationship with us. Negative net new money means that there are more outflows than inflows. Interest and dividend income from invested assets is not counted as net new money inflow. However, in Wealth Management Americas we also show net new money including interest and dividend income in line with the historical

Group / business division key performance indicators

Key performance indicators	Definition	Group	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate
Net profit growth (%)	Change in net profit attributable to UBS shareholders from continuing operations between current and comparison periods / net profit attributable to UBS shareholders from continuing operations of comparison period	●					
Pre-tax profit growth (%)	Change in business division performance before tax between current and comparison periods / business division performance before tax of comparison period		●	●	●	●	●
Cost / income ratio (%)	Operating expenses / operating income before credit loss (expense) or recovery	●	●	●	●	●	●
Return on equity (RoE) (%)	Net profit attributable to UBS shareholders on a year-to-date basis (annualized as applicable) / average equity attributable to UBS shareholders (year-to-date basis)	●					
Return on attributed equity (RoaE) (%)	Business division performance before tax on a year-to-date basis (annualized as applicable) / average attributed equity (year-to-date basis)				●		
Return on assets, gross (%)	Operating income before credit loss (expense) or recovery on a year-to-date basis (annualized as applicable) / average total assets (year-to-date basis)	●			●		
Return on risk-weighted assets, gross (%)	Operating income before credit loss (expense) or recovery on a year-to-date basis (annualized as applicable) / average risk-weighted assets (year-to-date basis)	●					
FINMA leverage ratio (%)	BIS tier 1 capital / average adjusted assets as per definition by the Swiss Financial Market Supervisory Authority (FINMA)	●					
BIS tier 1 ratio (%)	BIS tier 1 capital / BIS risk-weighted assets	●					
Net new money growth (%)	Net new money for the period (annualized as applicable) / invested assets at the beginning of the period	●	●	●		●	
Gross margin on invested assets (bps)	Operating income before credit loss (expense) or recovery (annualized as applicable) / average invested assets		●	●		●	
Net new business volume growth (%)	Net new business volume (i.e. total net inflows and outflows of client assets and loans) for the period (annualized as applicable) / business volume (i.e. total of client assets and loans) at the beginning of the period						●
Net interest margin (%)	Net interest income on a year-to-date basis (annualized as applicable) / average loans (year-to-date basis)						●
Share of recurring revenue (%)	Total recurring fees and net interest income / total operating income			●			
Impaired loans portfolio as a % of total loans portfolio, gross (%)	Impaired loans portfolio, gross / total loans portfolio, gross						●
Average VaR (1-day, 95% confidence, five years of historical data)	Value at Risk (VaR) expresses maximum potential loss measured to a 95% confidence level, over a 1-day time horizon and based on five years of historical data				●		

US methodology customary in that market. Market and currency movements, as well as fees, commissions and interest on loans charged, are excluded from net new money as are the effects of any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and custody-only assets as a result of a change in the service level delivered are generally treated as net new money flows; however, where such change in service level directly results from a new externally-imposed regulation, the one-time net effect of the implementation is reported as an asset reclassification without net new money impact. The Investment Bank does not track invested assets and net new money. However, when a client is transferred from the Investment Bank to another business division, this produces net new money even though client assets were already with UBS.

When products are managed in one business division and sold by another, they are counted in both the investment management unit and the distribution unit. This results in double counting within our total invested assets, as both units provide an independent service to their respective client, add value and generate revenues. Most double counting arises when mutual funds are managed by Global Asset Management and sold by Wealth Management and Wealth Management Americas. The business divisions involved count these funds as invested assets. This approach is in line with both finance industry practices and our open architecture strategy, and allows us to accurately reflect the performance of each individual business. Overall, CHF 172 billion of invested assets were double-counted as of 31 December 2012 (CHF 183 billion as of 31 December 2011).

In the course of implementing the new KPI "Net new business volume growth (%)" for Retail & Corporate, we refined our definition of invested assets and client assets for Retail & Corporate. Assets from third-party banks and brokers are no longer counted as client assets and pension fund assets are no longer counted as invested assets. Retail & Corporate client assets were restated as of 31 December 2011 from CHF 848 billion to CHF 333 billion and the Group's invested assets were restated from CHF 2,167 billion to CHF 2,088 billion.

➔ Refer to "Note 35 Invested assets and net new money" in the "Financial information" section of this report for more information

Seasonal characteristics

Our main businesses may show seasonal patterns. The Investment Bank's revenues have been affected in some years by the seasonal characteristics of general financial market activity and deal flows in investment banking. Other business divisions may also be impacted by seasonal components, such as annual income tax payments which, for example, arise in the second quarter in the US, asset withdrawals that tend to occur in the fourth quarter and by lower client activity levels related to the summer and end-of-year holiday seasons.

Changes to key performance indicators in 2013

With effect from the first quarter of 2013, we will replace "BIS tier 1 ratio (%)" and "FINMA leverage ratio (%)" at Group level with "Basel III common equity tier 1 capital ratio (%)" and "FINMA Basel III leverage ratio (%)" respectively.

"Basel III common equity tier 1 capital ratio (%)" will be shown on a phase-in and fully applied basis. The information provided on a fully applied basis does not consider the effects of the transition period from 2013 to 2019, during which new capital deductions are phased in and ineligible capital instruments are phased out. "FINMA Basel III leverage ratio (%)" will consider total capital, which includes Basel III common equity tier 1 capital on a phase-in basis and loss-absorbing capital, divided by total exposure, which is equal to IFRS assets, based on a capital adequacy scope of consolidation, adjusted for replacement value netting and other adjustments, including off-balance sheet items.

The above changes are intended to align our KPI framework to the new Basel III requirements, which are effective from 1 January 2013.

Group / business division key performance indicators

Key performance indicators	Definition	Group
Basel III common equity tier 1 capital ratio (%) (Fully applied[1] / Phase-in)	Basel III common equity tier 1 capital / Basel III risk-weighted assets	●
FINMA Basel III leverage ratio (%)	Total capital / IFRS assets, based on a capital adequacy scope of consolidation, adjusted for replacement value netting and other adjustments, including off-balance sheet items	●

1 The information provided on a fully applied basis does not consider the effects of the transition period from 2013 to 2019, during which new capital deductions are phased in and ineligible capital instruments are phased out.

Wealth Management

With a presence in over 40 countries, Wealth Management provides wealthy private clients with investment advice and solutions to fit their individual needs.

Business

With more than CHF 820 billion of invested assets at the end of 2012, Wealth Management provides comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. Our clients benefit from the entire spectrum of UBS resources, ranging from investment management solutions to wealth planning and corporate finance advice, in addition to the specific offerings outlined below. An open product platform provides clients with access to a wide array of products from third-party providers that complement our own product lines.

Strategy and clients

Our objective is to be the pre-eminent wealth manager globally, providing superior investment advice and solutions to private clients, particularly in the high net worth (generally considered to be, among other factors, clients with CHF 2 million to CHF 50 million in investable assets) and ultra high net worth (generally considered to be, among other factors, clients with more than CHF 50 million in investable assets) spaces. In addition, we provide wealth management solutions, products and services to financial intermediaries.

The wealth management business has long-term growth prospects and we expect the wealth management market to grow faster than the gross domestic product in all regions of the globe despite the current macroeconomic environment. From a client segment perspective, the global ultra high net worth market, including family offices, has the highest growth potential, followed by the high net worth market. Our broad client base and strong global footprint put us in an excellent position to take advantage of the substantial growth opportunities this expected wealth creation presents. In the key onshore locations in which we are expanding, our Wealth Management business benefits from our established local Investment Bank and Global Asset Management business relationships.

We continue to build on our integrated client service model, bundling capabilities across the Group to identify investment opportunities in all market conditions and tailor solutions to individual client needs. Our global booking centers give us a strong local presence that enable us to book client assets in multiple locations.

In Asia Pacific we aim to accelerate our growth. We continue to focus on Hong Kong and Singapore – the leading financial centers in the region – as well as on a selective presence in the major onshore markets, such as Japan and Taiwan. We continue to invest in our local presence in China to support us in capturing long-term growth opportunities.

In the emerging markets, we focus on Brazil, Mexico, Israel, Turkey, Russia and Saudi Arabia. As many of our clients from emerging markets prefer to book their assets in established financial centers, we are strengthening our coverage for them through our booking centers in the US, the UK and Switzerland.

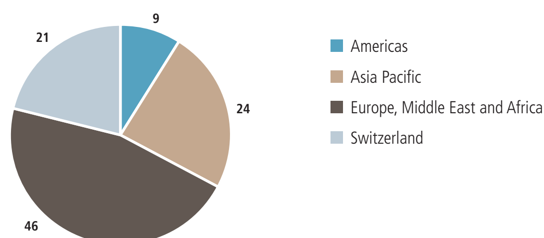
In Europe, we combined our European offshore and onshore businesses to reflect the converging needs of clients in the region. This reorganization enables us to leverage our extensive Swiss product offering, while creating economies of scale and helping us to deal more efficiently with increased regulatory and fiscal requirements. Our growth ambition is underpinned by an established European footprint in all major booking centers.

In Switzerland, our wealth management operations' close collaboration with our retail, corporate, asset management and

Invested assets by client domicile

In %, except where indicated — **Total: CHF 821 billion**

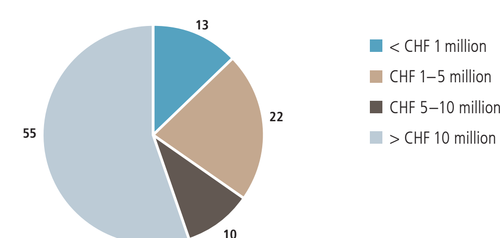
As of 31.12.12



Invested assets by client wealth

In %, except where indicated — **Total: CHF 821 billion**

As of 31.12.12



investment banking businesses gives us the foundation to expand our business, and provides our clients access to investment insight and research, products, capital markets and execution as well as to advisory capabilities. Our extensive branch network, including over 100 wealth management offices, fosters referrals from the Swiss corporate and retail client base as well as retail clients' development to our wealth management operations as their wealth increases.

We aim to build on our position as market leader in the ultra high net worth segment, which remains one of our biggest growth contributors, by focusing on our clients' individual goals and providing them with access to the infrastructure offered to our institutional clients – for example, direct access to the Investment Bank's trading platforms. Also, within this segment, our Global Family Office Group provides this highly sophisticated client group with dedicated institutional coverage and global execution via dedicated specialist teams from both Wealth Management and the Investment Bank.

Our Global Financial Intermediaries (Global FIM) business supports more than 2,500 financial intermediaries in all major financial centers as a strategic business partner, offering professional investment advisory services, a global banking infrastructure and tailored solutions that enable them to advise their end-clients more effectively.

Organizational structure

Wealth Management is headquartered in Switzerland, with a presence in over 40 countries and approximately 200 wealth management and representative offices, half of which are outside Switzerland. As of the end of 2012, Wealth Management employed roughly 16,200 people worldwide, of whom approximately 4,100 were client advisors. The Wealth Management business unit is governed by executive, operating and risk committees and is primarily organized along regional lines with the business areas Asia Pacific, Europe, Global Emerging Markets, Switzerland and Global Ultra High Net Worth. Our business is supported by the Chief Investment Officer and a global Investment Products & Services unit as well as central functions.

Competitors

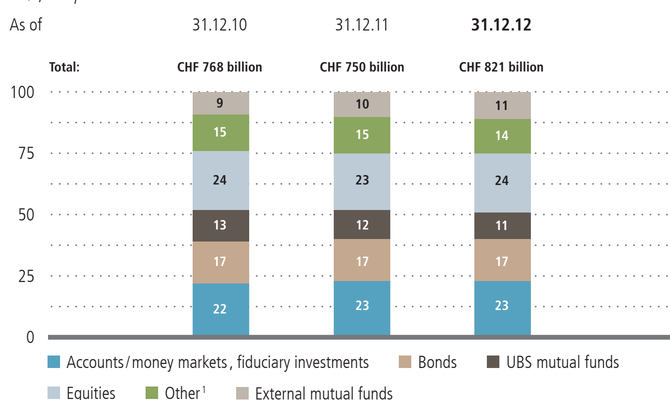
Our major global competitors include Credit Suisse, Julius Bär, HSBC, Deutsche Bank, JP Morgan and Citigroup. In the European domestic markets, we primarily compete with the private banking operations of such large local banks as Barclays in the UK, Deutsche Bank in Germany and Unicredit in Italy. The private banking franchises of HSBC, Citigroup and Credit Suisse are our main competitors in Asia Pacific.

Products and services

Financial markets have changed fundamentally over the last few years and are characterized by a high degree of uncertainty and volatility. In these difficult market conditions our clients have become increasingly focused on protecting their assets and expect strong advisory support for their investment decisions. We are, therefore, continuing to develop our business model as a dynamic wealth manager with investment management capabilities at its core. This implies active relationships between our highly qualified client advisors and their clients. Systematic client profiling, suitable and well-performing investment ideas, portfolio monitoring and fast, focused communication are critical for our clients' success. To this end, and with the ultimate goal of improving our clients' investment performance, our global Chief Investment Office synthesizes the research and expertise of our global network of economists, strategists, analysts and investment specialists from across all business divisions and asset classes. They are present in many locations around the globe, closely monitoring financial developments as they occur. This enables us

Invested assets by asset class

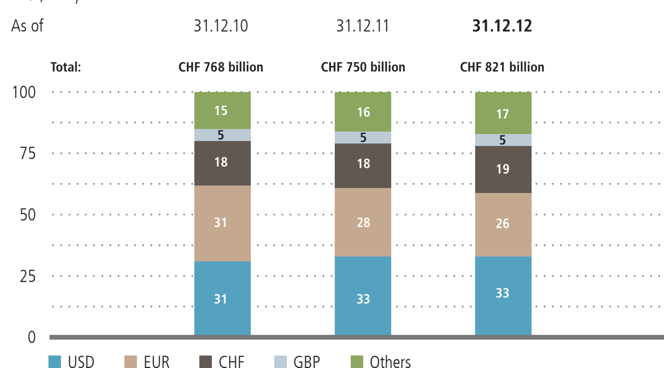
In %, except where indicated



1 Including structured products and alternative investments.

Invested assets by currency

In %, except where indicated



to deliver insights faster and to bring local knowledge to our investment process. Using their analyses, the Chief Investment Officer establishes a UBS house view, which is vetted by our external partner network of some of the most successful money managers around the globe.

Our Investment Products & Services unit ensures our offerings are consistently adapted to market conditions by aligning our discretionary and advisory products with our Chief Investment Officer's house view. Clients receive investment proposals directly related to this view, as well as solutions for alternative scenarios if they have different views on market trends. Those who opt for a discretionary mandate delegate the management of their assets to a team of professional portfolio managers. Clients who prefer to be actively involved in the management of their assets can choose an advisory mandate, in which investment professionals provide analysis and monitoring of portfolios, together with tailor-made proposals to support investment decisions. Our clients can also trade the full range of financial instruments from single securities, such as equities and bonds, to various investment funds, structured products and alternative investments. Additionally, we offer structured lending, corporate finance and wealth-planning advice on client needs such as funding for education, inheritance and succession.

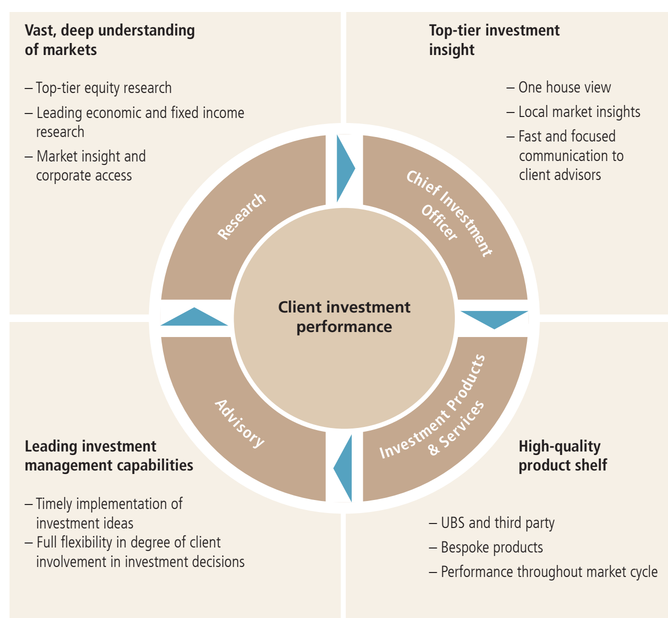
We have also launched a number of initiatives to further improve our product offering, to enhance our solutions and to better align our fund and manager selection process and fee arrangements to the current legal and regulatory environment. These include switching fund and structured product holdings within our discretionary mandates into holdings that do not carry distribution fees and designing a new flat-fee offering for advisory clients.

Wealth Management's products are aimed at delivering performance in various market scenarios and are developed from a wide range of sources including Investment Products & Services, Global Asset Management, the Investment Bank and third parties, as we operate with an open product platform. By aggregating private investment flows into institutional-size flows, we are in a position to offer our Wealth Management clients access to investments that would otherwise only be available to institutional clients.

Our integrated client service model allows client advisors to analyze our clients' financial situation, and develop and implement systematic, tailored investment strategies. These strategies are regularly reviewed and are based on individual client profiles, which comprise all important investment criteria, including a given client's life cycle needs, risk appetite and performance expectations. We continuously train our client advisors and provide them with ongoing support to ensure they present the best discretionary and advisory solutions to our clients.

As a global, integrated firm, we provide our clients with the investment advice, solutions and tools across all asset classes that best fit their individual needs.

Investment management and advisory – key components



Wealth Management Americas

Wealth Management Americas develops advice-based relationships through its financial advisors, who deliver a fully integrated set of wealth management solutions designed to address the needs of high net worth and ultra high net worth individuals and families.

Business

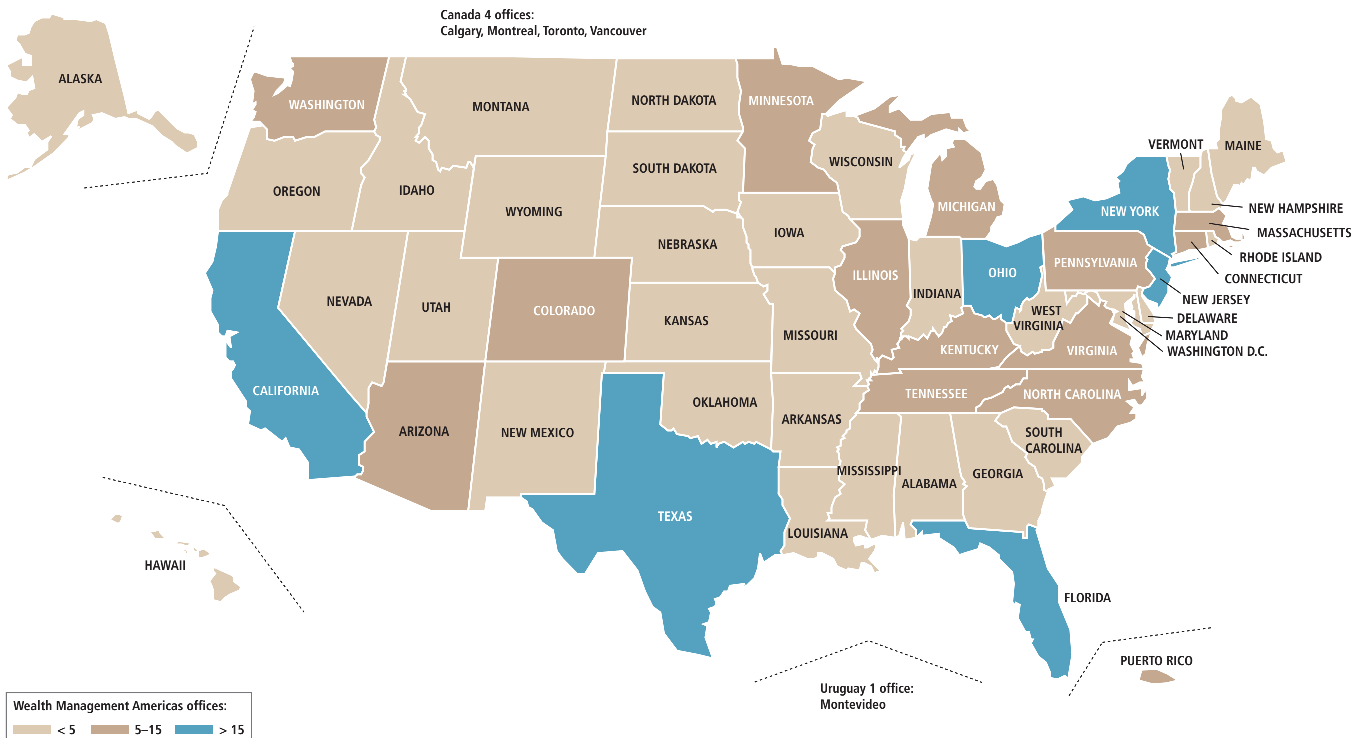
Wealth Management Americas is the leading wealth manager in the Americas in terms of financial advisor productivity and invested assets, and includes the domestic US and Canadian businesses as well as international business booked in the US. On 31 December 2012, the business division had USD 843 billion in invested assets.

Strategy and clients

Our goal is to be the best wealth management business in the Americas. As we continuously strive to achieve this, we must be both client-focused and advisor-centric. We deliver a fully integrated set of advice-based wealth management solutions and banking services through our financial advisors in key metropolitan markets to meet the needs of our target client segments: high net worth clients (USD 1 million to USD 10 million in investable assets) and ultra high net worth clients (more than USD 10 million in investable assets), while also serving the needs of the core affluent (USD 250,000 to USD 1 million in investable assets). We are committed to providing high-quality advice to our clients across all their financial needs by employing the best professionals in the industry, delivering the highest standard of execution, and running a streamlined and efficient business.

We believe we are uniquely positioned to serve high net worth and ultra high net worth investors in the world's largest wealth market. With a network of over 7,000 financial advisors and USD 843 billion in invested assets, we are large enough to be relevant, but focused enough to be nimble, enabling us to combine the advantages of large and boutique wealth managers. We aim to differentiate ourselves from competitors and be a trusted and leading provider of financial advice and solutions to our clients by

Geographical presence in key markets



enabling our financial advisors to leverage the full resources of UBS, including unique access to wealth management research, a global Chief Investment Office, and solutions from our asset-gathering businesses and the Investment Bank. These resources are augmented by our commitment to an open architecture and our partnerships with many of the world's leading third-party institutions. Moreover, our wealth management offerings are complemented by banking, mortgage and financing solutions that enable us to provide advice on both the asset and liability sides of our clients' financial balance sheets.

We believe the long-term growth prospects of the wealth management business are attractive in the Americas, with high net worth and ultra high net worth expected to be the fastest growing segments in terms of invested assets in the region. In 2012, our strategy and focus led to an improvement in financial results, retention of high-quality financial advisors and net new money growth. Building on this progress, we aim for continued growth in our business by developing our financial advisors' focus toward advice-based solutions, leveraging the global capabilities of UBS to clients by partnering with the Investment Bank and Global Asset Management, and delivering banking and lending services that complement our wealth management solutions. We also plan to continue investing in improved platforms and technology, while remaining disciplined on cost. We expect these efforts to enable us to achieve higher levels of client satisfaction, strengthen our client relationships, and lead to greater revenue productivity among our financial advisors and a more profitable business.

Organizational structure

Wealth Management Americas consists of branch networks in the US, Puerto Rico and Canada, with 7,059 financial advisors as of 31 December 2012. Most corporate and operational functions of the business division are located in the Wealth Management Americas home office in Weehawken, New Jersey.

In the US and Puerto Rico, Wealth Management Americas operates through direct and indirect subsidiaries of UBS AG. Securities and operations activities are conducted primarily through two registered broker-dealers, UBS Financial Services Inc. and UBS Financial Services Incorporated of Puerto Rico. Our banking services in the US include those conducted through the UBS AG branches and UBS Bank USA, a federally-regulated bank in Utah, which provides Federal Deposit Insurance Corporation (FDIC)-insured deposit accounts, collateralized lending services, mortgages and credit cards.

Canadian wealth management and banking operations are conducted through UBS Bank (Canada).

Competitors

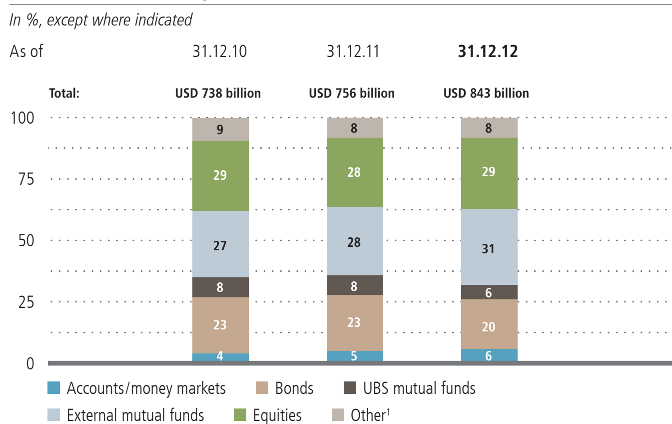
Wealth Management Americas competes with national full-service brokerage firms, domestic and global private banks, regional broker-dealers, independent broker-dealers, registered investment advisors, trust companies and other financial services firms offering wealth management services to US and Canadian private clients, as well as foreign non-resident clients seeking wealth management services within the US. Our main competitors include the wealth management businesses of Bank of America, Morgan Stanley and Wells Fargo.

Products and services

Wealth Management Americas offers clients a full array of solutions that focus on the individual financial needs of each client. Comprehensive planning supports clients through the various stages of their lives, including education funding, charitable giving, estate strategies, insurance, retirement and trusts and foundations with corresponding product offerings for each stage. Our advisors work closely with internal consultants in areas such as wealth planning, portfolio strategy, retirement and annuities, alternative investments, managed accounts, structured products,

Invested assets by asset class

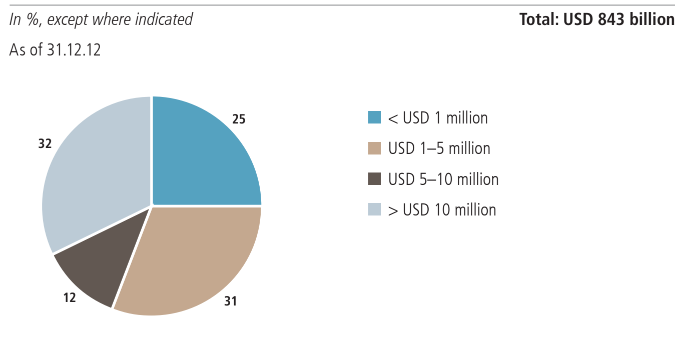
In %, except where indicated



1 Includes structured products, alternative investments and fiduciary investments.

Invested assets by client wealth

In %, except where indicated



banking and lending, equities and fixed income. Clients also benefit from our dedicated Wealth Management Research team, which provides research guidance to help support our clients' investment decisions.

Our offerings are designed to meet a wide variety of investment objectives, including wealth accumulation and preservation, income generation and portfolio diversification. To address the full range of our clients' financial needs, we also offer competitive lending and cash management services such as securities-backed lending, the resource management account, FDIC-insured deposits, mortgages and credit cards.

Additionally, our Corporate Employee Financial Services unit provides a comprehensive, personalized stock benefit plan and related services to many of the largest US corporations and their executives. For corporate and institutional clients, we offer a robust suite of solutions, including equity compensation, administration, investment consulting, defined benefit and contribution programs and cash management services.

Our clients can choose asset-based pricing, transaction-based pricing or a combination of both. Asset-based accounts have access to both discretionary and non-discretionary investment advisory programs. Non-discretionary advisory programs enable the client to maintain control over all account transactions, while clients with discretionary advisory programs direct investment professionals to manage a portfolio on their behalf. Depending on the type of discretionary program, the client can give investment discretion to a qualified financial advisor, a team of our investment professionals or a third-party investment manager. Separately, mutual fund advisory programs are also offered, whereby a financial advisor works with the client to create a diversified portfolio of mutual funds guided by a research-driven asset allocation framework.

For clients who favor individual securities, we offer a broad range of equity and fixed income instruments. In addition, qualified clients may take advantage of structured products and alternative investment offerings to complement their portfolio strategies.

All of these solutions are supported by a dedicated markets execution group. This group partners with the Investment Bank and Global Asset Management in order to access the resources of the entire firm as well as third-party investment banks and asset management firms.

Investment Bank

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative solutions, outstanding execution and comprehensive access to the world's capital markets. We offer investment banking and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through our two business units, Corporate Client Solutions and Investor Client Services.

Business and clients

In October 2012, we announced a significant acceleration of the implementation of our strategy presented in November 2011. As part of this acceleration, starting from first quarter 2013 the Investment Bank has been reorganized into two distinct business units, Corporate Client Solutions and Investor Client Services, in order to align the delivery of our services and the execution of our strategy with the needs of our clients.

Corporate Client Solutions includes all advisory and financing solutions businesses, origination, structuring and execution, including equity and debt capital markets in service of corporate, financial and sponsor clients.

Investor Client Services includes execution, distribution and trading for institutional investors and provides support to Corporate Client Solutions and UBS's wealth management businesses. It comprises our equities businesses, including prime brokerage, cross-asset class research capabilities and our foreign exchange franchise, precious metals, rates and credit businesses. The Investor Client Services unit also provides distribution and risk management capabilities required to support all of our businesses.

Our organizational model and strategy have been shaped to focus on the long-term strategic relationship with our clients, who will benefit from an integrated, solutions-led approach, combined with deep market insight, intellectual capital and global coverage and execution.

Strategy

We believe that current industry trends and the impact of the new regulatory environment reflect secular changes in our industry, which require a fundamental adjustment of our business mix and scale. Therefore the strategic transformation of our business will differentiate our franchise by satisfying our clients' needs thanks to our focus on superior advice and execution. In this context we have re-focused our rates and credit platform while we continue to strengthen our advisory, capital markets, equities and foreign exchange businesses. The changes we have made will capitalize on our traditional strengths, while our clients will continue to benefit from our expertise, intellectual capital and global execution capabilities. To ensure the successful execution of our strategy, we will continue to invest in technology and hire talent selectively in key areas across the business.

To support our goal of earning attractive returns on capital, and to contribute to the improvement of the Group as a whole, we have decided to exit products and services in our fixed-income businesses that are capital-intensive, exhibit higher operational complexity and are not required for serving the clients of our Corporate Client Solutions franchise or our wealth management clients.

Consistent with the accelerated implementation of our strategy, the scope of our advisory and capital markets businesses remains unchanged, including our debt capital markets franchise. However, the existing business functions are being reorganized to focus on those industries and geographies that offer the best opportunities. Our foreign exchange business, including our emerging markets foreign exchange offering and our precious metals business, will continue to be a cornerstone of our services. We have refocused our credit and rates trading capabilities to support

Creating a profitable and competitive Investment Bank

	Corporate Client Solutions	Investor Client Services
Our businesses	Advisory, equities capital markets, debt capital markets, leveraged finance, origination and structuring, financing solutions	Equities, foreign exchange, precious metals, rates and credit, research, distribution, sales and trading
Our clients	Corporate, FIG, sponsor clients, WM	Financial institution, WM and prime brokerage clients, market counterparties
Our relationships	– Professionals with extensive experience in advisory/capital markets providing bespoke advice – Patient cultivation of long-term strategic relationships and high-quality client coverage – Thought leadership with deep insights into markets and global macro economics based on our intellectual capital	
Our platform	– High-speed trade execution and robust clearing platform – Provider of liquidity and financing – Leading low-latency execution platforms for equities and foreign exchange – Leading portfolio management and risk assessment tools	
Our culture	– Operating with the highest standards of ethics and integrity – Talented, diverse, dedicated people, working as one team – Clear accountability for results, risks and reputation	
Financials	Expected: ~⅓ of total revenues ~25% of Basel III RWA	Expected: ~⅔ of total revenues ~75% of Basel III RWA
	Targeting[1] a pre-tax return on attributed equity of more than 15%, cost/income ratio of 65–85%, overall Basel III RWAs of less than CHF 70 billion and funded balance sheet assets of less than CHF 200 billion	

1 Excluding significant non-recurring items (e.g. restructuring costs) unless otherwise stated; targets assume constant FX rates.

our capital markets business on the basis of an intermediation model, much like in our equities and foreign exchange platforms. While we have transferred to the Corporate Center with the aim of exiting the most complex and capital-intensive products, we retain a comprehensive offering targeted at the clients of our core business. A franchise organized around intermediation will be well positioned to capture new trends in fast-changing markets which are posing challenges to traditional business models.

At the end of 2012 the Investment Bank, including the businesses we intend to exit, had pro-forma Basel III RWA of CHF 131 billion, representing a decrease of CHF 81 billion since the end of 2011. The accompanying reduction in our funded balance sheet was CHF 163 billion, a reduction of approximately 37% during 2012. As a result of the strategic changes and additional risk-weighted assets reductions, the Investment Bank started 2013 operating with approximately CHF 64 billion of pro-forma Basel III RWA. Operating with under CHF 70 billion of Basel III RWA and less than CHF 200 billion of funded assets, our Investment Bank aims to deliver a pre-tax return on attributed equity in excess of 15%, with a cost/income ratio of 65% to 85%.

As part of our strategy, we will continue to invest in technology while optimizing internal efficiencies: we have a comprehensive and targeted technology plan based on a long-term portfolio approach across businesses aiming at enhancing the effectiveness of our platform for clients. Our technology investment is focused on change-the-bank programs mainly in our Institutional Client Services business, while we continue to simplify all our platforms across business areas.

These structural changes will also lower our operating costs substantially by 2015 as part of a Group-wide effort to increase efficiency. Alongside the business exits, we are undertaking specific initiatives to simplify our product portfolio and production processes, achieve leaner front-to-back processes, and operate with a reduced real-estate footprint.

➔ Please refer to the discussion about the "Acceleration of our strategic transformation" in the "Our strategy" section of this report for more information

Organizational structure

As of the end of 2012, we employed approximately 15,900 personnel in over 30 countries. We operate through branches and subsidiaries of UBS AG. Securities activities in the US are conducted through UBS Securities LLC, a registered broker-dealer.

Significant recent acquisitions

In February 2013, after receiving the required regulatory approvals from the Brazilian government, UBS finalized its acquisition of Link Investimentos, a Brazilian financial services firm. UBS entered into an agreement to acquire Link Investimentos in 2010, in order to strengthen our commitment to the emerging markets by providing wealth management and investment banking services to private and institutional clients in Brazil, one of the world's fastest growing economies.

Competitors

Our Investment Bank's strategy and scope is unique, but other competing firms are active in many of the businesses and markets in which we still participate. For our leading equities, foreign exchange and corporate advisory businesses, our main competitors remain the major global investment banks, including Bank of America/Merrill Lynch, Barclays Capital, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase and Morgan Stanley.

Products and services

Corporate Client Solutions

This business unit includes client coverage, advisory, debt and equity capital market solutions and financing solutions for corporate, financial institution and sponsor clients. Corporate Client Solutions works closely with Investor Client Services in the distribution and risk management of capital markets products. With a presence in all major financial markets, Corporate Client Solutions is managed by region and is organized on a matrix of country, industry sector and product banking professionals. Its main business lines are as follows:

- The *advisory group* provides bespoke solutions to our clients' most-complex strategic problems. This includes mergers and acquisitions advice and execution, as well as refinancing, spin-offs, exchange offers, leveraged buyouts, joint ventures, takeover defense, corporate broking and other advisory services.
- *Equity capital markets* offers equity capital-raising services, as well as related derivative products and risk management solutions. The services include managing initial public offerings, follow-ons including rights issues and block trades, equity-linked transactions and other strategic equities solutions.
- *Debt capital markets* helps corporate and financial institution clients in raising debt capital including investment grade and emerging market bonds, high-yield bonds, subordinated debt and hybrid capital. We also provide leveraged capital services, which include event-driven (acquisition, leveraged buy-out) loans, bonds and mezzanine financing. All debt products are provided alongside risk management solutions, including derivatives in close collaboration with our foreign exchange, rates and credit businesses.
- *Financing solutions* works seamlessly in serving corporate and investor clients across the globe by providing customized solutions across asset classes via a wide range of financing capabilities including structured financing, real estate finance, special situations group and corporate lending, which aims to support our advisory-driven businesses.

Investor Client Services

The businesses in Investor Client Services, which include our equities business and our foreign exchange, rates and credit business, provide a comprehensive distribution platform with enhanced cross-asset delivery as well as specialist skills to our corporate, institutional and wealth management clients.

Equities

We are one of the world's largest equities houses and a leading participant in the primary and secondary markets for cash equities and equity derivatives. We provide a full front-to-back product suite globally, including financing, execution, clearing and custody services. Our franchise employs a client-centric approach to serve hedge funds, asset managers, wealth management advisors, financial institutions and sponsors, pension funds, sovereign wealth funds and corporations globally. We distribute, structure, execute, finance and clear cash equity and equity derivative products. Our research franchise provides in-depth investment analysis on companies, sectors, regions, macroeconomic trends, public policy and asset-allocation strategies. The main business lines of the equities unit are as follows:

- *Cash equities* provides clients with liquidity, investment advisory, trade execution and consultancy services, together with comprehensive access to primary and secondary markets, corporate management and subject matter experts. We offer full-service trade execution for single stocks and portfolios, including capital commitment, block trading, small cap execution and commission management services. In addition, we provide clients with a full suite of advanced electronic trading products, direct market access to over 150 venues worldwide, including low-latency execution, innovative algorithms and pre, post and real–time analytical tools. Our broker and intermediary services franchise offers execution and price improvement to retail wholesalers.
- *Equity derivatives* provides a full range of flow and structured products, convertible bonds and strategic equity solutions with global access to primary and secondary markets. The franchise enables clients to manage risk and meet funding requirements through a wide range of listed, OTC, securitized and fund-wrapped products. We create and distribute structured products and notes for institutional and retail investors with investment returns linked to companies, sectors and indices across multiple asset classes, including commodities.
- *Financing services* provides a fully-integrated platform for hedge fund clients, including prime brokerage, capital introduction, clearing and custody, synthetic financing and securities lending. In addition, we execute and clear exchange–traded derivatives across equities, fixed income and commodities in more than 60 markets globally.

Foreign exchange, rates and credit

This unit consists of our premier foreign exchange franchise and our market-leading precious metals business, as well as our rates and credit businesses. These businesses support the execution, distribution and risk management related to corporate and institutional client businesses, and also meet the needs of private wealth management clients via targeted intermediaries. The main business lines are as follows:

- *Foreign exchange* provides a full range of G10 and emerging markets currency and precious metals services globally. We are a leading foreign exchange market-maker in the professional spot, forwards and options markets. We provide clients worldwide with first-class execution facilities (voice, electronic, algorithmic) coupled with premier advisory and structuring capabilities when tailored solutions best fit our clients' positioning, hedging or liquidity management. Our presence in physical and non-physical precious metals markets has endured for almost a century. UBS's award-winning teams provide quality, security and competitive pricing supported by a client-centric, one-stop shop approach that offers trading, investing and hedging across the spectrum of gold-, silver-, platinum- and palladium-related offerings.
- *Rates and credit* encompasses sales and trading in a selected number of credit and rates products, such as standardized rates-driven products, interest-rate swaps and medium-term notes as well as government and corporate bonds. Our offering includes market-making capabilities in areas required to support our franchises in foreign exchange, equities, and our corporate and investor client base.

Global Asset Management

Global Asset Management is a large-scale asset manager with businesses well diversified across regions, capabilities and distribution channels. We serve third-party institutional and wholesale clients and the clients of UBS's wealth management businesses with a broad range of investment capabilities and styles across all major traditional and alternative asset classes.

Business

Global Asset Management's investment capabilities encompass equities, fixed income, currency, hedge funds, real estate, infrastructure and private equity. We also enable clients to invest in a combination of different asset classes through multi-asset strategies. Our fund services unit is a global fund administration business. Invested assets totaled CHF 581 billion and assets under administration by fund services were CHF 410 billion on 31 December 2012. Global Asset Management is a leading fund house in Europe, the largest mutual fund manager in Switzerland and one of the largest fund of hedge funds and real estate investment managers in the world.

Strategy

We work closely with our clients in pursuit of their investment goals with long-term performance as our focus. We continue to expand our strong third-party institutional business while also growing third-party wholesale distribution. We also remain committed to delivering distinctive products and solutions to the clients of UBS's wealth management businesses.

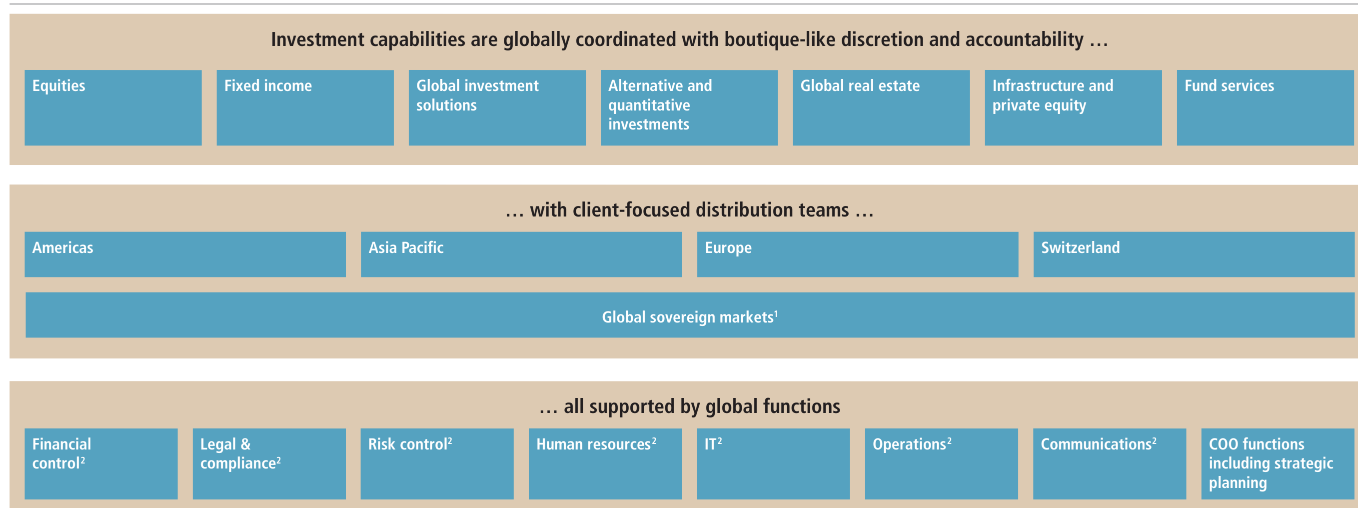
We offer a broad range of investment capabilities and styles across all major traditional and alternative asset classes. Over the past few years we have developed our indexed (or passive) capabilities, including exchange-traded funds, to meet growing demand for these strategies from both institutional and individual investors. Around one-fifth of our invested assets now fall into this category.

We continue to expand our successful alternatives platform, building on our established positions in real estate and fund of hedge funds businesses.

The current environment and near-term outlook are characterized by market uncertainty, investor risk appetite that remains vulnerable to macro-economic developments, and low interest rates. The diversification of our business places us in a good position to benefit from shifting market dynamics and provides a solid foundation for capturing industry growth opportunities.

The long-term outlook for the asset management industry remains good, with three main drivers indicating inflows into the industry: (i) the global economic downturn in recent years has reduced the assets of both working and retired people, thus increasing future savings requirements; (ii) governments are continuing to reduce support for pensions and benefits leading to a

Business structure



1 Works in close coordination with region heads and the Pan Asia institutional team. 2 Reports to UBS Group functional head.

need for greater private provision; and (iii) emerging markets are becoming an ever more important asset pool.

Organizational structure

The "Business structure" chart shows the investment, distribution and support structure of the business division. We employ around 3,800 personnel in 24 countries, and have our principal offices in London, Chicago, Frankfurt, Hartford, Hong Kong, New York, Paris, Singapore, Sydney, Tokyo and Zurich.

Significant recent acquisitions and business transfers

– In December 2012, Global Asset Management announced the sale of its book of Canadian domestic business to Fiera Capital Corporation. The transaction was completed in January 2013.
– In January 2012, the Jersey-based fund services business was transferred from Wealth Management to Global Asset Management.
– In October 2011, Global Asset Management completed the acquisition of the ING Investment Management Limited business in Australia. This initially operated as a subsidiary of UBS Global Asset Management (Australia) Ltd and, following the sale of parts of the business, was fully integrated during 2012.
– In October 2010, UBS increased its holding in UBS Real Estate Kapitalanlagegesellschaft mbH (KAG), a Global Asset Management joint venture with Siemens in Munich, Germany, to 94.9% from 51.0%.

Competitors

Our competitors include global firms with wide-ranging capabilities, such as Fidelity Investments, AllianceBernstein Investments, BlackRock, JP Morgan Asset Management and Goldman Sachs Asset Management. Most of our other competitors are more regional or local niche players that focus mainly on one asset class, particularly in the real estate, hedge fund, infrastructure or private equity investment areas.

Clients and markets

Global Asset Management serves third-party institutional and wholesale clients, and the clients of UBS's wealth management businesses. As shown in the "Invested assets by channel" chart, at 31 December 2012 approximately 68% of invested assets originated from third-party clients, including institutional clients (e.g. corporate and public pension plans, governments and their central banks) and wholesale clients (e.g. financial intermediaries and distribution partners). A further 32% originated from UBS's wealth management businesses.

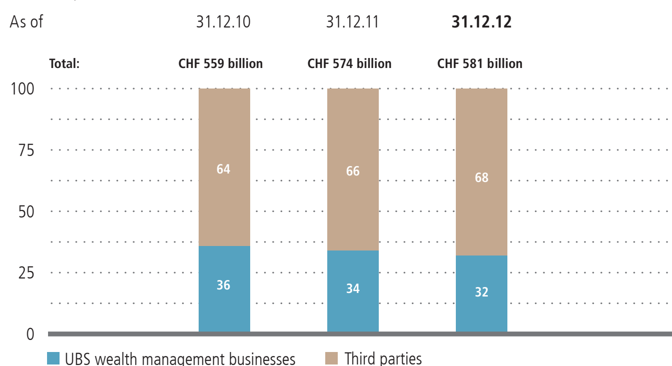
Products and services

Global Asset Management's business lines are: traditional investments (equities, fixed income and global investment solutions); alternative and quantitative investments; global real estate; infrastructure and private equity; and fund services. Revenues and key performance indicators are reported according to these business lines and a breakdown is shown in the "Invested assets by business line" chart.

The investment teams operate in a boutique-like structure and the "Investment capabilities and services" chart illustrates their distinct offerings. These can be delivered in the form of segregated, pooled and advisory mandates, along with a very large range of registered investment funds, exchange-traded funds and

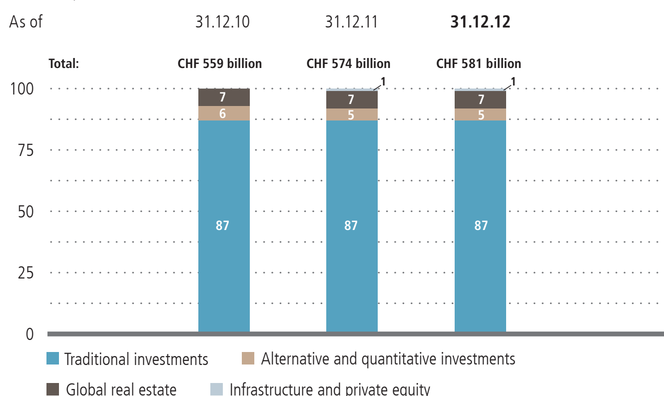
Invested assets by channel

In %, except where indicated



Invested assets by business line

In %, except where indicated



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Investment capabilities and services

Equities	Fixed income	Global investment solutions	Alternative and quantitative investments	Global real estate	Infrastructure and private equity	Fund services
Core, global, regional, country, emerging markets	Global	Global	Single-manager hedge funds	Global	Direct infrastructure investment	Fund / product set-up
Opportunity / high alpha	Country and regional	Country and regional	Multi-manager hedge funds	Country and regional	Infrastructure fund of funds	NAV calculation
Small cap, sector, thematic, sustainable	Money market	Asset allocation	Advisory services	Income, core, value-added and opportunistic strategies	Private equity fund of funds	Middle office services
Growth style – global, US, emerging markets	Short duration	Currency management	Quantitative	Multi-manager funds		Reporting
Long / short, unconstrained, market neutral	Core and core plus	Return and risk targeted	Active commodities, multi-manager	Listed securities		Investor services
Rules-based, high dividend	Sector specific	Structured portfolios		Farmland		Private labeling
Indexed, ETFs	Emerging markets	Risk management				International distribution support
Multi-strategy	High yield	Advisory services				Ancillary services for fund of hedge funds
	Indexed, ETFs	Multi-manager				
	Unconstrained					
	Customized solutions					

other investment vehicles in a wide variety of jurisdictions and across all major asset classes.

- *Equities* offers a wide spectrum of investment strategies with varying risk and return objectives. These are delivered by distinct investment teams, each with dedicated research and portfolio construction resources, which are organized around regional capabilities and styles: global, US, Europe, APAC & emerging markets, growth, and structured beta & indexing. Strategies include core, unconstrained, long-short, small cap, sector, thematic, indexed, rules-based and other specialized strategies.
- *Fixed income* offers a diverse range of global, regional and local market-based investment strategies. Its capabilities include single-sector strategies such as government and corporate bond portfolios, multi-sector strategies such as core and core plus bond, and extended sector strategies such as high yield and emerging market debt. In addition to this suite of traditional fixed income offerings, the team also manages unconstrained fixed income, currency strategies and customized solutions.
- *Global investment solutions* offers active asset allocation, currency, multi-manager, structured solutions, risk advisory and strategic investment advisory services. It manages a wide array of regional and global multi-asset investment strategies across the full investment universe and risk / return spectrum, structured portfolios, convertible bonds and absolute return strategies. Through its risk management and strategic investment advisory services, the team supports clients in a wide range of investment-related functions.
- *Alternative and quantitative investments* has two primary business lines – Alternative Investment Solutions (AIS) and O'Connor. AIS offers a full spectrum of hedge fund solutions and advisory services including multi-manager strategies. O'Connor is a key provider of single-manager global hedge funds.
- *Global real estate* actively manages real estate investments globally and regionally within Asia Pacific, Europe and the US, across the major real estate sectors. Its capabilities are focused on core and value-added strategies but also include other strategies across the risk / return spectrum.
- *Infrastructure and private equity* manages direct infrastructure investment and multi-manager infrastructure and private equity strategies for both institutional and high net worth investors. Infrastructure asset management manages direct investments in core infrastructure assets globally. Alternative Funds Advisory (AFA) infrastructure and AFA private equity construct broadly diversified fund of funds portfolios across the infrastructure and private equity asset classes, respectively.
- *Fund services,* our global fund administration business, offers a comprehensive range of flexible solutions including fund set-up, reporting and accounting for traditional investment funds, managed accounts, hedge funds, private equity funds and other alternative structures.

Distribution

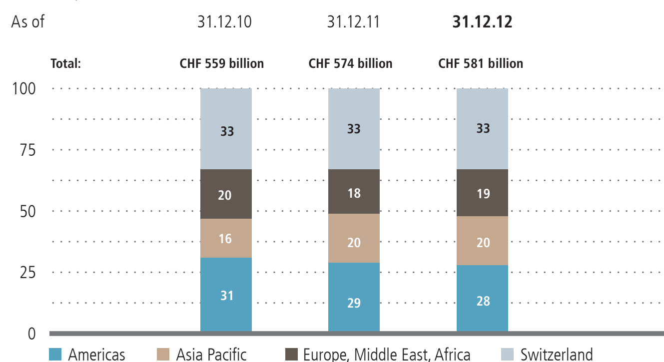
Our capabilities and services are distributed through our regional business structure (Americas, Asia Pacific, Europe and Switzerland) as detailed in the "Business structure" chart. A breakdown of invested assets across these regions is shown in the "Invested assets by region" chart.

Through regional distribution, we are able to leverage the full resources of our global investment platforms and functions to provide clients with relevant investment management products and services, client servicing and reporting at a local level.

We also have a dedicated global sovereign markets group to deliver an integrated approach to this client segment and ensure that sovereign institutions receive the focused advisory, investment and training solutions they require.

Invested assets by region[1]

In %, except where indicated



1 The regional split is primarily based on the client servicing location.

Retail & Corporate

As the leading retail and corporate banking business in Switzerland, our goal is to deliver comprehensive financial products and services to our retail, corporate and institutional clients, provide stable and substantial profits for the Group and create revenue opportunities for other businesses within the Group.

Business

Our Retail & Corporate business unit provides comprehensive financial products and services to our retail, corporate and institutional clients in Switzerland, and maintains a leading position in these client segments. As shown in the "Business mix" chart, Retail & Corporate generates stable profits which contribute substantially to the overall financial performance of the Group. We are amongst the leading players in the retail and corporate loan market in Switzerland, with a highly collateralized lending portfolio of CHF 137 billion on 31 December 2012, as shown in the "Loans, gross" chart. This portfolio is managed conservatively, focusing on profitability and credit quality rather than market share.

Our Retail & Corporate unit constitutes a central building block for the universal bank model of UBS Switzerland. It supports our other business divisions by referring clients to them and assisting retail clients to build their wealth to a level at which we can transfer them to our Wealth Management unit. Together, these actions contribute significantly to Group profitability. Furthermore, Retail & Corporate leverages the cross-selling potential of products and services provided by our asset-gathering and investment banking businesses. In addition, Retail & Corporate manages a substantial part of our Swiss infrastructure and Swiss banking product platform, which are both leveraged by our other businesses.

Strategy and clients

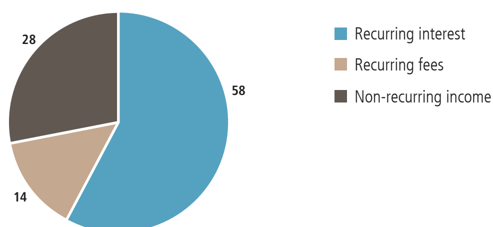
We aspire to be the bank of choice for retail clients in Switzerland by delivering value-added services. Currently, we serve every third Swiss household. Our distributional network comprises nearly 300 branches, 1,250 automated teller machines including self-service terminals, and four customer service centers as well as state-of-the-art electronic and mobile banking services. In order to further improve our clients' experience, we continue to invest in our distribution network by refurbishing our branches and adding new functionalities to our electronic and mobile banking service offering. Moreover, we are continuously refining our suite of life-cycle-based products to provide our clients with tailored solutions to meet their particular needs in their different stages of life. With regard to execution, we ensure a client-focused and efficient sales process.

Our size in Switzerland and the diversity of businesses we operate put us in an advantageous position to serve all our clients' complex financial needs in an integrated and efficient way. We aim to be the main bank of corporate and institutional clients ranging from small and medium-size enterprises to multinationals, and from pension funds and commodity traders to banks and insurers. We serve almost one in two Swiss companies, including more than 85% of the 1,000 largest Swiss corporations, as well as one in three pension funds in Switzerland, including 75 of the

Business mix

In %, except where indicated — **Total: CHF 3,756 million**

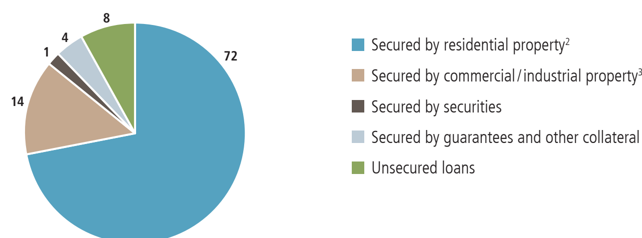
For the year ended 31.12.12



Loans, gross

In %, except where indicated — **Total: CHF 137 billion[1]**

As of 31.12.12



1 Total includes less than 1% secured by cash. 2 57% average loan to value based on latest credit review. 3 58% average loan to value based on latest credit review.

largest 100. We strive to further expand and leverage our transaction banking capabilities (e.g. payment and cash management services, custody solutions, trade and export finance). In addition, we plan to increase our presence and grow in the commodities trade finance business. Combining the universal bank approach with our local market expertise across all Swiss regions enables us to optimize our client service by providing access to all UBS capabilities.

As the leading retail and corporate banking business in Switzerland, we understand the importance of our role in supporting the needs of our clients. We have successfully implemented structures and processes to simplify our service commitments across the business, including streamlining our processes, reducing the administrative burden on our client advisors and enhancing their long-term productivity without compromising our risk standards.

Organizational structure

The Retail & Corporate unit is a core element of UBS Switzerland's universal bank delivery model, which allows us to extend the expertise of the entire bank to our Swiss retail, corporate and institutional clients. Switzerland is the only country where we operate in retail, corporate and institutional banking, wealth and asset management as well as investment banking.

To ensure consistent delivery throughout Switzerland, the Swiss network is organized into ten geographical regions. Dedicated management teams in the regions and in the branches derived from all business areas are responsible for executing the universal bank model, fostering cross-divisional collaboration and ensuring that the public and clients have a uniform experience based on a single corporate image and shared standards of service.

Competitors

In the Swiss retail banking business, our competitors are Raiffeisen, the cantonal banks, Credit Suisse, Postfinance, and other regional and local Swiss banks.

In the Swiss corporate and institutional business, our main competitors are Credit Suisse, the cantonal banks and foreign banks in Switzerland.

Products and services

Our retail clients have access to a life cycle-based comprehensive offering, comprising easy-to-understand products including cash accounts, payments, savings and retirement solutions, investment fund products, residential mortgages, a bonus program and advisory services. We provide financing solutions to our corporate clients, offering access to equity and debt capital markets, syndicated and structured credit, private placements, leasing and traditional financing. Our transaction banking offers solutions for payments and cash management services, trade and export finance, receivable finance, as well as global custody solutions to institutional clients. Close collaboration with our client-centric Investment Bank is a key building block in our universal bank strategy that enables us to offer capital market products, foreign exchange products, hedging strategies (currency, interest rates, and commodities) and trading (equities and fixed income, currencies and commodities), as well as to provide corporate finance advice in fields such as mid-market mergers and acquisitions, corporate succession planning and real estate. We also cater to the asset management needs of institutional clients by offering portfolio management mandates, strategy execution and fund distribution.

Corporate Center

The Corporate Center enables UBS to operate cohesively and effectively by providing and managing support and control functions for the business divisions and the Group.

Objectives

The Corporate Center provides the business divisions with Group-level control in the areas of finance, risk, legal and compliance, and Group-wide shared service functions comprising support and logistics functions. We strive to maintain effective corporate governance processes, including compliance with relevant regulations, ensuring an appropriate balance between risk and return. The Corporate Center also encompasses certain centrally managed positions, including the SNB StabFund option and the Legacy Portfolio.

In 2012, the Group-wide shared service functions in the Corporate Center – Core Functions, comprising information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical security as well as information security and offshoring, were extended by the integration of all Group-wide operations under the leadership of the Group Chief Operating Officer (Group COO).

The Corporate Center – Legacy Portfolio encompasses certain centrally managed positions, including the SNB StabFund option and a portfolio of legacy assets. It is overseen by a committee consisting of the Group Chief Executive Officer, Group Chief Financial Officer and the Group Chief Risk Officer. Starting with reporting for the first quarter of 2013, non-core businesses previously part of the Investment Bank will also be reported in the Corporate Center – Legacy Portfolio. As a result, from 2013 this unit will be known as Corporate Center – Non-core and Legacy Portfolio.

At the end of 2012, there were 25,255 employees across all Corporate Center functions. The majority of the treasury income, operating expenses and personnel associated with the activities within Corporate Center – Core Functions are re-allocated to the business divisions for which the respective services are performed.

In 2012, the Corporate Center focused on increasing operational efficiency, optimizing organizational design related to the accelerated implementation of our strategy announced in October 2012 and responding to the evolving regulatory environment. We implemented a new integrated approach to governing regulatory and strategic change initiatives and introduced a new Operational Risk Control Framework that encompasses all control requirements, front-to-back responsibilities and strengthens the supervisory framework. Overall, the integrated structure helps us to maintain independent control functions and a core platform from which we continually create synergies and enhance shareholder value.

Organizational structure

Corporate Center – Core Functions consists of the control functions Group Finance, Group Risk, and Group General Counsel, in addition to the shared services functions.

Group Chief Financial Officer

The Group Chief Financial Officer (Group CFO) is responsible for ensuring transparency in, and assessment of, the financial performance of UBS Group and its business divisions, for UBS Group's financial reporting, forecasting, planning and controlling processes. He also provides advice on financial aspects of strategic projects and transactions. The Group CFO has management responsibility over the divisional and the UBS Group financial control functions. The Group CFO is responsible for the management and control of UBS's tax affairs and for treasury and capital management, including management and control of funding and liquidity risk and UBS's regulatory capital ratios. After consultation with the Audit Committee of the Board of Directors (BoD), the Group CFO makes proposals to the BoD regarding the standards for accounting adopted by UBS and defines the standards for financial reporting and disclosure. Together with the Group Chief Executive Officer (Group CEO), the Group CFO provides external certifications

under sections 302 and 404 of the Sarbanes-Oxley Act 2002, and, in coordination with the Group CEO, manages relations with analysts and investors.

Group Chief Operating Officer

The Group COO manages the shared service functions of the Group, including the management and control of Group-wide operations, information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical as well as information security and offshoring. In addition, the Group COO supports the Group CEO in developing our strategy and addressing regulatory and strategic issues. The Group COO also oversees the business and strategic planning of shared services.

Group Chief Risk Officer

The Group Chief Risk Officer (Group CRO) develops and implements principles and appropriate independent control frameworks for credit, market, country and operational risks within the Group. In particular, the Group CRO formulates and implements the frameworks for risk capacity and appetite, risk measurement, portfolio controls and risk reporting, and has management responsibility over the divisional and Group risk control functions. He implements the risk control mechanisms as determined by the BoD, the BoD Risk Committee or the Group CEO. In addition, the Group CRO approves transactions, positions, exposures, portfolio limits and provisions in accordance with the delegated risk control authorities, and monitors and challenges the firm's risk-taking activities.

Group General Counsel

The Group General Counsel (Group GC) is responsible for legal and compliance matters, policies and processes, and for managing the legal and compliance function for the UBS Group. The Group GC is responsible for reporting legal and compliance risks and material litigation, for managing litigation and special and regulatory investigations, and for ensuring that we meet relevant legal requirements and regulatory standards in the conduct of our business. The Group GC also assumes responsibility for establishing a Group-wide management and control process for our relationship with regulators, in close cooperation with the Group CRO and the Group CFO where relevant, and for maintaining the relationships with our key regulators with respect to legal and compliance matters.

Regulation and supervision

The Swiss Financial Market Supervisory Authority (FINMA) is UBS's home country regulator and consolidated supervisor. As a financial services provider with a global footprint, we are also regulated and supervised by the relevant authorities in each of the jurisdictions in which we conduct business. The following sections describe the regulation and supervision of our business in Switzerland and the regulatory and supervisory environments in the US and the UK, our next two largest areas of operation.

Regulation and supervision in Switzerland

The Swiss Federal Law on Banks and Savings Banks of 8 November 1934, as amended (Banking Act), and the related Swiss Federal Ordinance on Banks and Savings Bank of 17 May 1972, as amended (Banking Ordinance), provide the legal basis for banking in Switzerland. Based on the license obtained under this framework, we may engage in a full range of financial service activities, including retail banking, commercial banking, investment banking and asset management in Switzerland. The Banking Act, Banking Ordinance and the Financial Market Supervision Act of 22 June 2007, as amended, establish a framework for supervision by FINMA, empowering it to issue its own ordinances and circular letters, which contribute to shaping the Swiss legislative framework for banks.

In 2010, the Swiss Federal Council and FINMA incorporated the enhancements to the Basel Capital Accord issued by the Basel Committee on Banking Supervision on 13 July 2009 (so-called Basel 2.5) into the Capital Adequacy Ordinance of 29 September 2006 (and related circular letters). The enhanced capital adequacy rules became effective on 1 January 2011. In autumn 2011, the Swiss Parliament amended the legal framework for banks to address the lessons learned from the financial crisis and, in particular, the "too-big-to-fail" issue. The amended sections are applicable to the largest Swiss banks, including UBS, and contain specific capital requirements and provisions to ensure that systemically relevant functions can be maintained in case of insolvency. In addition, and in line with global requirements, we are required to produce and update recovery and resolution plans aimed at increasing the firm's resilience further in the case of a crisis, and provide FINMA and other regulators with information on how the firm could be resolved in the event of an unsuccessful recovery. These new sections entered into force on 1 March 2012. Switzerland implemented the Basel III Accord by means of a complete review of the Capital Adequacy Ordinance and related FINMA rules. In addition, a number of other amendments have been made to the Banking Ordinance and the Capital Adequacy Ordinance, which came into effect on 1 January 2013.

➔ **Refer to the "Capital management" section of this report for more information about capital requirements**

The Federal Act of 10 October 1997 on the Prevention of Money Laundering in the Financial Sector defines a common standard for due diligence obligations to prevent money laundering for the whole financial sector.

The legal basis for the investment funds business in Switzerland is the Swiss Federal Act on Collective Investment Schemes (Collective Investment Schemes Act) of 23 June 2006, which came into force on 1 January 2007. FINMA, as supervisory authority for investment funds in Switzerland, is responsible for the authorization and supervision of the institutions and investment funds subject to its control.

In our capacity as a securities broker and as an issuer of shares listed in Switzerland, we are governed by the Federal Act on Stock Exchanges and Securities Trading of 24 March 1995. FINMA is the competent supervisory authority with respect to securities brokering.

FINMA fulfills its statutory supervisory responsibilities through the instruments of licensing, regulation, monitoring, and enforcement. Generally, prudential supervision in Switzerland is based on a division of tasks between FINMA and authorized audit firms. Under this two-tier supervisory system, FINMA has the responsibility for overall supervision and enforcement measures while the authorized audit firms carry out official duties on behalf of FINMA. The responsibilities of external auditors encompass the audit of financial statements, the review of banks' compliance with all prudential requirements and on-site audits.

We are classified as a "big bank" due to our size, complexity, organization and business activities, as well as our importance to the financial system. As a big bank, we are subject to more rigorous supervision than other banks. We are directly supervised by the FINMA group "Supervision of UBS," which is supported by teams specifically monitoring investment banking activities, risk management, as well as solvency and capital aspects. Supervisory tools include numerous meetings with management and information exchange encompassing all control and business areas, independent assessments through review activities, and a regular exchange of views with internal audit functions, external auditors and important host supervisors. In recent years, FINMA has implemented the recommendations issued by the Financial Stability Board and the Basel Committee on Banking Supervision, and complemented the Supervisory College with the UK Financial Services Authority (FSA) and the Federal Reserve Bank of New York (FRBNY), established in 1998 to promote supervisory cooperation and coordination, with a General Supervisory College – including more than a dozen of UBS host regulatory agencies – and a Crisis

Management College (which is also attended by representatives from the Swiss National Bank [SNB] and the Bank of England).

The SNB contributes to the stability of the financial system through macro-prudential measures and monetary policy, providing also liquidity to the banking system. It does not exercise any banking supervision and is not responsible for enforcing banking legislation, but works together with FINMA in the following areas: (i) assessment of the soundness of systemically important banks, (ii) regulations that have a major impact on the soundness of banks, including liquidity, capital adequacy and risk distribution provisions, where they are of relevance for financial stability, and (iii) contingency planning and crisis management. FINMA and the SNB exchange information and share opinions about the soundness of the banking sector and systemically important banks, and are authorized to exchange information and documents that are not publicly accessible if they require these in order to fulfill their tasks. With regard to systemically important banks, the SNB may also carry out its own enquiries and request information directly from the banks. In addition, the SNB has been tasked by parliament with the designation of systemically relevant banks and their systemically relevant functions in Switzerland.

➔ **Refer to the "Regulatory developments" and "Risk factors" sections of this report for more information**

Regulation and supervision in the US

Our operations in the US are subject to a variety of regulatory regimes. We maintain branches in several states, including Connecticut, Illinois, New York and Florida. These branches are licensed either by the Office of the Comptroller of the Currency or the state banking authority of the state in which the branch is located. Each US branch is subject to regulation and examination by its licensing authority. We also maintain state and federally chartered trust companies and other limited purpose banks, which are regulated by state regulators or the Office of the Comptroller of the Currency. In addition, the Board of Governors of the Federal Reserve System exercises examination and regulatory authority over our state-licensed US branches. Only the deposits of our subsidiary bank located in the state of Utah are insured by the Federal Deposit Insurance Corporation. The regulation of our US branches and subsidiaries imposes restrictions on the activities of those branches and subsidiaries, as well as prudential restrictions on their operations, such as limits on extensions of credit to a single borrower, including UBS subsidiaries and affiliates.

The licensing authority of each state-licensed US branch of UBS AG has the authority, in certain circumstances, to take possession of the business and property of UBS located in the state of the office it licenses. Such circumstances generally include violations of law, unsafe business practices and insolvency. As long as we maintain one or more federal branches, the Office of the Comptroller of the Currency also has the authority to take possession of all the US operations of UBS under broadly similar circumstances, as well as in the event that a judgment against a federally licensed branch remains unsatisfied. This federal power may pre-empt the state insolvency regimes that would otherwise be applicable to our state-licensed branches. As a result, if the Office of the Comptroller of the Currency exercised its authority over the US branches of UBS pursuant to federal law in the event of a UBS insolvency, all US assets of UBS would generally be applied first to satisfy creditors of these US branches as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

In addition to the direct regulation of our US banking offices, because we operate US branches, we are subject to oversight regulation by the Board of Governors of the Federal Reserve System under various laws (including the International Banking Act of 1978 and the Bank Holding Company Act of 1956). On 10 April 2000, UBS was designated a "financial holding company" under the Bank Holding Company Act of 1956. Financial holding companies may engage in a broader spectrum of activities than bank holding companies or foreign banking organizations that are not financial holding companies, including underwriting and dealing in securities. To maintain our financial holding company status, (i) the Group, our US subsidiary federally chartered trust company and our US subsidiary bank located in Utah are required to meet certain capital ratios, (ii) our US branches, our US subsidiary federally chartered trust company, and our US subsidiary bank located in Utah are required to meet certain examination ratings, and (iii) our subsidiary bank in Utah is required to maintain a rating of at least "satisfactory" under the Community Reinvestment Act of 1997.

A major focus of US governmental policy relating to financial institutions in recent years has been fighting money laundering and terrorist financing. Regulations applicable to UBS and our subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their clients. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences, both in legal terms and in terms of our reputation.

In the US, UBS Securities LLC and UBS Financial Services Inc., as well as our other US-registered broker-dealer entities, are subject to regulations that cover all aspects of the securities business, including: sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure, record-keeping, the financing of clients' purchases, and the conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). Each entity is also regulated by some or all of the following: the New York Stock Exchange (NYSE), the Municipal Securities Rulemaking Board, the US Department of the Treasury, the Commodities Futures Trading Commission and other exchanges of which it may be a member, depending on the specific nature of the respective broker-dealer's business. In addition, the US states, provinces and territories have

local securities commissions that regulate and monitor activities in the interest of investor protection. These regulators have a variety of sanctions available, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA covers a broad spectrum of securities matters, including: registering and educating industry participants, examining securities firms, writing rules, enforcing those rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering a dispute resolution forum for investors and registered firms. It also performs market regulation under contract for the NASDAQ Stock Market, the NYSE, the American Stock Exchange and the Chicago Climate Exchange. The SEC's mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) impacts the financial services industry by addressing, among other issues, the following: (i) systemic risk oversight, (ii) bank capital standards, (iii) the liquidation of failing systemically significant financial institutions, (iv) OTC derivatives, (v) the ability of deposit-taking banks to engage in proprietary trading activities and invest in hedge funds and private equity (the so-called Volcker rule), (vi) consumer and investor protection, (vii) hedge fund registration, (viii) securitization, (ix) investment advisors, (x) shareholder "say on pay," and (xi) the role of credit-rating agencies. Many of the provisions of the Dodd-Frank Act will affect the operation of UBS's US banking operations as well as our non-banking entities. The details of the legislation and its impact on UBS's operations depend on the final regulations being adopted by various agencies and oversight boards.

➔ **Refer to the "Regulatory developments" and "Risk factors" sections of this report for more information**

Regulation and supervision in the UK

Our operations in the UK are mainly regulated by the FSA, which establishes a regime of rules and guidance governing all relevant aspects of financial services businesses. UBS AG, London Branch is regulated by both the FSA and FINMA.

The FSA has established a risk-based approach to supervision and has a wide variety of supervisory tools available to it, including regular risk assessments, on-site inspections (which may relate to an industry-wide theme or be firm-specific) and the ability to commission reports by skilled persons (who may be the firm's auditors, IT specialists, lawyers or other consultants as appropriate). The FSA also has an extremely wide set of sanctions which it may impose under the Financial Services and Markets Act 2000, broadly similar to those available to US regulators.

Some of our subsidiaries and affiliates are also regulated by the London Stock Exchange and other UK securities and commodities exchanges of which we are a member. We are also subject to the requirements of the UK Panel on Takeovers and Mergers, where relevant.

Financial services regulation in the UK is conducted in accordance with EU directives which require, among other things, compliance with certain capital adequacy standards, client protection requirements and conduct of business rules (such as the Markets in Financial Instruments Directive). These directives apply throughout the EU and are reflected in the regulatory regimes of the various member states.

The UK government has committed to changing the current regulatory structures, including splitting responsibility for prudential regulation and conduct of business regulation and the replacement of the FSA with new regulatory bodies, namely the Prudential Regulation Authority (reporting to the Bank of England) and the Financial Conduct Authority (the legal continuation of the FSA). This split will take effect in early 2013, formalizing the existing internal separation of supervisory responsibility for prudential and conduct business regulation, implemented in April 2012.

➔ **Refer to the "Regulatory developments" and "Risk factors" sections of this report for more information**

Risk factors

Certain risks, including those described below, may impact our ability to execute our strategy and affect our business activities, financial condition, results of operations and prospects. Because the business of a broad-based international financial services firm such as UBS is inherently exposed to risks that become apparent only with the benefit of hindsight, risks of which we are not presently aware or which we currently do not consider to be material could also impact our ability to execute our strategy and affect our business activities, financial condition, results of operations and prospects. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Regulatory and legislative changes may adversely affect our business and ability to execute our strategic plans

Fundamental changes in the laws and regulations affecting financial institutions could have a material and adverse effect on our business. In the wake of the 2007–2009 financial crisis and the continuing instability in global financial markets, regulators and legislators have proposed, have adopted, or are actively considering, a wide range of changes to these laws and regulations. These measures are generally designed to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. They include the following:
– significantly higher regulatory capital requirements;
– changes in the definition and calculation of regulatory capital;
– changes in the calculation of risk-weighted assets (RWA);
– the introduction of a more demanding leverage ratio;
– new or significantly enhanced liquidity requirements;
– requirements to maintain liquidity and capital in jurisdictions in which activities are conducted and booked;
– limitations on principal trading and other activities;
– new licensing, registration and compliance regimes;
– limitations on risk concentrations and maximum levels of risk;
– taxes and government levies that would effectively limit balance sheet growth or reduce the profitability of trading and other activities;
– a variety of measures constraining, taxing or imposing additional requirements relating to compensation;
– adoption of new liquidation regimes intended to prioritize the preservation of systemically significant functions;
– requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to manage, restructure, disassemble or liquidate; and
– requirements to adopt risk governance structures at a local jurisdiction level.

A number of measures have been adopted and will be implemented over the next several years; some are subject to legislative action or to further rulemaking by regulatory authorities before final implementation. As a result, there is a high level of uncertainty regarding a number of the measures referred to above, including whether (or the form in which) they will be adopted, the timing and content of implementing regulations and interpretations and/or the dates of their effectiveness.

Notwithstanding attempts by regulators to coordinate their efforts, the measures adopted or proposed differ significantly across the major jurisdictions, making it increasingly difficult to manage a global institution. The absence of a coordinated approach, moreover, disadvantages institutions headquartered in jurisdictions that impose relatively more stringent standards. Switzerland has adopted capital and liquidity requirements for its major international banks that are the strictest among the major financial centers. This could disadvantage Swiss banks such as UBS when they compete with peer financial institutions subject to more lenient regulation or with unregulated non-bank competitors.

Regulatory and legislative changes in Switzerland

In September 2011, the Swiss parliament adopted the "too-big-to-fail" law to address the issues posed by large banks. The law became effective on 1 March 2012. Accordingly, Swiss regulatory change efforts have generally proceeded more quickly than those in other major jurisdictions, and the Swiss Financial Market Supervisory Authority (FINMA), the Swiss National Bank (SNB) and the Swiss Federal Council are implementing requirements that are significantly more onerous and restrictive for major Swiss banks, such as UBS, than those adopted or proposed by regulatory authorities in other major global financial centers.

The provisions of the revised banking ordinance and capital adequacy ordinance implementing the Swiss "too-big-to-fail" law became effective on 1 January 2013. These ordinances implement capital requirements that increase or decrease in proportion to UBS's (i) market share in Switzerland and (ii) total exposure, a metric that measures balance sheet size. This could in effect result in higher or lower capital adequacy requirements than the 19% of Basel III RWA that has been publicly discussed. As we have previously announced, our total capital requirements are expected to fall to 17.5% reflecting the planned decrease in total exposure as part of the acceleration of our strategy announced in October 2012. Actions and interpretations of governmental authorities may affect the calculation of our capital ratios and increase our effective capital requirements. For example, we expect approximately CHF 2–3 billion to be added to our RWA each year from 2013 through 2019 as a result of FINMA's decision to apply a

bank-specific multiplier for banks using the internal ratings-based approach when calculating RWA for Swiss retail mortgages. In addition, a 1% countercyclical buffer on RWA arising from Swiss residential mortgages will be effective from September 2013.

The new banking and capital adequacy ordinances also contain, among other things, provisions regarding emergency plans for systemically important functions, recovery and resolution planning and intervention measures that may be triggered when certain capital thresholds are breached. Those intervention levels may be set at higher capital levels than under current law, and may depend upon the capital structure and type of buffer capital the bank will have to issue to meet the specific Swiss requirements.

If we are not able to demonstrate that our systemically relevant functions in Switzerland can be maintained even in case of a threatened insolvency, FINMA may impose more onerous requirements on us. Although the actions that FINMA may take in such circumstances are not yet defined, we could be required directly or indirectly, for example, to alter our legal structure (e.g. to separate lines of business into dedicated entities, with limitations on intra-group funding and certain guarantees), or in some manner to further reduce business risk levels. The law also provides that the largest banks will be eligible for a capital rebate if they take actions that facilitate recovery and resolvability beyond ensuring that the systematically important functions are maintained in case of insolvency. Such actions would likely include an alteration of the legal structure of a bank group in a manner that would insulate parts of the group from exposure to risks arising from other parts of the group, thereby making it easier to dispose of certain parts of the group in a recovery scenario, or to liquidate or dispose of certain parts of the group in a resolution scenario, without necessarily adversely affecting other parts.

Due to recent changes in Swiss regulatory requirements, and due to liquidity requirements imposed by certain other jurisdictions in which we operate, we have been required to maintain substantially higher levels of liquidity overall than had been our usual practice in the past. Like increased capital requirements, higher liquidity requirements make certain lines of business, particularly in the Investment Bank, less attractive and may reduce our overall ability to generate profits.

Regulatory and legislative changes outside Switzerland

Regulatory and legislative changes in other locations in which we operate may subject us to a wide range of new restrictions both in individual jurisdictions and, in some cases, globally.

Some of these regulatory and legislative changes may subject us to requirements to move activities from UBS AG branches into subsidiaries. Such "subsidiarization" can create operational, capital and tax inefficiencies, increase our aggregate credit exposure to counterparties as they transact with multiple UBS AG affiliates, expose our businesses to higher local capital requirements, and potentially give rise to client and counterparty concerns about the credit quality of the subsidiary. Such changes could also negatively impact our funding model and severely limit our booking flexibility. For example, we have significant operations in the UK and use UBS AG's London branch as a global booking center for many types of products. We are being required by the UK Financial Services Authority and by FINMA to increase very substantially the capitalization of our UK bank subsidiary, UBS Limited, and expect to be required to change our booking practices to reduce or even eliminate our utilization of UBS AG London branch as a global booking center for the ongoing business of the Investment Bank. In addition, the UK Independent Commission on Banking has recommended structural and non-structural reforms of the banking sector, most of which have been endorsed by the UK government. Key measures proposed include the ring-fencing of retail activities in the UK, additional common equity tier 1 capital requirements of up to 3% of RWA for retail banks, and the issuance of debt subject to "bail-in" provisions. The applicability and implications of such changes to offices and subsidiaries of foreign banks are not yet entirely clear, but they could have a material effect on our businesses located or booked in the UK.

The adoption of the Dodd-Frank Act in the US will also affect a number of our activities, as well as those of other banks. The implementation of the Volcker Rule as of July 2012, for example, is one reason for our exiting equities proprietary trading business segments within the Investment Bank. For other trading activity, we expect that we will be required to implement a compliance regime, including the calculation of detailed metrics for each trading book, and may be required to implement a compliance plan globally. Depending on the nature of the final rules, as well as the manner in which they are implemented, the Volcker Rule could have a substantial impact on market liquidity and the economics of market-making activities. The Volcker Rule also broadly limits investments and other transactional activities between banks and covered funds. The proposed implementing regulations both expand the scope of covered funds and provide only a very limited exclusion for activities of UBS outside the US. If adopted as proposed, the regulations could limit certain of our activities in relation to funds, particularly outside the US. Moreover, at the end of 2012, the Federal Reserve issued proposed rules for foreign banking organizations in the US (sections 165 and 166 of Dodd-Frank Act) that include (i) a requirement for an intermediate holding company to hold US subsidiary operations, (ii) risk-based capital and leverage requirements, (iii) liquidity requirements (both substantive and procedural), (iv) single-counterparty credit limits, (v) risk management and risk committee requirements, (vi) stress test requirements, including public disclosure of the results, (vii) a debt-to-equity limit, and (viii) a framework for early remediation of financial weaknesses. The proposal would impose different requirements based on the overall size of the foreign banking organization and the size of its US-based assets. If the rules are adopted as proposed, UBS would be subject to the most stringent requirements based on the current size of its global and US operations.

In addition, in 2009 the G20 countries committed to require all standardized over-the-counter (OTC) derivative contracts to be traded on exchanges or trading facilities and cleared through cen-

tral counterparties by the end of 2012. This commitment is being implemented through the Dodd-Frank Act in the US and corresponding legislation in the European Union and other jurisdictions, and will have a significant impact on our OTC derivatives business, primarily in the Investment Bank. For example, we expect that, as a rule, the shift of OTC derivatives trading to a central clearing model will tend to reduce profit margins in these products, although some market participants may be able to offset this effect with higher trading volumes in commoditized products. Although we are preparing for these thematic market changes, they are likely to reduce the revenue potential of certain lines of business for market participants generally, and we may be adversely affected.

UBS AG registered as a swap dealer in the US at the end of 2012 enabling the continuation of swaps business with US persons. Regulations issued by the Commodity Futures Trading Commission (CFTC) impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. The CFTC has granted time-limited relief to initially limit the scope of new requirements to transactions with US persons. Certain of the CFTC's regulations, including those relating to swap data reporting, recordkeeping, compliance and supervision, are expected to apply to UBS AG globally once this time-limited relief expires. Application of these requirements to UBS's swaps business with non-US persons will present a substantial implementation burden, will likely duplicate or conflict with legal requirements applicable to UBS outside of the United States and may place UBS at a competitive disadvantage to firms that are not CFTC-registered swap dealers. The Securities and Exchange Commission (SEC) is expected to propose rules for the extraterritorial application of its regulation of securities-based swaps in the first half of 2013, and to require registration of securities-based swap dealers in the US following adoption of such rules. SEC regulation of securities-based swaps may present similar risks to CFTC rules.

The effect on business booked or conducted by UBS in whole or in part outside the US cannot yet be determined fully because many of the regulations that must be adopted to implement the Dodd-Frank Act have not yet been finalized.

In many instances, UBS provides services on a cross-border basis. Efforts in the European Union (EU) to harmonize the regime for third-country firms to access the European market may have the effect of creating new barriers that adversely affect our ability to conduct business in these jurisdictions from Switzerland. For instance, the proposed harmonization of third-country access provisions under the revised European MiFID II/MiFIR framework would make it materially more difficult for UBS to service wealth management clients in Europe. As these requirements are still being developed and revised, the effect on our business with clients domiciled or booked in the EU is difficult to predict.

Resolution and recovery; bail-in

We are currently required to produce recovery and resolution plans in the US, UK, Switzerland and Germany and are likely to face similar requirements for our operations in other jurisdictions, including our operations in the EU as a whole as part of the proposed EU Recovery and Resolution Directive. Resolution plans may increase the pressure for structural change if our analysis identifies impediments that are not acceptable to regulators. Such structural changes may negatively impact our ability to benefit from synergies between business units, and if they include the creation of separate legal entities may have the other negative consequences mentioned above with respect to "subsidiarization".

In addition a number of jurisdictions, including Switzerland, the US, the UK and the EU, have implemented or are considering implementing changes that would allow resolution authorities to convert debt into equity in a so-called "bail-in". The scope of bail-in authority and the legal mechanisms that would be utilized for the purpose are subject to a great deal of development and interpretation. Depending upon the outcome, bail-in authority may have a significant effect on UBS's funding costs.

The planned and potential regulatory and legislative developments in Switzerland and in other jurisdictions in which we have operations may have a material adverse effect on our ability to execute our strategic plans, on the profitability or viability of certain business lines globally or in particular locations, and in some cases on our ability to compete with other financial institutions. They are likely to be costly to implement and could also have a negative impact on our legal structure or business model. Finally, the uncertainty related to or the implementation of legislative and regulatory changes may have a negative impact on our relationships with clients and our success in attracting client business.

Our capital strength is important in supporting our strategy, client franchise and competitive position

Our capital position, as measured by the BIS tier 1, core and total capital ratios and the common equity tier 1 ratio under Basel III requirements, is determined by (i) RWA (credit, non-counterparty related, market and operational risk positions, measured and risk-weighted according to regulatory criteria) and (ii) eligible capital. Both RWA and eligible capital are subject to change. Eligible capital would be reduced if we experience net losses or losses through the other comprehensive income account, as determined for the purpose of the regulatory capital calculation, which may also render it more difficult or more costly for us to raise new capital. Eligible capital can also be reduced for a number of other reasons, including certain reductions in the ratings of securitization exposures, adverse currency movements affecting the value of equity, prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, and changes in the value of certain pension fund assets recognized in other comprehensive income. RWA, on the other hand, are driven by our business activities and by changes in the risk profile of our exposures. For instance, substantial market

volatility, a widening of credit spreads (the major driver of our value-at-risk), adverse currency movements, increased counterparty risk, a deterioration in the economic environment, or increased operational risk could result in a rise in RWA. Any such reduction in eligible capital or increase in RWA could materially reduce our capital ratios.

The required levels and calculation of our regulatory capital and the calculation of our RWA are also subject to changes in regulatory requirements or their interpretation. We are subject to regulatory capital requirements imposed by FINMA, under which we have higher RWA than would be the case under the Basel III guidelines as adopted by the Bank for International Settlements. The changes in the calculation of RWA under Basel III and FINMA requirements (such as the revised treatment of certain securitization exposures under the Basel III framework) have significantly increased the level of our RWA and, therefore, have adversely affected our capital ratios. We have announced plans to reduce RWA very substantially and to mitigate the effects of the changes in the RWA calculation. However, there is a risk that we will not be successful in pursuing our plans, either because we are unable to carry out fully the actions we have planned or because other business or regulatory developments to some degree counteract the benefit of our actions.

In addition to the risk-based capital requirements, we are subject to a minimum leverage ratio requirement for systemically important banks introduced by FINMA. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain our business activities even if we are able to satisfy the risk-based capital requirements.

Changes in the Swiss requirements for risk-based capital or leverage ratios, whether pertaining to the minimum levels required for large Swiss banks or to the calculation thereof (including changes of the banking law under the "too-big-to-fail" measures), could have a material adverse effect on our business and could affect our competitive position internationally compared with institutions that are regulated under different regimes.

We may not be successful in executing our announced strategic plans

In October 2012, we announced a significant acceleration in the implementation of our strategy. The strategy includes transforming our Investment Bank to focus it on its traditional strengths, very significantly reducing Basel III RWA and further strengthening our capital position, and significantly reducing costs and improving efficiency across the Group. There is a risk that we will not be successful in pursuing our plans, including because we are unable to carry out fully the actions we have planned, or that even if we are able to implement our strategy as planned its effects may differ from those intended.

As part of our strategy, we are exiting certain business lines, predominantly those formerly in the fixed income area of our Investment Bank that have been rendered less attractive by changes in regulation and market developments. Our Corporate Center is tasked with managing down the non-core assets previously in the Investment Bank in the most value-accretive way for shareholders. As we wind down these positions and those in the Legacy Portfolio previously transferred to Corporate Center, we will incur losses if exit values are lower than the carrying values of these positions. This could be the result of market price declines or illiquid or volatile market conditions, or the result of other institutions seeking to dispose of similar assets contemporaneously. These same factors may make it impossible or inadvisable for us to effect the wind-downs and the corresponding reduction in RWA and balance sheet size as quickly as we have planned.

We also announced that we intend to achieve incremental cost savings of CHF 3.4 billion above the CHF 2 billion cost savings program announced in August 2011 as a result of the actions we are taking in the Investment Bank and through further Group-wide efficiency measures. The success of our strategy and our ability to reach certain of the targets we have announced depends heavily on the effectiveness of the cost-saving and efficiency measures we are able to carry out. As is often the case with major cost-reduction and efficiency programs, our plans involve significant risks. Included among these are the risks that restructuring costs may be higher and may be recognized sooner than we have projected and that we may not be able to identify feasible cost-saving opportunities at the level of our savings objective that are also consistent with our business goals. In addition, when we implement our cost-saving and efficiency programs we may experience unintended consequences such as the loss or degradation of capabilities that we need in order to maintain our competitive position and achieve our targeted returns.

Our reputation is critical to the success of our business

Our reputation is critical to the success of our strategic plans. Damage to our reputation can have fundamental negative effects on our business and prospects. Reputational damage is difficult to reverse, and improvements tend to be slow and difficult to measure. This was demonstrated in recent years as our very large losses during the financial crisis, the US cross-border matter and other events seriously damaged our reputation. Reputational damage was an important factor in our loss of clients and client assets across our asset-gathering businesses, and contributed to our loss of and difficulty in attracting staff, in 2008 and 2009. These developments had short-term and also more lasting adverse effects on our financial performance, and we recognized that restoring our reputation would be essential to maintaining our relationships with clients, investors, regulators and the general public, as well as with our employees. More recently, the unauthorized trading incident announced in September 2011, and our involvement in the LIBOR scandal also adversely affected our reputation. Any further reputational damage could have a material adverse effect on our operational results and financial condition and on our ability to achieve our strategic goals and financial targets.

➔ **Refer to the "Certain items affecting our results in 2011" sidebar in our annual report for 2011 for more information on the unauthorized trading incident**

Material legal and regulatory risks arise in the conduct of our business

The nature of our business subjects us to significant regulatory oversight and liability risk. As a global financial services firm operating in more than 50 countries, we are subject to many different legal, tax and regulatory regimes. We are involved in a variety of claims, disputes, legal proceedings and government investigations in jurisdictions where we are active. These proceedings expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil penalties, in addition to potential regulatory restrictions on our businesses. The outcome of most of these matters, and their potential effect on our future business or financial results, is extremely difficult to predict.

We continue to be subject to government inquiries and investigations, and are involved in a number of litigations and disputes, which arose out of the financial crisis of 2007–2009. We are also subject to a large number of claims, disputes, legal proceedings and government investigations unrelated to the financial crisis, and expect that our ongoing business activities will continue to give rise to such matters in the future. Potentially material matters to which we are currently subject include claims relating to US RMBS and mortgage loan sales, Swiss retrocessions, LIBOR-related matters and the Banco UBS Pactual tax indemnity.

In December 2012, we announced settlements totaling approximately CHF 1.4 billion in fines by and disgorgements to US, UK and Swiss authorities to resolve LIBOR-related investigations with those authorities. UBS Securities Japan Co. Ltd. also pled guilty to one count of wire fraud relating to the manipulation of certain benchmark interest rates. The settlements do not resolve investigations by other authorities or civil claims that have been or may in the future be asserted by private and governmental claimants with respect to submissions for LIBOR or other benchmark interest rates. The extent of our financial exposure to these remaining matters is extremely difficult to estimate and could be material.

The LIBOR-related settlements starkly illustrate the much-increased level of financial risk now associated with regulatory matters and regulatory enforcement in major jurisdictions, particularly in the US and UK. These very large amounts were assessed, and the guilty plea of a UBS subsidiary was required, in spite of our full cooperation with the authorities in their investigations, as a result of which we were granted conditional leniency or conditional immunity with respect to certain benchmark interest rates by antitrust authorities in a number of jurisdictions including the US and Switzerland. We understand that, in determining the consequences to UBS, the US authorities took into account the fact that UBS has in the recent past been determined to have engaged in serious misconduct in a number of other matters. As a result of this history and regulatory perception, UBS's level of risk with respect to regulatory enforcement may be greater than that of peer institutions.

Considering our overall exposures and the current regulatory and political climate affecting financial institutions, we expect charges associated with legal, regulatory and similar matters to remain at elevated levels at least through 2013.

UBS is determined to address the issues that have arisen in the above and other matters in a thorough and constructive manner. We are in active dialogue with our regulators concerning the actions that we are taking to improve our operational risk management and control framework. Ever since our losses in 2007 and 2008, we have been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain our strategic flexibility. While we believe that we have remediated the deficiencies that led to the material losses during the 2007–2009 financial crisis, the unauthorized trading incident announced in September 2011 and the LIBOR-related settlements, the effects of these matters on our reputation and relationships with regulatory authorities have proven to be more difficult to overcome. For example, following the unauthorized trading incident FINMA informed us that we would not be permitted to undertake acquisitions in our Investment Bank unit (unless FINMA granted an exception), and that material new business initiatives in that unit would be subject to FINMA oversight. Although we have significantly enhanced our operational risk management and control framework in general and specifically addressed the deficiencies highlighted by the unauthorized trading incident in particular, these special restrictions have not been withdrawn by FINMA to date, pending independent confirmation of the effectiveness of these enhancements to FINMA's satisfaction. As this example illustrates, difficulties associated with our relationships with regulatory authorities have the potential to adversely affect the execution of our business strategy.

➔ Refer to "Note 23 Provisions and contingent liabilities" in the "Financial information" section of this report for more information on litigation, regulatory and similar matters

Performance in the financial services industry is affected by market conditions and the macroeconomic climate

The financial services industry prospers in conditions of economic growth; stable geopolitical conditions; transparent, liquid and buoyant capital markets and positive investor sentiment. An economic downturn, continued low interest rates or a severe financial crisis can negatively affect our revenues and ultimately our capital base.

A market downturn and weak macroeconomic conditions can be precipitated by a number of factors, including geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, war or terrorism. Because financial markets are global and highly interconnected, even local and regional events can have widespread impacts well beyond the countries in which they occur. A crisis could develop, regionally or globally, as a result of disruptions in emerging markets as well as developed markets that are susceptible to macroeconomic and political developments, or as a result of the failure of a major market participant. We have material exposures to a

number of these markets, both as a wealth manager and as an investment bank. Moreover, our strategic plans depend more heavily upon our ability to generate growth and revenue in the emerging markets, causing us to be more exposed to the risks associated with them. The ongoing eurozone crisis and the unresolved US fiscal issues demonstrate that macroeconomic and political developments can have unpredictable and destabilizing effects. Adverse developments of these kinds have affected our businesses in a number of ways, and may continue to have further adverse effects on our businesses as follows:

- a general reduction in business activity and market volumes, as we have experienced in the last two years, affects fees, commissions and margins from market-making and client-driven transactions and activities; local or regional economic factors, such as the ongoing eurozone sovereign debt and banking industry concerns, could also have an effect on us;
- a market downturn is likely to reduce the volume and valuations of assets we manage on behalf of clients, reducing our asset- and performance-based fees;
- a further extended period of low interest rates will continue to erode interest margins in several of our businesses;
- reduced market liquidity limits trading and arbitrage opportunities and impedes our ability to manage risks, impacting both trading income and performance-based fees;
- assets we own and account for as investments or trading positions could fall in value;
- impairments and defaults on credit exposures and on trading and investment positions could increase, and losses may be exacerbated by falling collateral values; and
- if individual countries impose restrictions on cross-border payments or other exchange or capital controls, or change their currency (for example, if one or more countries should leave the euro), we could suffer losses from enforced default by counterparties, be unable to access our own assets, or be impeded in – or prevented from – managing our risks.

Because we have very substantial exposures to other major financial institutions, the failure of one or more of such institutions could have a material effect on us.

The developments mentioned above can materially affect the performance of our business units and of UBS as a whole, and ultimately our financial condition. As discussed below, there is also a somewhat related risk that the carrying value of goodwill of a business unit might suffer impairments and deferred tax assets levels may need to be adjusted.

We hold legacy and other risk positions that may be adversely affected by conditions in the financial markets; legacy risk positions may be difficult to liquidate

UBS, like other financial market participants, was severely affected by the financial crisis that began in 2007. The deterioration of financial markets since the beginning of the crisis was extremely severe by historical standards, and we recorded substantial losses on fixed income trading positions, particularly in 2008 and 2009. Although we have very significantly reduced our risk exposures starting in 2008, and more recently as we implement our strategy and focus on complying with Basel III capital standards, we continue to hold substantial legacy risk positions. In many cases these risk positions continue to be illiquid, and we remain exposed to the risk that the remaining positions may again deteriorate in value. In the fourth quarter of 2008 and the first quarter of 2009, certain of these positions were reclassified for accounting purposes from fair value to amortized cost; these assets are subject to possible impairment due to changes in market interest rates and other factors.

We have announced and are carrying out plans to reduce drastically the RWA associated with our non-core and legacy risk positions. There can be no assurance that we will be able to liquidate them as quickly as our plans suggest, or that we will not incur significant losses in doing so. The continued illiquidity and complexity of many of the legacy risk positions in particular could make it difficult to sell or otherwise liquidate these positions. At the same time, our strategy rests heavily on our ability to reduce sharply the RWA associated with these exposures in order to meet our future capital targets and requirements without incurring unacceptable losses. In addition, if in the future we exercise our option to acquire the equity of the SNB StabFund from subsidiaries of the Swiss National Bank, any positions remaining in that fund could augment our risk exposure and RWA until they can be liquidated.

We hold positions related to real estate in various countries, and we could suffer losses on these positions. These positions include a very substantial Swiss mortgage portfolio. Although management believes that this portfolio has been very prudently managed, we could nevertheless be exposed to losses if the concerns expressed by the Swiss National Bank and others about unsustainable price escalation in the Swiss real estate market come to fruition.

In addition, we are exposed to risk in our prime brokerage, reverse repo and Lombard lending activities, as the value or liquidity of the assets against which we provide financing may decline rapidly.

Our global presence subjects us to risk from currency fluctuations

We prepare our consolidated financial statements in Swiss francs. However, a substantial portion of our assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the US dollar, the euro and the British pound. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the US dollar (US dollar revenues account for the largest portion of our non-Swiss franc revenues) have an effect on our reported income and expenses, and on other reported figures such as invested assets, balance sheet assets, RWA and tier 1 capital. For example, in 2011 the strengthening of the Swiss franc, especially against the US dollar and euro,

had an adverse effect on our revenues and invested assets. Because exchange rates are subject to constant change, sometimes for completely unpredictable reasons, our results are subject to risks associated with changes in the relative values of currencies.

We are dependent upon our risk management and control processes to avoid or limit potential losses in our trading and counterparty credit businesses

Controlled risk-taking is a major part of the business of a financial services firm. Credit is an integral part of many of our retail, corporate, wealth management and Investment Bank activities. This includes lending, underwriting and derivatives activities. Changes in interest rates, credit spreads, equity prices, market volatility and liquidity, foreign exchange levels and other market fluctuations can adversely affect our earnings. Some losses from risk-taking activities are inevitable, but to be successful over time, we must balance the risks we take against the returns we generate. We must, therefore, diligently identify, assess, manage and control our risks, not only in normal market conditions but also as they might develop under more extreme (stressed) conditions, when concentrations of exposures can lead to severe losses.

As seen during the financial crisis of 2007–2009, we are not always able to prevent serious losses arising from extreme or sudden market events that are not anticipated by our risk measures and systems. Value-at-risk, a statistical measure for market risk, is derived from historical market data, and thus by definition could not have anticipated the losses suffered in the stressed conditions of the financial crisis. Moreover, stress loss and concentration controls and the dimensions in which we aggregate risk to identify potentially highly correlated exposures proved to be inadequate. Notwithstanding the steps we have taken to strengthen our risk management and control framework, we could suffer further losses in the future if, for example:

– we do not fully identify the risks in our portfolio, in particular risk concentrations and correlated risks;
– our assessment of the risks identified or our response to negative trends proves to be inadequate, insufficient or incorrect;
– markets move in ways that we do not expect – in terms of their speed, direction, severity or correlation – and our ability to manage risks in the resultant environment is, therefore, affected;
– third parties to whom we have credit exposure or whose securities we hold for our own account are severely affected by events not anticipated by our models, and accordingly we suffer defaults and impairments beyond the level implied by our risk assessment; or
– collateral or other security provided by our counterparties proves inadequate to cover their obligations at the time of their default.

We also manage risk on behalf of our clients in our asset and wealth management businesses. Our performance in these activities could be harmed by the same factors. If clients suffer losses or the performance of their assets held with us is not in line with relevant benchmarks against which clients assess investment performance, we may suffer reduced fee income and a decline in assets under management, or withdrawal of mandates.

If we decide to support a fund or another investment that we sponsor in our asset or wealth management businesses (such as the property fund to which Wealth Management has exposure), we might, depending on the facts and circumstances, incur charges that could increase to material levels.

Investment positions, such as equity holdings made as a part of strategic initiatives and seed investments made at the inception of funds that we manage, may also be affected by market risk factors. These investments are often not liquid and generally are intended or required to be held beyond a normal trading horizon. They are subject to a distinct control framework. Deteriorations in the fair value of these positions would have a negative impact on our earnings.

Valuations of certain positions rely on models; models have inherent limitations and may use inputs which have no observable source

Where possible, we mark our trading book assets and other positions at their quoted market price in an active market. Such price information may not be available for certain instruments and, therefore, we apply valuation techniques to measure such instruments. Valuation techniques use "market observable inputs" where available, derived from similar instruments in similar and active markets, from recent transaction prices for comparable items or from other observable market data. In the case of positions for which some or all of the inputs required for the valuation techniques are not observable or have limited observability, we use valuation models with non-market observable inputs. There is no single market standard for valuation models of this type. Such models have inherent limitations; different assumptions and inputs would generate different results, and these differences could have a significant impact on our financial results. We regularly review and update our valuation models to incorporate all factors that market participants would consider in setting a price, including factoring in current market conditions. Judgment is an important component of this process. Changes in model inputs or in the models themselves, or failure to make the changes necessary to reflect evolving market conditions, could have a material adverse effect on our financial results.

We are exposed to possible outflows of client assets in our asset-gathering businesses and to changes affecting the profitability of our Wealth Management business division

We experienced substantial net outflows of client assets in our wealth management and asset management businesses in 2008 and 2009. The net outflows resulted from a number of different factors, including our substantial losses, the damage to our reputation, the loss of client advisors, difficulty in recruiting qualified client

advisors and developments concerning our cross-border private banking business. Many of these factors have been successfully addressed. Our Wealth Management and Wealth Management Americas business divisions recorded substantial net new money inflows in 2012. Long-term changes affecting the cross-border private banking business model will, however, continue to affect client flows in our Wealth Management business division for an extended period of time. One of the important drivers behind the longer-term reduction in the amount of cross-border private banking assets, particularly in Europe, is the heightened focus of fiscal authorities on cross-border investments. Changes in local tax laws or regulations and their enforcement may affect the ability or the willingness of our clients to do business with us or the viability of our strategies and business model. In 2012, we experienced net withdrawals in our Swiss booking center from clients domiciled elsewhere in Europe, in many cases related to the negotiation of tax treaties between Switzerland and other countries, including the treaty with Germany that was ultimately not ratified by Germany.

The net new money inflows in recent years in our Wealth Management business division have come predominantly from clients in Asia-Pacific and in the emerging markets and in the high net worth segment globally. Over time, inflows from these lower-margin segments and markets have been replacing outflows from higher-margin segments and markets, in particular cross-border European clients. This dynamic, combined with changes in client product preferences as a result of which low-margin products account for a larger share of our revenues than in the past, put downward pressure on our return on invested assets. There can be no assurance that efforts by the business to overcome the effects of the changes in the business mix on gross margin, such as through service improvements and product offerings, will be sufficiently successful to counteract those effects. We are also making changes to our business offerings and pricing practices in line with emerging industry trends favoring price transparency and recent legal and regulatory developments, including the Swiss Supreme Court case concerning "retrocessions". There can be no assurance that we will be successful in our efforts to offset the adverse impact of these trends and developments.

In 2012, Global Asset Management experienced a net outflow of client assets. Further net outflows of client assets are likely over time to adversely affect the results of the business division.

Liquidity and funding management are critical to our ongoing performance

The viability of our business depends upon the availability of funding sources, and its success depends upon our ability to obtain funding at times, in amounts, for tenors and at rates that enable us to efficiently support our asset base in all market conditions. A substantial part of our liquidity and funding requirements is met using short-term unsecured funding sources, including wholesale and retail deposits and the regular issuance of money market securities. The volume of our funding sources has generally been stable, but could change in the future due to, among other things, general market disruptions or widening credit spreads, which could also influence the cost of funding. A change in the availability of short-term funding could occur quickly.

Reductions in our credit ratings can increase our funding costs, in particular with regard to funding from wholesale unsecured sources, and can affect the availability of certain kinds of funding. In addition, as we experienced recently in connection with Moody's downgrading of our long-term rating in June 2012, ratings downgrades can require us to post additional collateral or make additional cash payments under master trading agreements relating to our derivatives businesses. Our credit ratings, together with our capital strength and reputation, also contribute to maintaining client and counterparty confidence and it is possible that ratings changes could influence the performance of some of our businesses.

The more stringent Basel III capital and liquidity requirements will likely lead to increased competition for both secured funding and deposits as a stable source of funding, and to higher funding costs.

➔ **Refer to the "Risk, treasury and capital management" section of this report for more information on our approach to liquidity and funding management**

Operational risks may affect our business

All of our businesses are dependent on our ability to process a large number of complex transactions across multiple and diverse markets in different currencies, to comply with requirements of many different legal and regulatory regimes to which we are subject and to prevent, or promptly detect and stop, unauthorized, fictitious or fraudulent transactions. Our operational risk management and control systems and processes are designed to help ensure that the risks associated with our activities, including those arising from process error, failed execution, unauthorized trading, fraud, system failures, cyber-attacks, breaches of information security and failure of security and physical protection, are appropriately controlled.

For example, cyber crime is a fast growing threat to large organizations that rely on technology to support its business, like UBS. Cyber crime can range from internet based attacks that interfere with the organizations' internet websites, to more sophisticated crimes that target the organizations, as well as their clients, and seek to gain unauthorized access to technology systems in efforts to disrupt business, steal money or obtain sensitive information.

A major focus of US governmental policy relating to financial institutions in recent years has been fighting money laundering and terrorist financing. Regulations applicable to us and our subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their clients. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences, both in legal terms and in terms of our reputation.

Although we are continuously adapting our capability to detect and respond to the risks described above, if our internal controls fail or prove ineffective in identifying and remedying them we could suffer operational failures that might result in material losses, such as the loss from the unauthorized trading incident announced in September 2011.

Participation in high-volume and high-frequency trading activities, even in the execution of client-driven business, can also expose us to operational risks. Our loss in the second quarter of 2012 relating to the Facebook initial public offering illustrates the exposure participants in these activities have to unexpected results arising not only from their own systems and processes but also from the behavior of exchanges, clearing systems and other third parties and from the performance of third party systems.

Certain types of operational control weaknesses and failures could also adversely affect our ability to prepare and publish accurate and timely financial reports. We identified control deficiencies following the unauthorized trading incident announced in September 2011, and management determined that we had a material weakness in our internal control over financial reporting as of the end of 2010 and 2011, although this has not affected the reliability of our financial statements for either year.

In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may include a disruption due to natural disasters, pandemics, civil unrest, war or terrorism and involve electrical, communications, transportation or other services used by us or third parties with whom we conduct business.

We might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees

The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. We face competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to UBS in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. We expect these trends to continue and competition to increase.

Our competitive strength and market position could be eroded if we are unable to identify market trends and developments, do not respond to them by devising and implementing adequate business strategies, adequately developing or updating our technology, particularly in trading businesses, or are unable to attract or retain the qualified people needed to carry them out.

The amount and structure of our employee compensation are affected not only by our business results but also by competitive factors and regulatory considerations. Constraints on the amount or structure of employee compensation, higher levels of deferral, performance conditions and other circumstances triggering the forfeiture of unvested awards may adversely affect our ability to retain and attract key employees, and may in turn negatively affect our business performance. Reductions in the amount of variable compensation awarded for performance year 2012 have caused our total compensation for certain categories of employees, mainly in the Investment Bank and the Corporate Center, to be lower than is the case for peer institutions. In addition, changes that we have made to the terms of compensation awards may place us ahead of peers in adjusting compensation terms to the demands of various stakeholders, including regulatory authorities and shareholders. These terms include the introduction of a deferred contingent capital plan with many of the features of the loss-absorbing capital that we have issued in the market but with a higher capital ratio writedown trigger, increased average deferral periods for stock awards, and expanded forfeiture provisions for certain awards linked to business performance. These changes, while intended to better align the interests of our staff with those of other stakeholders, increase the risk that key employees will be attracted by competitors and decide to leave UBS, and that we may be less successful than our competitors in attracting qualified employees. The loss of key staff and inability to attract qualified replacements, depending upon which and how many roles are affected, could seriously compromise our ability to execute our strategy and to successfully improve our operating and control environment.

➔ **Refer to the "Corporate governance, responsibility and compensation" section of this report for more information on our compensation awards and programs**

Our financial results may be negatively affected by changes to accounting standards

We report our results and financial position in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Changes to IFRS or interpretations thereof may cause our future reported results and financial position to differ from current expectations. Such changes also may affect our regulatory capital and ratios. For example, in 2012 UBS adopted the revised international accounting standard IAS 19 Employee Benefits, which affected both our financial position and our regulatory capital. UBS monitors potential accounting changes and when these are finalized by the IASB, UBS determines the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, that are expected to impact our reported results, financial position and regulatory capital in the future.

➔ **Refer to the "Financial Information" section of this report for more information on changes in accounting requirements**

Our financial results may be negatively affected by changes to assumptions supporting the value of our goodwill

The goodwill we have recognized on the respective balance sheets of our operating segments is tested for impairment at least annually. Our impairment test in respect of the assets recognized as of

31 December 2012 indicated that the value of our goodwill is not impaired. The impairment test is based on assumptions regarding estimated earnings, discount rates and long-term growth rates impacting the recoverable amount of each segment and on estimates of the carrying amounts of the segments to which the goodwill relates. If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of our goodwill may become impaired in the future, giving rise to losses in the income statement. In the third quarter of 2012, for example, the recognition by the Investment Bank of a full impairment of goodwill and of an impairment of other non-financial assets resulted in a charge of almost CHF 3.1 billion against UBS's operating profit before tax.

The effects of taxes on our financial results are significantly influenced by changes in our deferred tax assets and final determinations on audits by tax authorities

The deferred tax assets we have recognized on our balance sheet as of 31 December 2012 in respect of prior years' tax losses are based on future profitability as indicated by the business plans. If the business plan earnings and assumptions in future periods substantially deviate from current forecasts, the amount of recognized deferred tax assets may need to be adjusted in the future. This could include writeoffs of deferred tax assets through the income statement.

In the coming years, our effective tax rate will be highly sensitive both to our performance and to the accuracy of new business plan forecasts. Our results in recent periods have demonstrated that changes in the recognition of deferred tax assets can have a very significant effect on our reported results. If the Group's performance is strong, particularly in the US, UK and Switzerland, we could be expected to recognize additional deferred tax assets in the coming years. The effect of doing so would be to significantly reduce the Group's effective tax rate in years in which additional deferred tax assets are recognized. Conversely, if our performance in those countries is weaker than expected, we may be required to write off all or a portion of currently recognized deferred tax assets through the income statement. This would have the effect of increasing the Group's effective tax rate in the year in which any write offs are taken.

In the first half of 2013, we expect the tax rate to be in the region of 25–30%. The expected tax rate is higher than the normal expected effective tax rate of 20–25% because the net profit for the group in 2013 may reflect losses for some legal entities or parent bank branches for which we may not obtain a tax benefit. In addition, the actual tax rate may fall outside the aforementioned tax rate range to the extent that there are significant book tax adjustments that affect taxable profits. Also, the full year tax rate may depend on the extent to which deferred tax assets are revalued during 2013 and the level of profitability for the year.

Our effective tax rate is also sensitive to any future reductions in statutory tax rates, particularly in the US and Switzerland. Reductions in the statutory tax rate would cause the expected future tax benefit from items such as tax loss carry-forwards in the affected locations to diminish in value. This in turn would cause a writedown of the associated deferred tax assets.

In addition, statutory and regulatory changes, as well as changes to the way in which courts and tax authorities interpret tax laws could cause the amount of taxes ultimately paid by UBS to materially differ from the amount accrued.

Separately, in 2011 the UK government introduced a balance sheet based levy payable by banks operating and / or resident in the UK. An expense for the year of CHF 124 million has been recognized in operating expenses (within pre-tax profit) in the fourth quarter of 2012. The Group's bank levy expense for future years will depend on both the rate and the Group's taxable UK liabilities at each year end; changes to either factor could increase the cost. This expense will likely increase if, for example, we change our booking practices to reduce or eliminate our utilization of UBS AG London branch as a global booking center for the ongoing business of the Investment Bank and consequently book more liabilities into our UK bank subsidiary, UBS Limited. We expect that the annual bank levy expense will continue to be recognized for IFRS purposes as a cost arising in the final quarter of each financial year, rather than being accrued throughout the year, as it is charged by reference to the year-end balance sheet position.

Financial and operating performance

Critical accounting policies

Basis of preparation and selection of policies

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The application of certain of these accounting standards requires considerable judgment based upon estimates and assumptions that involve significant uncertainty at the time they are made. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The application of assumptions and estimates means that any selection of different assumptions could cause the reported results to differ. Changes in assumptions may have a significant impact on the financial statements in the periods when assumptions are changed.

We believe that the assumptions we have made are appropriate, and that our financial statements therefore present the financial position and results fairly in all material respects. The alternative outcomes discussed below are presented solely to assist the reader in understanding the uncertainty inherent in the estimates and assumptions used in our financial statements. They are not intended to suggest that other assumptions would be more appropriate.

Accounting policies that are deemed critical to our results and financial position, in terms of materiality of the items to which the policy is applied, and which involve significant assumptions and estimates, are discussed in this section. A broader and more detailed description of our significant accounting policies is included in "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report.

Consolidation of special purpose entities

We sponsor the formation of special purpose entities (SPE) and interact with non-sponsored SPE for a variety of reasons, including allowing clients to obtain or be exposed to specific risk and reward profiles, to provide funding or to sell or purchase credit risk. In accordance with IFRS, we do not consolidate special purpose entities that we do not control. In determining whether or not we control an SPE, we evaluate a range of factors, including whether (i) the activities of the SPE are being conducted on our behalf according to our specific business needs so that we obtain the benefits from the SPE operations, or (ii) we have decision-making powers to obtain the majority of the benefits of the activities of the SPE, or we have delegated these decision-making powers by setting up an autopilot mechanism, or (iii) we have the right to obtain the majority of the benefits of the activities of an SPE and, therefore, may be exposed to risks arising from the activities of the SPE, or (iv) we retain the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits from its activities. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together require a significant degree of judgment to reach a conclusion. The exposure to volatility in profits and the absorption of risks and rewards, as well as the ability to make operational decisions for the SPE in question, are generally the factors to which most weight is given in reaching a conclusion.

With effect from 1 January 2013, UBS will adopt IFRS 10 Consolidated Financial Statements, issued by the IASB in May 2011. IFRS 10 applies to all types of entities and is based on the existing principle that an entity should consolidate all other entities that it controls. The definition of control in IFRS 10 focuses on the presence of power, exposure to variable returns and the ability to utilize power to affect an entity's own returns. IFRS 10 will continue to require a significant degree of judgment in determining whether or not another entity should be consolidated.

➔ **Refer to "Note 1a) 3) Subsidiaries" in the "Financial information" section of this report for more information**

Fair value of financial instruments

UBS carries a significant portion of its assets and liabilities at fair value. Under IFRS the relative uncertainty associated with the measurement of fair value is represented by a three-level valuation hierarchy. The best evidence of fair value is a quoted price in an actively traded market (Level 1). In the event that the market for a financial instrument is not active, or where quoted prices are not otherwise available, a valuation technique is used. In these cases, fair value is estimated using observable data in respect of similar financial instruments, as well as financial models. Level 2 of the hierarchy pertains to instruments for which inputs to a valuation technique are principally based on observable market data. Level 3 applies to instruments that are measured by a valuation technique that incorporates one or more significant unobservable inputs. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Where valuation techniques or models are used to determine fair values, they are periodically reviewed and validated by qualified personnel independent of those who sourced them. Models are calibrated to ensure that outputs reflect actual data and comparable market prices. Models use observable data where available so as to minimize the use of unobservable inputs, but judgment is required in selecting inputs for which observable data is less readily available.

The valuation techniques or models employed may not fully reflect all the factors relevant to the positions we hold. Valuations are therefore adjusted, where appropriate, to allow for additional factors, including model risk, liquidity risk and credit risk. We use different approaches to calculate the credit risk, depending on the nature of the instrument. A credit valuation adjustment approach based on an expected exposure profile is used to adjust the fair value of *Positive replacement values* to reflect counterparty credit risk. Correspondingly, a debit valuation adjustment approach is applied to incorporate own credit risk in the fair value of *Negative replacement values.* Own credit risk for *Financial liabilities designated at fair value* is calculated using the funds transfer price curve.

As at 31 December 2012, financial assets and financial liabilities for which valuation techniques or models are used and whose inputs are considered observable (level 2) amounted to CHF 475 billion and CHF 485 billion, respectively. Financial assets and financial liabilities whose valuations include significant unobservable inputs (level 3) amounted to CHF 20 billion and CHF 21 billion, respectively.

Imprecision in estimating unobservable market inputs can affect the amount of gain or loss recorded for a particular position. While the Group believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

If management had used reasonably possible alternative assumptions for our level 3 instruments accounted for through profit or loss, the net fair value of non-derivative instruments would have been up to CHF 0.6 billion higher or lower than the amounts recognized on our balance sheet on 31 December 2012. Similarly, the net fair value of derivative instruments would have been up to CHF 0.6 billion higher or lower at 31 December 2012.

➔ Refer to "Note 27 Fair value of financial instruments" in the "Financial information" section of this report for more information

Impairment of loans and receivables measured at amortized cost

Loan impairment allowances represent management's best estimate of losses incurred in the lending portfolio at the balance sheet date. The loan portfolio, which is measured at amortized cost less impairment, consists of financial assets presented on the balance sheet lines *Due from banks and Loans,* including reclassified securities. In addition, irrevocable loan commitments are tested for impairment as described below.

Credit loss expense is recognized if there is objective evidence that the Group will be unable to collect all amounts due according to the original contractual terms or the equivalent value. Under this incurred loss model, a financial asset or group of financial assets is impaired only if there is objective evidence that a loss has occurred by the balance sheet date. Management is required to exercise judgment in making assumptions and estimations when calculating impairment losses both on a counterparty-specific level and collectively.

The impairment loss for a loan is the excess of the carrying value of the financial asset over the estimated recoverable amount. The estimated recoverable amount is the present value, using the loan's original effective interest rate, of expected future cash flows, including amounts that may result from restructuring or the liquidation of collateral. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. An allowance for credit losses is reported as a reduction of the carrying value of the financial asset on the balance sheet.

Our collective loan loss allowances are calculated for each homogeneous portfolio, taking into account historical loss experience and current conditions. The methodology and assumptions used are reviewed regularly to reduce any differences between estimated and actual loss experience. For all of our portfolios we also assess whether there have been any unforeseen developments which might result in impairments but which are not immediately observable. To determine whether an event-driven collective loan loss allowance is required, we consider global economic drivers to assess the most vulnerable countries and industries. Our current event-based collective loan loss allowance methodology considers the heightened credit risk arising from corporate clients in industries exposed to the recessionary effects in certain countries, combined with the strength of the Swiss franc.

Estimated cash flows associated with financial assets reclassified from *Held for trading* to *Loans and receivables* in accordance with the requirements in "Note 1a) 10) Loans and receivables" in the "Financial information" section of this report and other similar assets acquired subsequently are revised periodically. Adverse revisions in cash flow estimates related to credit events are recognized in profit or loss as credit loss expenses. For reclassified securities, increases in estimated future cash receipts (above those originally forecast at the date of reclassification) as a result of increased recoverability are recognized as an adjustment to the effective interest rate on the loan from the date of change.

➔ Refer to "Note 9 Due from banks and loans", "Note 11 Allowances and provisions for credit losses" and "Note 28 Measurement categories of financial assets and financial liabilities" in the "Financial information" section of this report for more information

On 31 December 2012, our gross loan portfolio was CHF 281 billion and the related allowances amounted to CHF 0.7 billion, of which CHF 33 million related to reclassified and similar acquired securities.

➔ Refer to "Note 1a) 11) Allowance and provision for credit losses" in the "Financial information" section of this report for more information

Goodwill impairment test

UBS performs an impairment test on its goodwill assets on an annual basis, or when indicators of a potential impairment exist. Our segments are each considered cash-generating units; the impairment test is performed for each segment to which goodwill is allocated and compares the recoverable amount and the carrying amount of the segment. An impairment charge is recognized if the carrying amount exceeds the recoverable amount. The impairment test is based on a number of assumptions, as described below.

The recoverable amount is determined using a discounted cash flow model, which incorporates inputs relevant to the banking business and its regulatory environment. The recoverable amount of a segment is the sum of the discounted earnings attributable to shareholders from the first five forecasted years and the terminal value. The terminal value reflecting all periods beyond the fifth year is calculated on the basis of the forecast of fifth-year profit, the discount rate and the long-term growth rate.

The carrying amount for each segment is determined by reference to the equity attribution framework. Within this framework, which is described in the "Capital management" section of this report, management attributes equity to the businesses after considering their risk exposure, risk-weighted assets usage, asset size, goodwill and intangible assets. The framework is used primarily for purposes of measuring the performance of the businesses and includes certain management assumptions. Attributed equity equates to the capital that a segment requires to conduct its business and is considered an appropriate starting point from which to determine the carrying value of the segments. The attributed equity methodology is aligned with the business planning process, the inputs from which are used in calculating the recoverable amounts of the respective cash-generating units.

Valuation parameters used within the Group's impairment test model are linked to external market information, where applicable. The model used to determine the recoverable amount is most sensitive to changes in the forecast earnings available to shareholders in years one to five, to changes in the discount rates, and to changes in the long-term growth rate. The applied long-term growth rate is based on long-term economic growth rates for different regions worldwide. Earnings available to shareholders are estimated based on forecast results, which are part of the business plan approved by the Board of Directors. The discount rates are determined by applying a capital-asset-pricing-model-based approach, as well as considering quantitative and qualitative inputs from both internal and external analysts and the view of UBS's management.

If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of our goodwill may become impaired in the future, giving rise to losses in the income statement. Recognition of any impairment of goodwill would reduce IFRS equity attributable to UBS shareholders and net profit. It would not impact cash flows and, as goodwill is required to be deducted from capital under the Basel capital framework, no impact is expected on the Group capital ratios.

Following the full impairment of the CHF 3.0 billion of Investment Bank goodwill in the third quarter of 2012, as of 31 December 2012, only the following three segments carried goodwill: Wealth Management (CHF 1.3 billion), Wealth Management Americas (CHF 3.2 billion) and Global Asset Management (CHF 1.4 billion). On the basis of the impairment testing methodology described above, UBS concluded that the year-end 2012 balances of goodwill allocated to its segments remain recoverable.

➔ **Refer to "Note 1a) 21) Goodwill and intangible assets" and "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information**

Deferred taxes

Deferred tax assets arise from a variety of sources, the most significant being the following: (i) tax losses that can be carried forward to be utilized against profits in future years; and (ii) expenses recognized in our income statement that are not deductible until the associated cash flows occur.

We record a valuation allowance to reduce our deferred tax assets to the amount which can be recognized in line with IAS 12 Income Taxes. The level of deferred tax asset recognition is influenced by management's assessment of our future profitability based on relevant business plan forecasts. Existing assessments are reviewed and, if necessary, revised to reflect changed circumstances. This review is conducted annually, in the second half of each year, but adjustments may be made at other times, if required. In a situation where recent losses have been incurred, IAS 12 requires convincing evidence that there will be sufficient future profitability.

Swiss tax losses can be carried forward for seven years, US federal tax losses for 20 years and UK and Jersey tax losses for an unlimited period. The deferred tax assets recognized on 31 December 2012 have been based on future profitability assumptions, adjusted to take into account the recognition criteria of IAS 12. The level of deferred tax assets recognized may, however, need to be adjusted in the future in the event of changes in those profitability assumptions. On 31 December 2012, the deferred tax assets amounted to CHF 8.1 billion, which included CHF 5.7 billion in respect of tax losses (mainly in Switzerland and the US) that can be utilized to offset taxable income in future years.

➔ **Refer to "Note 1a) 22) Income taxes" and "Note 24 Income taxes" in the "Financial information" section of this report for more information**

Provisions

Provisions are liabilities of uncertain timing or amount, and are recognized when UBS has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of

the obligation can be made. Provisions are recognized for the best estimate of the consideration required to settle the present obligation at the balance sheet date.

Recognition of provisions often involves significant judgment in assessing the existence of an obligation resulting from past events and in estimating the probability, timing and amount of any outflows of resources. This is particularly the case with litigation, regulatory and similar matters which, because of their nature, are subject to many uncertainties making their outcome difficult to predict. Such matters may involve unique fact patterns or novel legal theories, proceedings which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Determining whether an obligation exists as a result of a past event and estimating the probability, timing and amount of any potential outflows is based on a variety of assumptions, variables, and known and unknown uncertainties. The amount of any provision recognized can be very sensitive to the assumptions used and there could be a wide range of possible outcomes for any particular matter. Statistical or other quantitative analytical tools are of limited use in the case of litigation, regulatory or similar matters. Furthermore, information currently available to management may be incomplete or inaccurate increasing the risk of erroneous assumptions with regards to the future developments of such matters. Management regularly reviews all the available information regarding such matters, including advice from legal advisors, to assess whether the recognition criteria for provisions have been satisfied for those matters and, if not, to evaluate whether such matters represent contingent liabilities. Legal advice is a significant consideration in determining whether it is more likely than not that an obligation exists as a result of a past event and in assessing the probability, timing and amount of any potential outflows.

At 31 December 2012, the aggregate amount provisioned for litigation, regulatory and similar matters as a class was CHF 1,432 million. Since the future outflow of resources in respect of these matters cannot be determined with certainty based on currently available information, the actual outflows may ultimately prove to be substantially greater (or less) than the provisions recognized.

➔ **Refer to “Note 1a) 27) Provisions” and “Note 23 Provisions and contingent liabilities” in the “Financial information” section of this report for more information**

Pension and other post-employment benefit plans

During 2012, UBS adopted revisions to IAS 19 Employee Benefits (“IAS 19R”) issued by the IASB in June 2011. IAS 19R eliminates the “corridor method”, under which the recognition of actuarial gains and losses was deferred. Instead, the full defined benefit obligation net of plan assets is now recorded on the balance sheet, with changes resulting from remeasurements recognized immediately in other comprehensive income. The net defined benefit liability at the end of the year and the related *Personnel expense* depend on the expected future benefits to be provided, determined using a number of economic and demographic assumptions. The most significant assumptions include life expectancy, the discount rate, expected salary increases, pension rates, and for the Swiss plan, interest credits on retirement savings account balances.

Life expectancy is determined by reference to published mortality tables. The discount rate is determined by reference to rates of return on high-quality fixed-income investments of appropriate currency and term at the measurement date. The assumption for salary increases reflects the long-term expectations for salary growth and takes into account inflation, seniority, promotion and other relevant factors such as supply and demand in the labor market.

The most significant plan is the Swiss pension plan. Consistent with 2011, life expectancy for this plan has been based on the 2010 BVG generational mortality tables. The assumption for the discount rate has changed from 2.3% in the prior year, to 1,9%.

➔ **Refer to “Note 1a) 24) Pension and other post-employment benefit plans” and “Note 30 Pension and other post-employment benefit plans” in the “Financial information” section of this report for more information**

Equity compensation

We recognize shares, performance shares, options and share-settled stock appreciation rights awarded to employees as compensation expense based on their fair value at grant date. The fair value of UBS shares issued to employees is determined by reference to quoted market prices, adjusted, where appropriate, to take into account the terms and conditions inherent in the award. Options, stock appreciation rights, and certain performance shares issued by UBS to its employees have features which are not directly comparable with our shares and options traded in active markets. Accordingly, we determine the fair value using suitable valuation models. Several recognized valuation models exist. The models we apply have been selected because they are able to accommodate the specific features included in the various instruments granted to our employees. If we were to use different models, the values produced would differ, even if the same inputs were used.

The models we use require inputs such as expected dividends, share price volatility and historical employee exercise behavior patterns. Some of the model inputs we use are not market observable and have to be estimated or derived from available data. Use of different estimates would produce different valuations, which in turn would result in recognition of higher or lower compensation expense.

➔ **Refer to “Note 1a) 25) Equity participation and other compensation plans” and “Note 31 Equity participation and other compensation plans” in the “Financial information” section of this report for more information**

Significant accounting and financial reporting structure changes

Significant accounting changes

IAS 19 (revised) Employee Benefits

During 2012, UBS adopted revisions to the International Accounting Standard 19 Employee Benefits ("IAS 19R") retrospectively in accordance with the transitional provisions set out in the accounting standard. IAS 19R introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The full defined benefit obligation net of plan assets is now recorded on the balance sheet, with changes resulting from remeasurements recognized immediately in other comprehensive income. As a result, we have adjusted the opening balances as of 1 January 2010 for the cumulative effect of applying the revised standard and all comparative information included in this report, except where otherwise indicated, has been presented as if IAS 19R had been applied from that date.

Under the Basel III framework, the regulatory capital effect of the adoption of IAS 19R, together with related changes in future periods, will be phased in annually from 1 January 2014 on an after-tax basis, such that it becomes fully adjusted on 1 January 2018. We expect the volatility of our Basel III common equity tier 1 capital ratio to increase due to the adoption of IAS 19R.

➔ **Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section for more information**

Changes to reporting segments

Wealth Management & Swiss Bank

Wealth Management & Swiss Bank's two reportable segments – Wealth Management and Retail & Corporate – became separate business divisions at the start of 2012. As these business divisions were already considered separate reportable segments, no adjustments were required to reported segment results.

Investment Bank

On 30 December 2011, a portfolio of legacy positions was transferred from the Investment Bank to the Corporate Center. Commencing in the first quarter of 2012, this portfolio, together with the option to acquire the equity of the SNB StabFund, has been considered a separate reportable segment within the Corporate Center and designated as the Legacy Portfolio. Prior periods have been restated.

In conjunction with the accelerated implementation of our strategy announced in October 2012, the Asset Liability Management unit was transferred from the Investment Bank to Group Treasury within the Corporate Center in the fourth quarter of 2012. Prior periods have been restated to reflect this transfer and profit and loss amounts associated with the ongoing business activities of Asset Liability Management are being fully allocated back to the Investment Bank.

Own credit

Effective 2012, the measurement of the performance of the business divisions excludes own credit gains and losses on financial liabilities designated at fair value. This reflects the fact that these gains and losses are not managed at a business division level and are not necessarily indicative of any business division's performance. In line with these internal reporting changes, own credit gains and losses are now reported as part of Corporate Center – Core Functions. Prior periods have been restated to conform to this presentation.

Group Treasury managed assets

In 2012, management changed the methodology used to allocate certain financial assets and their corresponding costs managed by Group Treasury. Prior periods were not restated for this change and the impact from the change in cost allocation methodology was not material to the reported segment results.

Centralization of operations units in the Corporate Center

In 2012, operations units from the business divisions were centralized in the Corporate Center as part of our ongoing efforts to improve our operational effectiveness and heighten our cost efficiency across the firm. Prior to this centralization, charges for operations support provided from one division to another were shown in the respective division's income statement as services to/from other business divisions without any allocation of the related headcount. With effect from 1 July 2012 on a prospective basis, charges from the centralized operations units have been allocated to the business divisions and shown in the respective expense lines of the reportable segments and the related headcount has been allocated to the business divisions. Prior to the transfer to the Corporate Center, Retail & Corporate operations staff provided significant support to other business divisions in Switzerland. Accordingly, the transfer had the effect of increasing personnel and non-personnel expenses as well as decreasing charges for services from other business divisions at Wealth Management, the Investment Bank and Global Asset Management, and of decreasing personnel and non-personnel expenses as well as income from services provided to other divisions at Retail & Corporate. As a result of the centralization, as of 1 July 2012, allocations of personnel increased by approximately 800 in Wealth Management, 250 in the Investment Bank and 50 in Global Asset Management, with a corresponding decrease of 1,100 in Retail & Corporate.

➔ Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section for more information

Changes to the reporting structure in 2013

Corporate Center – Non-core and Legacy Portfolio

In line with our strategy to focus the Investment Bank's business on its traditional strengths, we are exiting many business lines which are capital and balance sheet intensive or are in areas with high operational complexity or long tail risks. Beginning in the first quarter of 2013, these non-core activities and positions formerly in the Investment Bank have been transferred to and will be managed and reported in the Corporate Center. These non-core activities and positions, together with the Legacy Portfolio and the option to acquire the equity of the SNB StabFund, will be reported as a separate reportable segment called "Non-core and Legacy Portfolio" starting with the first quarter of 2013, when all necessary internal reporting changes will have been put into place.

In summary, with effect from the first quarter of 2013, UBS's segment reporting, which is in line with our internal reporting, will present five business divisions and the Corporate Center, consisting of Non-core and Legacy Portfolio, as well as Core Functions.

UBS results

Net loss attributable to UBS shareholders in 2012 was CHF 2,511 million compared with a profit of CHF 4,138 million in 2011. The pre-tax loss was CHF 1,774 million compared with a profit of CHF 5,307 million in the prior year. The 2012 loss was primarily due to impairment losses of CHF 3,064 million on goodwill and other non-financial assets in the Investment Bank, net charges for provisions for litigation, regulatory and similar matters of CHF 2,549 million, an own credit loss on financial liabilities designated at fair value of CHF 2,202 million and net restructuring charges of CHF 371 million. In 2012, we recorded a tax expense of CHF 461 million compared with CHF 901 million in 2011. Net profit attributable to non-controlling interests was CHF 276 million in 2012 compared with CHF 268 million.

Income statement

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Continuing operations				
Interest income	**15,968**	17,969	18,872	(11)
Interest expense	**(9,974)**	(11,143)	(12,657)	(10)
Net interest income	**5,994**	6,826	6,215	(12)
Credit loss (expense) / recovery	**(118)**	(84)	(66)	40
Net interest income after credit loss expense	**5,875**	6,742	6,149	(13)
Net fee and commission income	**15,405**	15,236	17,160	1
Net trading income	**3,480**	4,343	7,471	(20)
of which: net trading income excluding own credit	***5,682***	*2,806*	*8,019*	*102*
of which: own credit on financial liabilities designated at fair value	***(2,202)***	*1,537*	*(548)*	
Other income	**682**	1,467	1,214	(54)
Total operating income	**25,443**	27,788	31,994	(8)
Personnel expenses	**14,737**	15,634	17,031	(6)
General and administrative expenses	**8,653**	5,959	6,585	45
Depreciation and impairment of property and equipment	**689**	761	918	(9)
Impairment of goodwill	**3,030**	0	0	
Amortization and impairment of intangible assets	**106**	127	117	(17)
Total operating expenses	**27,216**	22,482	24,650	21
Operating profit / (loss) from continuing operations before tax	**(1,774)**	5,307	7,345	
Tax expense / (benefit)	**461**	901	(409)	(49)
Net profit / (loss) from continuing operations	**(2,235)**	4,406	7,754	
Discontinued operations				
Profit from discontinued operations before tax	**0**	0	2	
Tax expense	**0**	0	0	
Net profit from discontinued operations	**0**	0	2	
Net profit / (loss)	**(2,235)**	4,406	7,756	
Net profit attributable to non-controlling interests	**276**	268	304	3
from continuing operations	**276**	268	303	3
from discontinued operations	**0**	0	1	
Net profit / (loss) attributable to UBS shareholders	**(2,511)**	4,138	7,452	
from continuing operations	**(2,511)**	4,138	7,451	
from discontinued operations	**0**	0	1	
Comprehensive income				
Total comprehensive income	**(1,766)**	5,632	6,701	
Total comprehensive income attributable to non-controlling interests	**243**	560	609	(57)
Total comprehensive income attributable to UBS shareholders	**(2,009)**	5,071	6,092	

2012

Performance before tax

Performance before tax was a loss of CHF 1,774 million in 2012 compared with a profit of CHF 5,307 million in the prior year. The 2012 loss was primarily due to impairment losses of CHF 3,064 million on goodwill and other non-financial assets in the Investment Bank and net charges for provisions for litigation, regulatory and similar matters of CHF 2,549 million, including charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates, as well as claims related to sales of residential mortgage backed-securities. The full year 2012 result also included an own credit loss on financial liabilities designated at fair value of CHF 2,202 million and net restructuring charges of CHF 371 million.

We calculate adjusted results that exclude items considered non-recurring or that management believes are not representative of the underlying performance of our business (such adjusted results are non-GAAP financial measures as defined by SEC regulations). For 2012, these adjustments are the abovementioned impairment losses of CHF 3,064 million, the own credit loss of CHF 2,202 million, a credit to personnel expenses of CHF 730 million related to changes to our Swiss pension plan, net restructuring charges of CHF 371 million, and a credit to personnel expenses of CHF 116 million related to changes to our retiree medical and life insurance plan in the US. The adjustments in 2011 were an own credit gain of CHF 1,537 million, a gain of CHF 722 million on the sale of our strategic investment portfolio and net restructuring charges of CHF 380 million.

On this adjusted basis, the 2012 pre-tax profit was CHF 3,017 million compared with CHF 3,428 million in 2011, mainly as net charges for provisions for litigation, regulatory and similar matters increased by CHF 2,273 million to CHF 2,549 million, while 2011 included a loss of CHF 1,849 million related to the unauthorized trading incident announced in September of that year.

➔ **Refer to the "Certain items affecting our results in 2012" sidebar in this section for more information on LIBOR-related settlements**

Operating income

Total operating income was CHF 25,443 million in 2012 compared with CHF 27,788 million in 2011. Excluding the impact of own credit in both years and the gain on the sale of our strategic investment portfolio in 2011, operating income increased by CHF 2,116 million to CHF 27,645 million.

Net interest and trading income

Net interest and trading income decreased by CHF 1,695 million to CHF 9,474 million. Full year 2012 included an own credit loss on financial liabilities designated at fair value of CHF 2,202 million, primarily reflecting the tightening of our credit spreads, compared with an own credit gain of CHF 1,537 million in 2011. Excluding the impact of own credit, net interest and trading income increased by CHF 2,044 million, reflecting an increase of CHF 1,404 million in the Corporate Center and an increase of CHF 862 million in the Investment Bank.

Excluding own credit, net interest and trading revenues in the Corporate Center increased by CHF 1,404 million, partly as the revaluation of our option to acquire the SNB StabFund's equity was a gain of CHF 526 million in 2012 compared with a loss of CHF 133 million in 2011. Furthermore, 2011 saw losses from the net impact of credit valuation adjustments on monolines.

Equities net interest and trading revenues increased by CHF 1,114 million in 2012. The prior year included a loss of CHF 1,849 million due to the unauthorized trading incident. In 2012, we incurred a loss of CHF 349 million related to the Facebook initial public offering. In addition, derivatives and equity-linked revenues declined as client activity was lower across all regions, and trading revenues particularly in Europe and Asia Pacific were affected by lower volatility levels. Proprietary trading revenues were also lower as we continued to exit the business.

Fixed income, currencies and commodities (FICC) net interest and trading income decreased by CHF 224 million, primarily as 2012 included a negative debit valuation adjustment of CHF 383 million on our derivatives portfolio as credit default swap spreads tightened compared with positive CHF 244 million in 2011 when spreads widened. Credit revenues increased as revenues in 2011 were negatively affected by mark-to-market trading losses mainly in the second half of the year as trading conditions were challenging due to uncertainty surrounding the eurozone and the global economic outlook. Revenues in loan trading, flow trading, real estate finance and structured credit improved in 2012. Macro revenues declined as a result of lower foreign exchange revenues as volatility decreased from the high levels seen in 2011 resulting from the eurozone uncertainty. Rates revenues were broadly unchanged, with improved performances in non-linear and long-end interest rates, partially offset by lower short-end interest rates revenues.

Net interest and trading income in Wealth Management declined by CHF 118 million, mainly as the previous year included CHF 103 million of interest income stemming from the abovementioned strategic investment portfolio. Moreover, net interest income was negatively affected by increased costs of CHF 69 million related to assets managed centrally by Group Treasury. Furthermore, trading revenues declined as a result of lower treasury-related income and lower client activity following the reduced volatility in the foreign exchange market. These factors were partly offset by CHF 180 million higher product-related interest income, reflecting the beneficial effects of increases in client deposit and lending volumes.

In Wealth Management Americas, net interest and trading income increased by CHF 86 million, reflecting favorable currency effects and higher client balances in securities-based lending and mortgages.

Net interest and trading income

CHF million	For the year ended 31.12.12	31.12.11	31.12.10	% change from 31.12.11
Net interest and trading income				
Net interest income	**5,994**	6,826	6,215	(12)
Net trading income	**3,480**	4,343	7,471	(20)
Total net interest and trading income	**9,474**	11,169	13,686	(15)
Wealth Management	**2,728**	2,846	2,384	(4)
Wealth Management Americas	**1,265**	1,179	1,266	7
Investment Bank	**4,872**	4,010	6,847	21
Global Asset Management	**12**	8	22	50
Retail & Corporate	**2,467**	2,661	2,670	(7)
Corporate Center	**(1,870)**	465	497	
of which: own credit on financial liabilities designated at fair value	***(2,202)***	*1,537*	*(548)*	
Total net interest and trading income	**9,474**	11,169	13,686	(15)

Credit loss (expense) / recovery

CHF million	For the year ended 31.12.12	31.12.11	31.12.10	% change from 31.12.11
Wealth Management	**1**	11	11	(91)
Wealth Management Americas	**(14)**	(6)	(1)	133
Investment Bank	**34**	(13)	155	
Retail & Corporate	**(27)**	(101)	(76)	(73)
Corporate Center	**(112)**	24	(155)	
of which: related to Legacy Portfolio	***(112)***	*25*	*(155)*	
Total	**(118)**	(84)	(66)	40

Retail & Corporate net interest and trading income declined by CHF 194 million, partly as the previous year included interest income of CHF 68 million related to our strategic investment portfolio. Net interest income was also negatively affected by increased costs related to assets managed centrally by Group Treasury and lower allocations related to investment proceeds from the firm's equity. The loan margin was stable, but historically low interest rates continued to negatively affect the deposit margin. This was partly offset by growth in average deposit and, to a lesser extent, loan volumes as well as a number of pricing adjustments.

➔ Refer to "Note 3 Net interest and trading income" in the "Financial information" section of this report for more information

➔ Refer to "Note 27 Fair value of financial instruments" in the "Financial information" section of this report for more information on own credit

➔ Refer to the "Non-trading portfolios – valuation and sensitivity information by instrument category" section in the "Risk management and control" section of this report for more information on changes in the value of our option to acquire the SNB StabFund's equity

Credit loss expense / recovery

In 2012, we recorded a net credit loss expense of CHF 118 million compared with a net credit loss expense of CHF 84 million in 2011. In 2012, we recorded a net credit loss expense of CHF 112 million in Corporate Center – Legacy Portfolio, mainly related to student loan auction rate securities, and a net credit loss expense of CHF 27 million in Retail & Corporate, partly offset by a net credit loss recovery of CHF 34 million in the Investment Bank.

➔ Refer to the discussions of credit loss expense / recovery in the "Wealth Management", "Wealth Management Americas", "Investment Bank", "Retail & Corporate" and "Legacy Portfolio" sections of this report for more information

➔ Refer to the "Risk management and control section" section of this report for more information on our risk management approach, method of credit risk measurement and the development of credit risk exposures

Net fee and commission income

Net fee and commission income increased by CHF 169 million to CHF 15,405 million.

Underwriting fees increased by CHF 359 million to CHF 1,539 million, reflecting an increase in both equity and debt underwriting

fees. The increase in underwriting fees corresponded to increased market share in both equity underwriting and debt underwriting. In addition, we increased our participation in private and structured transactions.

Portfolio management and advisory fees increased by CHF 341 million to CHF 5,892 million, mainly reflecting an increase in Wealth Management Americas.

Net brokerage fees fell by CHF 271 million, primarily in the Investment Bank due to a lower level of client activity.

Merger and acquisition and corporate finance fees decreased by CHF 313 million due to a lower volume of transactions.

➔ Refer to "Note 4 Net fee and commission income" in the "Financial information" section of this report for more information

Other income

Other income was CHF 682 million compared with CHF 1,467 million in the previous year.

In 2012, net revenues from financial investments available-for-sale were CHF 329 million, which included CHF 219 million in gains from the Wealth Management Americas' available-for-sale portfolio, as well as a gain of CHF 88 million on the sale of an equity investment in the Investment Bank. In 2011, net revenues from financial investments available-for-sale were CHF 887 million, which included a gain of CHF 722 million from the sale of our strategic investment portfolio and gains of CHF 81 million from Wealth Management Americas' available-for-sale portfolio.

Other income from associates and subsidiaries was CHF 81 million compared with CHF 44 million, mainly related to higher revenues from our investment in the SIX Group.

Other income in 2012 further included gains of CHF 112 million on sales of Swiss real estate compared with a gain of CHF 78 million on sale of a property in Switzerland in 2011. Other income in 2011 included net gains of CHF 344 million from the sale of loans and receivables.

➔ Refer to "Note 5 Other income" in the "Financial information" section of this report for more information

Operating expenses

Total operating expenses increased by CHF 4,734 million to CHF 27,216 million, mainly due to impairment losses of CHF 3,064 million on goodwill and other non-financial assets in the Investment Bank and CHF 2,273 million higher net charges for provisions for litigation, regulatory and similar matters. The appreciation of the US dollar and British pound against the Swiss franc also contributed to the overall increase. These increases were partly offset by a credit to personnel expenses of CHF 730 million related to changes to our Swiss pension plan and a credit to personnel expenses of CHF 116 million related to changes to our retiree medical and life insurance plan in the US. Net restructuring charges were CHF 371 million in 2012 compared with CHF 380 million in 2011.

Personnel expenses

Personnel expenses decreased by CHF 897 million to CHF 14,737 million. In 2012, personnel expenses included a credit of CHF 730 million related to changes to our Swiss pension plan and a credit of CHF 116 million related to changes to our retiree medical and life insurance plan in the US. Net personnel-related restructuring charges were CHF 358 million in 2012 compared with CHF 261 million in 2011. Excluding the effects of restructuring and the credits related to the Swiss and US benefit plans, personnel expenses decreased by CHF 148 million, despite the appreciation of the US dollar and British pound against the Swiss franc.

On this adjusted basis, expenses for performance awards declined by CHF 577 million to CHF 2,885 million. Expenses relating to 2012 performance awards recognized in the performance year 2012 were CHF 1,724 million, down CHF 123 million from the prior year, reflecting a 7% decrease in the overall performance award pool for the 2012 performance year. The amortization of deferred compensation awards from prior years decreased by CHF 454 million to CHF 1,161 million.

Other variable compensation excluding restructuring charges increased by CHF 51 million, reflecting increased expenses for employee retention, including costs related to the special plan award program in the Investment Bank.

Salary expenses, excluding restructuring, decreased by CHF 78 million, partly related to a one-time net credit of CHF 31 million from changes to the rules for the Swiss long-service and sabbatical awards.

Financial advisor compensation in Wealth Management Americas increased by CHF 354 million excluding restructuring reflecting higher revenue production and higher compensation commitments and advances related to recruited financial advisors.

➔ Refer to "Note 6 Personnel expenses" and "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report and to the "Compensation" section of this report for more information

General and administrative expenses

General and administrative expenses were CHF 8,653 million in 2012 compared with CHF 5,959 million in 2011.

Net charges for provisions for litigation, regulatory and similar matters increased by CHF 2,273 million, primarily as a result of charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates and claims related to sales of residential mortgage backed-securities.

Based on relevant facts and circumstances, our provisions are adequate. Nevertheless, in view of the current regulatory and political climate affecting financial institutions, and because we continue to be exposed to a number of claims and regulatory matters arising from the financial crisis of 2007–2009 and other matters, we expect charges associated with litigation, regulatory and similar matters to remain at elevated levels at least through 2013.

Costs for outsourcing of IT and other services increased by CHF 206 million due to higher business demand.

Expenses for marketing and public relations increased by CHF 135 million, partly due to expenditures related to our 150th anniversary, and professional fees increased by CHF 86 million. In 2012, no general and administrative restructuring charges were recorded compared with net charges of CHF 93 million in 2011.

➔ **Refer to "Note 7 General and administrative expenses" in the "Financial information" section of this report for more information**

Depreciation, impairment and amortization

Depreciation and impairment of property and equipment was CHF 689 million, a decrease of CHF 72 million from the prior year, mainly reflecting lower depreciation of IT equipment.

Impairment of goodwill was CHF 3,030 million in 2012, reflecting the full impairment of goodwill carried by the Investment Bank.

Amortization and impairment of intangible assets was CHF 106 million compared with CHF 127 million. In 2012, we recorded impairment charges of CHF 17 million, mainly in the Investment Bank. In 2011, impairment charges were CHF 37 million, mainly related to a past acquisition in the UK.

➔ **Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information**

Income tax

We recognized a net income tax expense in the income statement for the year of CHF 461 million. This includes a Swiss current tax expense of CHF 95 million, which relates to taxable profits, against which no losses were available to offset, earned by Swiss subsidiaries and also from the sale of real estate. The net income tax expense for the year also includes a Swiss deferred tax expense of CHF 23 million, which relates to a decrease in recognized deferred tax assets due to Swiss pre-tax profits earned during the year, offset by Swiss tax relief for the impairment of goodwill. In addition, it includes a foreign net current tax expense of CHF 72 million, which relates to a tax expense in respect of taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset, which were partly offset by a tax benefit from the release of provisions in respect of tax positions which were previously uncertain. Finally, the net income tax expense for the year includes a foreign deferred tax expense of CHF 271 million, which mainly reflects a tax expense for the amortization of deferred tax assets, as tax losses were used against taxable profits.

In the first half of 2013, we expect the tax rate to be in the region of 25% to 30%. The expected tax rate is higher than the normal expected effective tax rate of 20% to 25% because the net profit for the group in 2013 may reflect losses for some legal entities or parent bank branches for which we may not obtain a tax benefit. In addition, the actual tax rate may fall outside the aforementioned tax rate range to the extent that there are significant book tax adjustments that affect taxable profits. Also, the full year tax rate may depend on the extent to which deferred tax assets are revalued during 2013 and the level of profitability for the year.

➔ **Refer to "Note 24 Income taxes" in the "Financial information" section of this report for more information**

Net profit attributable to non-controlling interests

Net profit attributable to non-controlling interests for 2012 was CHF 276 million, compared with CHF 268 million in 2011. In both years, this almost entirely reflected dividends on preferred securities.

Total comprehensive income attributable to UBS shareholders

Total comprehensive income attributable to UBS shareholders includes all changes in equity (including net profit) attributed to UBS shareholders during a period, except those resulting from investments by and distributions to shareholders as well as equity-settled share-based payments. Items included in comprehensive income, but not in net profit, are reported under other comprehensive income (OCI). These items will be recognized in net profit when the underlying item is sold or realized, with the exception of gains and losses on defined benefit plans.

In 2012, total comprehensive income attributable to UBS shareholders was negative CHF 2,009 million, reflecting the net loss attributable to UBS shareholders of CHF 2,511 million, partly offset by positive other comprehensive income (OCI) attributable to UBS shareholders of CHF 502 million (net of tax).

OCI in 2012 included gains of CHF 609 million on defined benefit plans (net of tax). This reflected pre-tax gains of CHF 1,023 million, which were almost entirely due to an increase in the fair value of plan assets of the Swiss pension plan, partly offset by an income tax expense of CHF 413 million. Cash flow hedge OCI was positive CHF 384 million (net of tax), mainly reflecting decreases in long-term interest rates across all major currencies, partly offset by the reclassification of net gains associated with the effective portion of changes in fair value of hedging derivatives to the income statement. Financial investments available-for-sale OCI was positive CHF 14 million (net of tax). Foreign currency translation OCI was a loss of CHF 511 million (net of tax), predominantly related to the 2% weakening of the US dollar against the Swiss franc.

➔ **Refer to the "Statement of comprehensive income" in the "Financial information" section of this report for more information**

➔ **Refer to "Note 30 Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information**

Performance by reporting segment

The management discussion and analysis by reporting segment is provided in the following sections of this report.

Operating profit before tax by business divisions and Corporate Center

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Wealth Management	**2,407**	2,633	2,233	(9)
Wealth Management Americas	**816**	544	(121)	50
Investment Bank	**(2,734)**	(631)	2,731	333
Global Asset Management	**570**	430	515	33
Retail & Corporate	**1,827**	1,884	1,710	(3)
Corporate Center	**(4,661)**	446	277	
Operating profit from continuing operations before tax	**(1,774)**	5,307	7,345	

Key figures and personnel

Cost/income ratio

The cost/income ratio was 106.5% in 2012 compared with 80.7% in 2011. On an adjusted basis excluding own credit and net restructuring charges in both years, the credits to personnel expenses related to changes to our Swiss pension plan and a retiree benefit plan in the US in 2012, and the gain on the sale of our strategic investment portfolio in 2011, the cost/income ratio increased to 88.7% from 86.3%.

BIS risk-weighted assets

On 31 December 2012, our Basel 2.5 RWA were CHF 192.5 billion compared with CHF 241.0 billion at the end of 2011, a decrease of CHF 48.5 billion, predominantly due to a decline in market risk RWA of CHF 22.1 billion, in credit risk RWA of CHF 21.0 billion and, to a lesser extent, in operational risk RWA of CHF 5.6 billion. The decline in credit risk RWA of CHF 21.0 billion occurred predominately in the fourth quarter of 2012 and was mainly attributable to the accelerated implementation of our strategy, hedging activity and sales of certain student loan auction rate securities in the Corporate Center – Legacy Portfolio. These activities impacted derivative, repo-style and drawn and undrawn loan exposures, partly offset by increased residential mortgage exposures due to the recalibration of risk parameters on residential mortgages in the third quarter.

Market risk RWA decreased by CHF 22.1 billion, mainly due to the reduction in incremental risk charge RWA on reduced exposures, a model update for sovereign debt in the first quarter, and hedging activity. VaR and stressed VaR declined due to reduced risk positions and reduced credit spread risk.

Operational risk RWA decreased by CHF 5.6 billion. The decrease reflected the implementation, following our annual model parameter review in March 2012, of all advanced measurement approach parameter updates that had been approved by FINMA up to that time.

Our estimated pro-forma Basel III[1] RWA on a fully applied basis were CHF 258 billion at the end of 2012, declining CHF 122 billion compared with the end of 2011. The decline was mainly due to the same factors that caused a decrease in Basel 2.5 RWA, lower RWA on low-rated securitization exposures and a lower credit valuation adjustment charge. We are targeting Group RWA on a fully applied Basel III basis to fall to less than CHF 200 billion by the end of 2017.

➔ **Refer to the "Investment Bank", "Legacy Portfolio" and "Capital management" sections of this report for more information**

➔ **Refer to the "Our strategy" section of this report for more information**

Net new money

In Wealth Management, net new money inflows were CHF 26.3 billion in 2012 compared with CHF 23.5 billion in 2011. The strongest net inflows were recorded in Asia Pacific and emerging markets as well as globally from ultra high net worth clients. Europe reported net outflows in the offshore business, mainly related to clients from countries neighboring Switzerland. This was partly offset by net inflows from the European onshore business. Swiss wealth management reported increased net inflows.

Wealth Management Americas recorded net new money inflows of CHF 20.6 billion or USD 22.1 billion in 2012, compared with net new money inflows of CHF 12.1 billion or USD 14.1 billion in 2011 due to stronger inflows from net recruiting of financial advisors as well as financial advisors employed with UBS for more than one year.

Excluding money market flows, Global Asset Management recorded net new money outflows of CHF 5.9 billion in 2012 compared with net inflows of CHF 9.0 billion in the prior year. Net new money from third parties was a net outflow of CHF 0.6 bil-

1 Basel III information provided throughout this report is not required to be presented because Basel III requirements were not in effect on 31 December 2012. Such measures are non-GAAP financial measures as defined by SEC regulations. We nevertheless include information on the basis of Basel III requirements because they are effective as of 1 January 2013 and significantly impact our RWA and eligible capital. The calculation of our pro-forma Basel III RWA combines existing Basel 2.5 RWA, a revised treatment for low-rated securitization exposures that are no longer deducted from capital but are risk-weighted at 1250%, and new model-based capital charges. Some of these new models require final regulatory approval and therefore our pro-forma calculations include estimates (discussed with our primary regulator) of the effect of these new capital charges which will be refined as models and the associated systems are enhanced.

Net new money[1]

CHF billion	For the year ended 31.12.12	31.12.11	31.12.10
Wealth Management	**26.3**	23.5	(12.1)
Wealth Management Americas	**20.6**	12.1	(6.1)
Global Asset Management	**(13.3)**	4.3	1.8
of which: non-money market flows	***(5.9)***	*9.0*	*8.2*
of which: money market flows	***(7.4)***	*(4.7)*	*(6.4)*

1 Net new money excludes interest and dividend income.

Invested assets

	As of			% change from
CHF billion	**31.12.12**	31.12.11	31.12.10	31.12.11
Wealth Management	**821**	750	768	9
Wealth Management Americas	**772**	709	689	9
Global Asset Management	**581**	574	559	1

lion compared with a net inflow of CHF 12.2 billion. Net new money from clients of UBS's wealth management businesses was a net outflow of CHF 5.2 billion compared with a net outflow of CHF 3.1 billion.

➔ **Refer to the "Wealth Management", "Wealth Management Americas" and "Global Asset Management" sections of this report for more information**

Invested assets

Invested assets in Wealth Management rose by CHF 71 billion to CHF 821 billion during the year. Positive market performance and net new money inflows were partially offset by negative currency effects.

In Wealth Management Americas, invested assets increased by CHF 63 billion to CHF 772 billion, reflecting positive market performance and strong net new money inflows.

Global Asset Management invested assets increased by CHF 7 billion to CHF 581 billion, mainly due to positive market movements, partly offset by net new money outflows and negative currency effects. The sale, as agreed prior to the acquisition, of parts of the ING Investment Management business acquired in Australia in 2011 resulted in a net divestment of CHF 14 billion of invested assets in 2012.

➔ **Refer to the "Wealth Management", "Wealth Management Americas" and "Global Asset Management" sections of this report for more information**

Personnel

We employed 62,628 personnel as of 31 December 2012, a reduction of 2,192 compared with 64,820 personnel as of 31 December 2011, largely reflecting the cost reduction program announced in July 2011 and the accelerated implementation of our strategy announced in October 2012.

➔ **Refer to the "Our employees" section within the "Corporate governance, responsibility and compensation" section of this report for more information**

Certain items affecting our results in 2012

LIBOR-related settlements

On 19 December 2012, we announced that the Board of Directors had authorized total settlements of approximately CHF 1.4 billion in fines and disgorgement to US, UK and Swiss authorities to resolve LIBOR-related investigations with those regulators. The payments that were agreed with authorities consisted of fines totaling USD 1.2 billion to the US Department of Justice and Commodity Futures Trading Commission, GBP 160 million in fines to the UK Financial Services Authority and CHF 59 million as disgorgement of estimated profits to the Swiss Financial Market Supervisory Authority (FINMA). In addition, UBS Securities Japan Co. Ltd. entered into a plea agreement with respect to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. The settlements stemmed from industry-wide investigations into the setting of certain benchmark rates across a range of currencies. These investigations focused on whether there were improper attempts by banks, acting either on their own or with others, to manipulate LIBOR and other benchmark rates at certain times. UBS cooperated fully with the authorities in their investigations and, as a result of the investigations, has significantly enhanced its control framework for its submissions process for LIBOR and other benchmark interest rates.

Enhancements included changes made throughout 2012 to the governance framework to first combine all components of this submissions process into one functional area within the Investment Bank, to next move the governance and, in November, to move the operation of this process into a new independent function within Group Treasury. In accordance with our segment reporting principles, under which we report performance consistent with the way in which it is evaluated by senior management, the charge booked in the fourth quarter was reported in Corporate Center – Core Functions because the management of the submissions process resides within Group Treasury.

➔ Refer to "Note 23b Litigation, regulatory and similar matters" in the "Financial information" section of this report for more information

Impairment of Investment Bank goodwill and other non-financial assets

An impairment test was performed as of 30 September 2012 with respect to the Investment Bank because indicators of impairment were present. These indicators included negative variances from planned performance, preliminary discussions regarding changes in strategy for the Investment Bank and revised business plan information taking into account changes in market conditions and the global economic outlook. The impairment test was based on the business plan approved by the Board of Directors on 29 October 2012. As a result of this impairment test, losses were recognized in the income statement relating to a full impairment of CHF 3,030 million for goodwill in the third quarter of 2012. Additional assets were examined to determine whether their carrying values exceeded their recoverable amounts. Impairment losses of CHF 15 million were recognized in the income statement for other intangible assets and CHF 19 million for property and equipment, both in the third quarter of 2012.

➔ Refer to "Note 17 Goodwill and intangible assets" in the " Financial information" section of this report for more information

2011

Performance before tax

Performance before tax was CHF 5,307 million down from CHF 7,345 million, mainly due to a decline in operating income of CHF 4,206 million, partly offset by cost reductions of CHF 2,168 million.

Operating income

Total operating income was CHF 27,788 million in 2011, down CHF 4,206 million from CHF 31,994 million in 2010. This decline was mainly due to a reduction of CHF 1,924 million in net fee and commission income on lower underwriting fees, a decline in asset-based fees, and lower trading revenues in our equities and FICC businesses, partly due to the loss of CHF 1,849 million related to the unauthorized trading incident. These declines were partly offset by an own credit gain on financial liabilities designated at fair value of CHF 1,537 million, compared with a loss of CHF 548 million in the prior year. In addition, in 2011 we incurred a loss of CHF 133 million on the valuation of our option to acquire the SNB StabFund's equity compared with a gain of CHF 745 million in 2010. Furthermore, in 2011 we recorded a gain of CHF 722 million on the sale of our strategic investment portfolio.

Net interest and trading income

Net interest and trading income was CHF 11,169 million, down CHF 2,517 million from the prior year. In 2011, we recorded a loss of CHF 1,849 million related to the unauthorized trading incident, which was partly offset by an own credit gain of CHF 1,537 million due to the widening of our credit spreads during the year. Own credit in 2010 was a loss of CHF 548 million as credit spreads tightened during that year.

Net interest and trading income in FICC was down by CHF 498 million, primarily due to the strengthening of the Swiss franc. In credit, revenues decreased primarily due to mark-to-market losses in the flow business. Concerns surrounding the eurozone and the global economic outlook significantly impacted market volatility, liquidity and client activity, resulting in challenging conditions for flow trading, partly offset by an improved performance by credit solutions. In macro, revenues increased across all interest rates business lines. Foreign exchange benefited from market volatility in the second half of 2011 and from the contributions of our new e-trading platform. Non-linear interest rates reported a turnaround from negative to positive revenues in 2011. Emerging markets revenues decreased as increased foreign exchange revenues were more than offset by lower revenues in credit and rates. Latin America saw an improvement in revenues whereas both Asia and Europe reported a decrease. In 2011, we recorded positive debit valuation adjustments of CHF 244 million on our derivatives portfolio compared with positive debit valuation adjustments of CHF 155 million in 2010.

Equities interest and trading revenues declined by CHF 2,372 million, mainly due to the loss of CHF 1,849 million related to the unauthorized trading incident, the strengthening of the Swiss franc, and lower revenues in the derivatives and equity-linked businesses. Within derivatives, revenues in Europe, the Middle East and Africa declined and more than offset higher revenues in Asia Pacific and the Americas. In addition, trading revenues were impacted by ongoing market volatility. In equity-linked, revenues declined due to lower valuations and volumes as well as reduced primary market activity, which impacted the secondary markets.

Net interest income in Wealth Management increased by CHF 231 million, reflecting higher treasury-related income, partially due to interest income resulting from the strategic investment portfolio (which was acquired in late 2010). Further, net interest income benefited from 10% higher average lending volumes. This was offset by margin pressure as a result of low market interest rates. Net trading income in Wealth Management also increased by CHF 231 million, benefiting from higher income linked to foreign exchange and precious metal client trading activities as well as higher treasury-related revenues.

Net interest income in Wealth Management Americas increased by CHF 34 million, due to higher client balances in securities-based lending and mortgages, as well as from higher yields on lending products. This was partially offset by adverse currency impacts. Net trading revenues in Wealth Management Americas fell by CHF 120 million, impacted by the strengthening of the Swiss franc, lower taxable fixed income and municipal trading income, partly offset by higher trading income from structured notes.

Net interest income in Retail & Corporate declined by CHF 94 million, primarily due to a significant decline in the deposit margin as a result of low market interest rates, which more than offset growth of deposit volumes. Low market interest rates also impacted income from our replication portfolio, resulting in lower net interest income. These effects more than offset higher interest income derived from the strategic investment portfolio which was acquired in late 2010. Net trading income in Retail & Corporate increased by CHF 84 million, mainly reflecting higher treasury-related income and higher foreign exchange income linked to client trading activities.

Corporate Center net interest and trading revenues were down CHF 32 million. In 2011, we recorded an own credit gain of CHF 1,537 million due to the widening of our credit spreads during the year. Own credit in 2010 was a loss of CHF 548 million as credit spreads tightened during the year. Revenues in 2011 included a loss of CHF 133 million on the valuation of our option to acquire the SNB StabFund's equity compared with a gain of CHF 745 million in 2010. Furthermore, 2011 included losses of CHF 284 million related to CVA for monoline credit protection compared with a gain of CHF 667 million in 2010.

Credit loss expense / recovery

In 2011, we recorded a net credit loss expense of CHF 84 million, mainly reflecting an increase in collective loan loss allowances due

to increased credit risks arising predominantly from Swiss corporate clients that had become exposed to significant foreign currency related risk as a result of the impact of the strengthening Swiss franc on their financial position. In 2010, we reported net credit loss expenses of CHF 66 million, which included CHF 155 million of impairment charges related to the Corporate Center – Legacy Portfolio.

Net fee and commission income

Net fee and commission income was CHF 15,236 million compared with CHF 17,160 million in the previous year.

Underwriting fees decreased by CHF 732 million or 38% to CHF 1,180 million, reflecting a decline in both equity and debt underwriting fees. The decline in equity underwriting fees resulted in part from an overall market slowdown due to volatility in capital markets and a reduced market fee pool. Debt underwriting fees declined due to lower revenues in the Investment Bank's debt capital market business, in part reflecting the market impact of European sovereign debt concerns.

A decline of CHF 601 million in net brokerage fees reflected a downturn in the market, with lower transactional volumes and reduced level of client activity.

Portfolio management and advisory fees for the Group fell 7%, or CHF 408 million, to CHF 5,551 million, mainly due to the strengthening of the Swiss franc.

Investment fund fees decreased CHF 321 million, or 8%, to CHF 3,577 million, due to lower asset-based fees resulting from a lower average invested asset base, primarily as a result of the strengthening of the Swiss franc.

Merger and acquisition and corporate finance fees increased by CHF 135 million, or 16%, reflecting a somewhat improved merger and acquisition environment in 2011 with the completion of several large deals.

Other income

Other income was CHF 1,467 million compared with CHF 1,214 million in the previous year.

In 2011, net gains from financial investments available-for-sale were CHF 887 million compared with 132 million in 2010. Gains in 2011 included CHF 722 million from the sale of our strategic investment portfolio as well as gains of CHF 81 million in Wealth Management Americas' available-for-sale portfolio.

Other income in 2011 also included gains of CHF 344 million from the sale of loans and receivables compared with CHF 324 million in 2010. The 2011 gains mainly related to the sale of collateralized loan obligations, which had been reclassified previously from *Held for trading* to *Loans* and *receivables,* and were partly offset by related hedge termination losses recorded in net trading income. Additionally, in 2011 we recorded a gain of CHF 78 million on sale of a property in Switzerland, compared with a gain of CHF 158 million on sale of a property in Switzerland in 2010.

Net gains from disposals of investments in associates were down CHF 236 million, mainly as 2010 included a gain of CHF 180 million from the sale of investments in associates owning office space in New York. Other income in 2010 further included a CHF 69 million demutualization gain from our stake in the Chicago Board Options Exchange.

Operating expenses

Total operating expenses were CHF 22,482 million in 2011 compared with CHF 24,650 million in 2010. Operating expenses in 2011 included CHF 380 million of net restructuring charges compared with CHF 113 million in 2010.

Personnel expenses

Personnel expenses decreased by CHF 1,397 million, or 8%, to CHF 15,634 million due to strengthening of the Swiss franc. In 2011, we recorded CHF 261 million in personnel-related net restructuring charges, compared with a net release of CHF 2 million in the prior year.

Salary costs decreased by CHF 174 million, or 2%, as a result of the strengthening of the Swiss franc.

Expenses for performance awards were CHF 3,516 million, a decrease of CHF 655 million, or 16%, from the prior year. Expenses relating to 2011 performance awards recognized in the performance year 2011 were CHF 1,847 million, down CHF 853 million, reflecting a 37% decrease in the overall performance award pool for the 2011 performance year. The amortization of deferred compensation awards from prior years increased by CHF 198 million, or 13%, to CHF 1,669 million.

Other variable compensation increased by CHF 50 million, mainly reflecting an increase in restructuring-related severance charges.

Financial advisor compensation in Wealth Management Americas decreased by CHF 149 million to CHF 2,518 million. In US dollar terms, financial advisor compensation increased, reflecting higher revenue production and higher compensation commitments and advances related to recruited financial advisors.

Other personnel expenses decreased by CHF 369 million, mainly as the prior year included a charge of CHF 200 million for the UK bank payroll tax.

General and administrative expenses

General and administrative expenses were CHF 5,959 million in 2011 compared with CHF 6,585 million in 2010. The strengthening of the Swiss franc contributed substantially to the overall decrease.

Occupancy costs decreased by CHF 193 million or 15% mainly as vacant office space was provisioned for in the prior year, and also as a result of reduced rental expenses and favorable currency translation effects.

Rent and maintenance of machines and equipment decreased by CHF 126 million, or 23%, mainly due to reduced costs for IT maintenance services. Expenses for communications and market data services decreased by CHF 48 million, or 7%, mainly as a result of reduced costs for market data services.

Administration costs decreased by CHF 48 million, or 7%, as a result of a release of value added tax accruals in the UK and the favorable effect of the strengthening of the Swiss franc, largely

offset by a CHF 109 million charge related to the UK bank levy. The prior year included a charge of CHF 40 million to reimburse the Swiss government for costs incurred in connection with the US cross-border matter.

Marketing and public relations expenses increased by CHF 54 million, or 16%, primarily due to higher costs associated with sponsoring activities and marketing. Professional fees increased by CHF 68 million, or 9%, mainly due to higher legal fees.

Outsourcing of IT and other services increased by CHF 73 million, or 7%, due to higher IT business demand and capacity expansion needed for control functions related to increased regulatory requirements.

Expenses for litigation, regulatory and similar matters decreased by CHF 355 million, or 56%.

Other general and administrative expenses decreased by CHF 53 million, or 30%, due to a release of provisions for value-added tax in Switzerland and favorable currency translation effects, partially offset by increased real estate-related restructuring charges which were CHF 93 million in 2011 compared with CHF 79 million in the prior year.

Depreciation, impairment and amortization

Depreciation and impairment of property and equipment was CHF 761 million, a decrease of CHF 157 million, or 17%, from the prior year. The strengthening of the Swiss franc contributed substantially to the overall decrease.

Depreciation of IT and other equipment decreased partly as the useful life of some assets was extended. In 2011 we recorded a reversal of impairment losses on a property of CHF 34 million, partly offset by CHF 26 million restructuring related impairments of real estate assets. The prior year included CHF 37 million in impairment charges related to restructuring in Wealth Management Americas.

Amortization and impairment of intangible assets was CHF 127 million compared with CHF 117 million in 2010. Higher impairment charges on intangible assets, mainly resulting from the impairment of intangible assets related to a past acquisition in the UK, were only partially offset by lower amortization of intangible assets due to favorable currency impacts.

Income tax

We recognized a net income tax expense in the income statement for the year of CHF 901 million. This includes a Swiss net deferred tax expense of CHF 1,041 million, which reflects a tax expense of CHF 927 million for the amortization of deferred tax assets, as tax losses are used against profits arising from business operations. In addition, it reflects a tax charge of CHF 245 million relating to the revaluation of deferred tax assets (reflecting updated profit forecast assumptions including the expected geographical mix) partly offset by a CHF 131 million tax effect relating to the unauthorized trading incident. Additionally, it includes a foreign net deferred tax benefit of CHF 246 million, including a US tax benefit of CHF 400 million, which mainly relates to a write-up of deferred tax assets for US tax losses incurred in previous years, predominantly in the parent bank, UBS AG. This was partly offset by a tax expense of CHF 41 million relating to the downward revaluation of deferred tax assets for Japan, following a change in statutory tax rates and loss offset rules, and a tax expense of CHF 113 million for the amortization of deferred tax assets, as tax losses are used against profits in various locations. It also includes a current tax expense of CHF 106 million, which reflects tax expenses of CHF 277 million for taxable profits of Group entities, partly offset by current tax benefits of CHF 171 million relating to prior periods.

During 2010, we recognized a net income tax benefit in our income statement of CHF 409 million. This reflected a deferred tax benefit mainly relating to the recognition of additional deferred tax assets in respect of tax losses, partly offset by current tax expenses relating to taxable profits of Group entities.

Net profit attributable to non-controlling interests

Net profit attributable to non-controlling interests for 2011 was CHF 268 million, compared with CHF 304 million in 2010. This mainly reflected dividends paid on preferred securities and dividend accruals triggered by the call of a hybrid tier 1 instrument in 2011.

Total comprehensive income attributable to UBS shareholders

Comprehensive income attributable to UBS shareholders in 2011 was CHF 5,071 million, including net profit attributable to UBS shareholders of CHF 4,138 million, and other comprehensive income attributable to UBS shareholders of CHF 934 million.

OCI attributable to UBS shareholders included foreign currency translation gains of CHF 722 million, fair value gains on financial investments available-for-sale of CHF 495 million, and positive cash flow hedge OCI of CHF 1,537 million. These gains were partly offset by losses of CHF 1,820 million on defined benefit plans (net of tax).

Foreign currency translation gains of CHF 722 million were predominantly related to net investments in US foreign operations, which led to gains as the US dollar appreciated in the second half of 2011. Fair value gains of CHF 495 million on financial investments available-for-sale were almost entirely driven by net gains of CHF 545 million related to the strategic investment portfolio. Declining market interest rates resulted in an increase in fair values of CHF 1,267 million and other comprehensive income gains prior to the sale of the portfolio in the third quarter of 2011, more than offsetting unrealized losses of CHF 545 million recognized in OCI in 2010. Upon sale, a realized gain of CHF 722 million was recognized in the income statement within other income, which reduced other comprehensive income accordingly. Fair value gains of CHF 1,537 million on net fixed receiver interest rate swaps designated as cash flow hedges resulted from declining long-term interest rates across all major currencies. Losses of CHF 1,820 million on defined benefit plans

(net of tax) mainly related to the remeasurement of the defined benefit obligation of the Swiss and international pension plans and, to a lesser exent, a decline in the fair value of pension plan assets.

OCI attributable to UBS shareholders in 2010 was negative CHF 1,360 million, mainly reflecting foreign currency translation losses of CHF 731 million and fair value losses on financial investments available-for-sale of CHF 607 million.

Development of invested assets

Net new money

In Wealth Management, net new money improved significantly, with net inflows of CHF 23.5 billion compared with net outflows of CHF 12.1 billion in 2010. The strongest net inflows were recorded in Asia Pacific and emerging markets as well as globally from ultra high net worth clients. Europe reported net outflows, mainly related to the offshore business with countries neighboring Switzerland partly offset by net inflows from the European onshore business. Swiss wealth management reported increased net inflows in 2011 compared with the prior year.

Net new money inflows in Wealth Management Americas were CHF 12.1 billion compared with outflows of CHF 6.1 billion in 2010. This turnaround was due to improved inflows from net recruiting of financial advisors, which was primarily due to lower outflows from financial advisor attrition. Net new money from financial advisors employed with UBS for more than one year remained positive, but declined from 2010.

In Global Asset Management, excluding money market flows, net new money inflows from third parties were CHF 12.2 billion in 2011 compared with net inflows of CHF 16.2 billion in 2010, and net outflows from clients of UBS's wealth management businesses were CHF 3.1 billion compared with net outflows of CHF 8.1 billion. The flows from UBS's wealth management businesses included two transfers of investment management and research responsibility from Wealth Management to Global Asset Management: a CHF 1.8 billion multi-manager alternative fund was transferred to alternative and quantitative investments, and CHF 2.9 billion in private equity funds of funds were transferred to infrastructure and private equity. It should be noted that these assets are reported as invested assets in both business divisions, as Wealth Management continued to advise the clients of the funds.

Invested assets

Total invested assets were CHF 2,088 billion on 31 December 2011, up slightly from CHF 2,075 billion on 31 December 2010. Net new money inflows of CHF 40 billion and the addition of CHF 25 billion in invested assets related to the ING Investment Management acquisition were largely offset by adverse market impacts.

Personnel

We employed 64,820 personnel as of 31 December 2011, an increase of 203 compared with 64,617 personnel as of 31 December 2010.

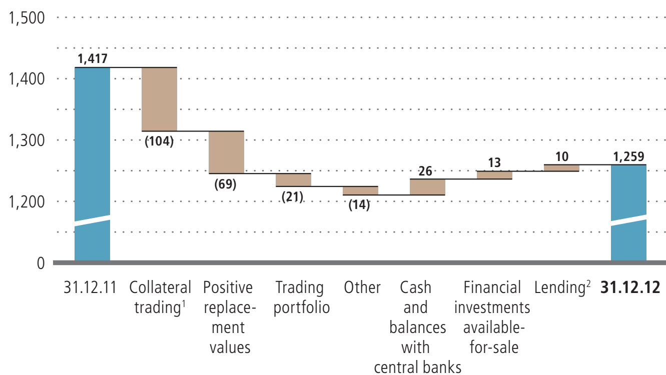
Balance sheet

Balance sheet

CHF million	31.12.12	31.12.11	31.12.10	% change from 31.12.11
Assets				
Cash and balances with central banks	**66,383**	40,638	26,939	63
Due from banks	**21,230**	23,218	17,133	(9)
Cash collateral on securities borrowed	**37,372**	58,763	62,454	(36)
Reverse repurchase agreements	**130,941**	213,501	142,790	(39)
Trading portfolio assets	**160,861**	181,525	228,815	(11)
of which: assets pledged as collateral which may be sold or repledged by counterparties	***44,698***	*39,936*	*61,352*	*12*
Positive replacement values	**418,029**	486,584	401,146	(14)
Cash collateral receivables on derivative instruments	**30,413**	41,322	38,071	(26)
Financial assets designated at fair value	**9,106**	10,336	8,504	(12)
Loans	**279,901**	266,604	262,877	5
Financial investments available-for-sale	**66,383**	53,174	74,768	25
Accrued income and prepaid expenses	**6,093**	6,327	5,466	(4)
Investments in associates	**858**	795	790	8
Property and equipment	**6,004**	5,688	5,467	6
Goodwill and intangible assets	**6,461**	9,695	9,822	(33)
Deferred tax assets	**8,143**	9,627	10,262	(15)
Other assets	**11,055**	9,165	19,506	21
Total assets	**1,259,232**	1,416,962	1,314,813	(11)
Liabilities				
Due to banks	**23,024**	30,201	41,490	(24)
Cash collateral on securities lent	**9,203**	8,136	6,651	13
Repurchase agreements	**37,639**	102,429	74,796	(63)
Trading portfolio liabilities	**34,154**	39,480	54,975	(13)
Negative replacement values	**395,070**	473,400	393,762	(17)
Cash collateral payables on derivative instruments	**71,148**	67,114	58,924	6
Financial liabilities designated at fair value	**92,878**	88,982	100,756	4
Due to customers	**371,892**	342,409	332,301	9
Accrued expenses and deferred income	**6,881**	6,850	7,738	0
Debt issued	**104,656**	140,617	130,271	(26)
Provisions	**2,536**	1,626	1,704	56
Other liabilities	**59,902**	62,784	62,674	(5)
Total liabilities	**1,208,983**	1,364,027	1,266,042	(11)
Equity				
Share capital	**384**	383	383	0
Share premium	**33,898**	34,614	34,393	(2)
Treasury shares	**(1,071)**	(1,160)	(654)	(8)
Equity classified as obligation to purchase own shares	**(37)**	(39)	(54)	(5)
Retained earnings	**21,231**	23,742	19,604	(11)
Cumulative net income recognized directly in equity, net of tax	**(8,509)**	(9,011)	(9,945)	(6)
Equity attributable to UBS shareholders	**45,895**	48,530	43,728	(5)
Equity attributable to non-controlling interests	**4,353**	4,406	5,043	(1)
Total equity	**50,249**	52,935	48,770	(5)
Total liabilities and equity	**1,259,232**	1,416,962	1,314,813	(11)

Assets: development during 2012

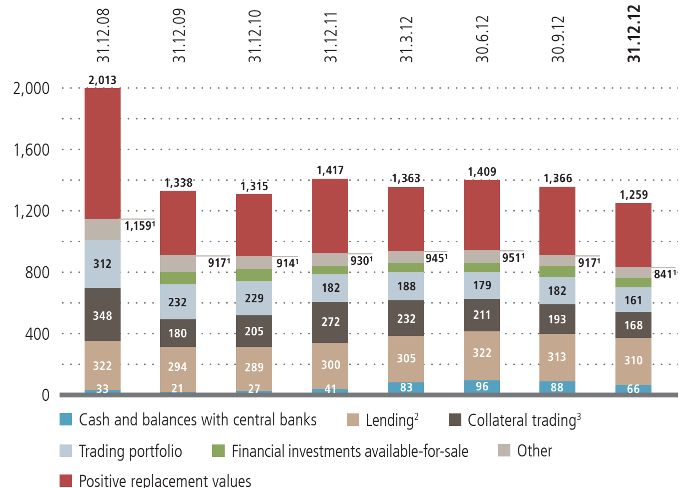
CHF billion



1 Consists of reverse repurchase agreements and cash collateral on securities borrowed.
2 Consists of due from banks, financial assets designated at fair value and loans.

Balance sheet development – assets

CHF billion



1 Total assets excluding positive replacement values. 2 Consists of due from banks, financial assets designated at fair value and loans. 3 Consists of reverse repurchase agreements and cash collateral on securities borrowed.

Balance sheet development

31 December 2012 vs 31 December 2011

As of 31 December 2012, our balance sheet stood at CHF 1,259 billion, a decrease of CHF 158 billion or 11% from 31 December 2011, primarily due to a decline in collateral trading of CHF 104 billion and a reduction in positive replacement values of CHF 69 billion, predominantly relating to the accelerated implementation of our strategy announced in October 2012.

Our funded assets, which represent total assets excluding positive replacement values, were reduced by CHF 89 billion to CHF 841 billion, primarily due to the abovementioned decline in collateral trading and a reduction in trading portfolio assets. These decreases were offset by higher balances with central banks, as well as increased financial investments available-for-sale and lending activities. Currency movements between 31 December 2011 and 31 December 2012 had only a small effect on our funded balance sheet assets.

Most of the total asset reduction occurred within the Investment Bank, mainly in FICC, primarily due to the abovementioned accelerated implementation of our strategy, as well as a change in the methodology used to allocate certain financial assets managed by Group Treasury in 2012, which reduced Investment Bank total assets by CHF 75 billion. Overall, the Investment Bank's balance sheet decreased by CHF 224 billion, or 25%, to CHF 672 billion. The Investment Bank's funded assets decreased by CHF 163 billion, or 37%, to CHF 275 billion. Legacy portfolio assets decreased by CHF 19 billion to CHF 38 billion, resulting mainly from position sales, redemptions and loan amortization. The increase in Corporate Center – Core Functions total assets of CHF 74 billion to CHF 223 billion was primarily the result of the abovementioned change in methodology used to allocate certain financial assets. The average size of our multi-currency portfolio of unencumbered, high-quality, short-term assets remained stable. Wealth Management and Wealth Management Americas total assets increased to CHF 105 billion and CHF 64 billion, respectively, mainly resulting from increased lending activities totaling CHF 15 billion. Retail & Corporate and Global Asset Management total assets were broadly unchanged at CHF 145 billion and CHF 13 billion, respectively.

Cash and balances with central banks

Cash and balances with central banks totaled CHF 66 billion as of 31 December 2012, an increase of CHF 26 billion, mainly due to the re-balancing of our multi-currency portfolio of unencumbered, high-quality, short-term assets.

Lending

Interbank lending (due from banks) decreased by CHF 2 billion to CHF 21 billion, primarily reflecting lower short-term lending activities within Equities in the Investment Bank. Loans increased by CHF 13 billion to CHF 280 billion, predominantly in our wealth management businesses, which contributed CHF 15 billion of growth across several products, including fixed term, LIBOR-based mortgage and call loans. Financial assets designated at fair value were broadly unchanged at CHF 9 billion.

Collateral trading

Collateral trading assets (reverse repurchase agreements and cash collateral on securities borrowed) decreased by CHF 104 billion to CHF 168 billion, primarily reflecting deleveraging within the In-

vestment Bank of CHF 74 billion, combined with a CHF 27 billion decrease related to the re-balancing of our multi-currency portfolio of unencumbered, high-quality, short-term assets.

Collateral trading liabilities (repurchase agreements and cash collateral on securities lent) were lower by CHF 64 billion, reflecting a CHF 65 billion deleveraging-related reduction in the Investment Bank, consistent with the decrease in collateral trading assets.

Trading portfolio

Trading portfolio assets were lower by CHF 21 billion to CHF 161 billion, mainly due to a CHF 30 billion reduction in debt instruments held, which reflected lower government debt, corporate bonds and mortgage-backed securities, primarily resulting from the abovementioned accelerated implementation of our strategy. The decrease in debt holdings was partly offset by a CHF 12 billion increase in equity instruments.

Trading portfolio liabilities were lower by CHF 5 billion, reflecting reduced government debt and corporate bonds short sales, proportionally consistent with the total decrease in trading portfolio assets.

Replacement values

Positive and negative replacement values declined on both sides of the balance sheet, decreasing by CHF 69 billion (14%) and CHF 78 billion (17%) to CHF 418 billion and CHF 395 billion, respectively. Decreases in positive replacement values primarily occurred in interest rate contracts, which declined by CHF 28 billion due to reduced volumes and upward shifts in interest rate curves across most currencies, and credit derivative contracts, which declined by CHF 31 billion, mainly due to a reduction in notional volumes. Similarly, decreases in negative replacement values also occurred in interest rate and credit derivative contracts, which declined by CHF 35 billion and CHF 29 billion, respectively.

Financial investments available-for-sale

Financial investments available-for-sale increased by CHF 13 billion to CHF 66 billion, primarily due to increased holdings of high-quality government debt in our multi-currency portfolio of unencumbered, high-quality, short-term assets.

Short-term borrowings

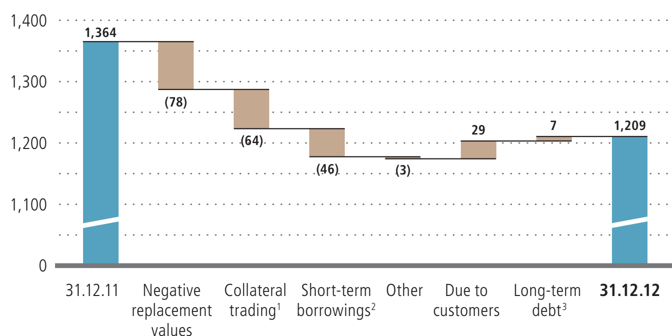
Short-term borrowings (short-term debt issued and due to banks) decreased by CHF 46 billion to CHF 56 billion, primarily due to reduced funding requirements and to a lesser extent the negative interest charge imposed on financial institutions for Swiss franc clearing accounts, effective 21 December 2012. The reduction in short-term debt issued occurred across product types, primarily in certificates of deposit, which declined by CHF 20 billion, and commercial paper, which declined by CHF 14 billion.

Due to customers

Customer deposits increased by CHF 29 billion to CHF 372 billion as Wealth Management, Wealth Management Americas and Retail & Corporate all continued to attract client money into both current and deposit accounts.

Liabilities: development during 2012

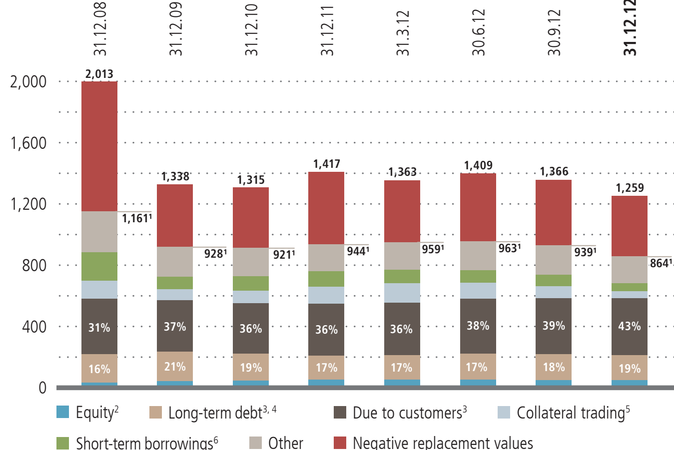
CHF billion



1 Consists of repurchase agreements and cash collateral on securities lent.
2 Consists of short-term debt issued and due to banks.
3 Consists of long-term debt issued and financial liabilities designated at fair value.

Balance sheet development – liabilities and equity

CHF billion



1 Total liabilities and equity excluding negative replacement values. 2 Consists of equity attributable to UBS shareholders and equity attributable to non-controlling interests. 3 Percentages based on total liabilities and equity excluding negative replacement values. 4 Consists of long-term debt issued and financial liabilities designated at fair value. 5 Consists of repurchase agreements and cash collateral on securities lent. 6 Consists of short-term debt issued and due to banks.

Long-term debt

Long-term debt increased by CHF 7 billion to CHF 165 billion, primarily due to several issuances of covered bonds as well as two separate issuances of loss-absorbing notes. These issuances were partly offset by the maturity of several straight senior issuances.

➔ Refer to the "Liquidity and funding management" section for more information on long-term debt issuances

Other assets / Other liabilities

Other assets declined by CHF 14 billion to CHF 69 billion, mainly reflecting a CHF 11 billion decrease in cash collateral receivables on derivative instruments as well as a CHF 3 billion reduction in goodwill in the Investment Bank. Other liabilities were broadly unchanged at CHF 140 billion.

Equity

Equity attributable to UBS shareholders decreased by CHF 2,635 million to CHF 45,895 million as of 31 December 2012 from CHF 48,530 million a year earlier. Total comprehensive income attributable to UBS shareholders was negative CHF 2,009 million, reflecting the net loss attributable to UBS shareholders of CHF 2,511 million, partly offset by other comprehensive income (OCI) attributable to UBS shareholders of CHF 502 million (net of tax). OCI primarily included gains on defined benefit plans and positive cash flow hedge OCI of CHF 609 million and CHF 384 million, respectively, partly offset by foreign currency translation losses of CHF 511 million. Share premium decreased by CHF 716 million, mainly reflecting a tax expense of CHF 457 million and the dividend distribution of CHF 379 million, partly offset by an increase of CHF 126 million related to employee share and share option plans. Net treasury share activity increased equity attributable to UBS shareholders by CHF 89 million.

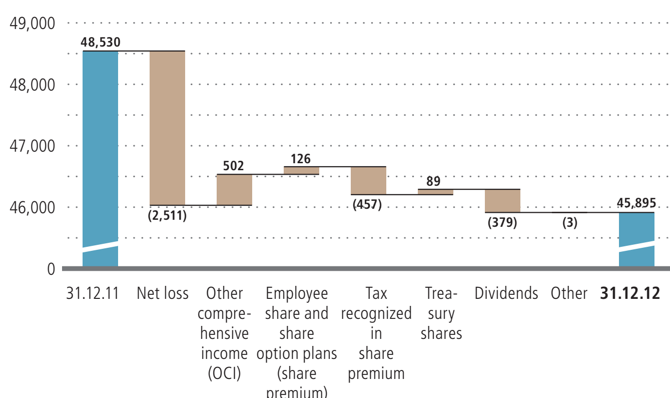
➔ Refer to the "Statement of changes in equity" in the "Financial information" section, and to "Comprehensive income attributable to UBS shareholders" in this section for more information

Intra-period balances

Balance sheet positions disclosed in this section represent year-end positions. Intra-period balance sheet positions fluctuate in the ordinary course of business and may differ from quarter-end and year-end positions.

➔ Refer to the table "FINMA leverage ratio calculation" in the "Capital management" section of this report for our average month-end balance sheet size for the fourth quarter of 2012 and 2011

Equity attributable to UBS shareholders: development during 2012



Off-balance sheet

Off-balance sheet arrangements

In the normal course of business, we enter into transactions that are not recognized on the balance sheet in accordance with International Financial Reporting Standards (IFRS) because we have either transferred or have not assumed the related risks and rewards, and/or because we did not become party to the contractual provisions of the financial instruments. These off-balance sheet arrangements are transacted to either meet the financial needs of clients or offer investment opportunities through entities that are not controlled by us. These transactions include derivative instruments, guarantees and similar arrangements, as well as purchased and retained interests in assets transferred to non-consolidated entities.

When we, through these arrangements, incur an obligation or become entitled to an asset, we recognize these on the balance sheet. It should be noted that in certain instances the amount recognized on the balance sheet does not represent the full gain or loss potential inherent in such arrangements.

We continuously evaluate whether triggering events require reconsideration of the consolidation conclusions made at the inception of our involvement with special purpose entities (SPE).

➔ **Refer to "Note 1a) 3) Subsidiaries" and "Note 1a) 5) Recognition and derecognition of financial instruments" in the "Financial information" section of this report for more information on accounting policies regarding consolidation and deconsolidation of subsidiaries, including SPE, and recognition and derecognition of financial instruments, respectively.**

The following paragraphs discuss several distinct areas of off-balance sheet arrangements. Additional relevant off-balance sheet information is primarily provided in "Note 23 Provisions and contingent liabilities", "Note 25 Derivative instruments and hedge accounting" and "Note 26 Operating lease commitments" in the "Financial information" section of this report.

Risk disclosures, including our involvement with off-balance sheet vehicles

Refer to the "Risk, treasury and capital management" section of this report for comprehensive liquidity, market and credit risk information related to risk positions, including our exposure to off-balance sheet involvement.

Non-consolidated securitization vehicles and collateralized debt obligations

Our involvement (in the form of purchased or retained interests or derivatives) in non-consolidated securitization vehicles and collateralized debt obligations (CDO) is outlined within the table on the following page under the column "Involvement in non-consolidated SPE held by UBS". As of 31 December 2012, the carrying value of our purchased and retained interests relating to non-consolidated SPE and CDO totaled CHF 5.5 billion, of which CHF 4.3 billion was held in *Trading portfolio assets* and measured at fair value and CHF 1.2 billion was held at amortized cost within *Loans*. In addition, we had involvement in SPE in the form of net *Negative replacement values,* mainly total return swaps and credit default swaps, of CHF 0.2 billion as of 31 December 2012. The total pool of assets held by these non-consolidated investment vehicles in which UBS has involvement are reflected in the column "Total SPE assets". These total SPE assets represent the total size and exposure of the SPE and are not indicative of our risk of loss. Our maximum loss potential is generally limited to the carrying amount of purchased and retained interests. Our exposure with respect to credit derivatives is based on the notional value of those instruments. Maximum loss related to total return swaps cannot be quantified, however, fair value is generally considered to be the best approximation of this risk.

During 2012 we sponsored the creation of a limited number of special purpose entities that principally facilitated the securitization of commercial mortgage loans. These securitization transactions generally involved the transfer of assets into a trust or corporation, which in turn issued beneficial interests in the form of securities. Financial assets transferred to such trusts and corporations are no longer reported in our consolidated financial statements once the accounting requirements for derecognition are met, including the transfer of substantially all of the risks and rewards related to such assets. UBS retained certain involvement in some of these SPE, which are included in the disclosure on the next page.

➔ **Refer to "Note 1a) 12) Securitization structures set up by UBS" in the "Financial information" section of this report for more information on accounting policies regarding securitization vehicles established by UBS**

➔ **Refer to the securitization disclosures in the "Basel 2.5 Pillar 3" section of this report for a more comprehensive overview of our securitization activities**

In addition to our retained involvement in SPE from 2012 securitization activities, we also continue to retain interests in earlier securitization issuances, primarily in the Legacy Portfolio, which were originated by UBS or by third parties. The volume and size of these positions, the majority of which are linked to the US mortgage market, have been further reduced as of 31 December 2012 when compared with the prior year.

Our involvement in non-consolidated securitization vehicles and collateralized debt obligations disclosed in this section is typically managed on a portfolio basis alongside hedges and other offsetting financial instruments. The numbers presented do not include these offsetting factors.

Loans held at amortized cost included in the table below are mainly comprised of student loan auction rate securities, to the extent these are not backed by a US government agency, instrumentality or government-sponsored enterprise, as well as assets which were previously *Held for trading* and later reclassified to *Loans and receivables,* including monoline-protected assets, US reference linked notes and other assets. Our loan to the RMBS Opportunities Master Fund, LP, a special purpose entity managed by BlackRock, Inc. is also not included in the table below.

➔ Refer to "Note 28 Pledged and transferred financial assets" in the "Financial information" section and to the "Risk, treasury and capital management" section of this report for more information on our loan to the BlackRock fund

➔ Refer to "Note 29b Reclassified financial assets" in the "Financial information" section of this report for more information on reclassified financial assets.

The numbers outlined in the table below deviate from the securitization positions presented in the "Basel 2.5 Pillar 3" section of this report, primarily due to: (i) different scope, mainly exclusion of certain government-backed and synthetic securitization transactions from the table below, (ii) a different measurement basis in certain cases (e.g. IFRS carrying value within the table below compared with net exposure amount at default for Basel 2.5 Pillar 3 disclosures), and (iii) different classification of originated and sponsored activities. "Originated by UBS" amounts presented below include both securitization activities which we originated and those in which we acted as the lead manager (including joint or co-lead roles) for the transaction. For Basel 2.5 Pillar 3 disclosures, originated and sponsored activities are presented separately.

Liquidity facilities and similar obligations

On 31 December 2012 and 2011, we had no significant exposure through liquidity facilities and guarantees to structured investment vehicles, conduits and other similar types of SPE.

Non-consolidated securitization vehicles and collateralized debt obligations

CHF billion	Involvement in non-consolidated SPE held by UBS			Total SPE assets[2]		
	Purchased and retained interests held by UBS[1]	Derivatives held by UBS				
As of 31 December 2012	Carrying value	Fair value	Nominal value	Original principal outstanding	Current principal outstanding	Delinquency amounts
Originated by UBS						
CDO						
Residential mortgage	0.0	0.0	0.2	5.3	1.3	0.0
Commercial mortgage	0.2	0.0	0.0	0.9	0.9	0.0
Other ABS	0.7	0.0	0.0	16.0	8.3	0.0
Securitizations						
Residential mortgage	0.1	0.0	1.3	102.1	26.0	2.9
Commercial mortgage	0.4	0.0	0.0	80.9	63.7	5.8
Other ABS	0.4	0.0	0.0	9.6	5.3	0.0
Total	**1.8**	**0.0**	**1.5**	**214.8**	**105.5**	**8.7**
Not originated by UBS						
CDO						
Residential mortgage	0.0	0.0	0.0	92.3	78.9	0.0
Commercial mortgage	0.1	0.0	0.0	4.7	2.9	0.0
Other ABS	0.9	0.1	0.3	53.0	36.0	0.0
Securitizations						
Residential mortgage	0.7	(0.3)	1.7	388.7	122.6	42.5
Commercial mortgage	1.0	0.0	0.1	358.3	248.1	25.7
Other ABS	1.0	0.0	0.0	32.3	18.4	0.0
Total	**3.7**	**(0.2)**	**2.1**	**929.3**	**506.9**	**68.2**

1 Includes loans and receivables measured at amortized cost in the amount of CHF 0.8 billion originated by UBS and CHF 0.4 billion not originated by UBS as well as trading assets measured at fair value in the amount of CHF 1.0 billion originated by UBS and CHF 3.3 billion not originated by UBS. Excludes CHF 11.0 billion of asset backed securities, of which CHF 7.3 billion were held in Wealth Management Americas' available-for-sale portfolio (refer to "Note 14 Financial investments available-for-sale" in the "Financial information" section of this report for more information) and CHF 3.7 billion were held in the trading portfolio of the Investment Bank, and CHF 3.5 billion of student loan auction rate securities were held as Loans in Corporate Center – Legacy Portfolio as of 31 December 2012, all of which were backed by a US government agency, instrumentality or government-sponsored enterprise. These securities have been excluded due to the comprehensive involvement of the US government in these organizations and, consequently, their significantly lower risk profile. 2 "Total SPE assets" includes information which UBS could gather after making exhaustive efforts, but excludes data which UBS was unable to obtain (in sufficient quality), especially for structures originated by third parties.

Support provided to non-consolidated investment funds

In the ordinary course of business, we issue investment certificates to third parties that are linked to the performance of non-consolidated investment funds. Such investment funds are originated either by us or by third parties. For hedging purposes, we generally invest in the funds to which our obligations from the certificates are linked. Risks resulting from these contracts are considered minimal, as the full performance of the funds, whether positive or negative, is passed on to third parties.

In a limited number of cases and primarily stemming from the financial crisis, UBS has provided support to certain non-consolidated investment funds in the form of collateralized financing, direct acquisition of fund units and purchases of assets from the funds. These funds are managed in our wealth and asset management businesses, and support was provided in cases where it was necessary due to regulatory or legal requirements or other exceptional circumstances. Throughout 2012 we have continued to reduce our positions in these acquired fund units or other assets, and as of 31 December 2012 the carrying value of fund units acquired and other assets purchased from such funds totaled CHF 0.2 billion.

Purchases of assets from the funds that we manage, direct acquisition of fund units and guarantees granted to third parties in the context of such non-consolidated funds were not material in 2012. Collateralized financing provided in the ordinary course of business to non-consolidated investment funds was CHF 0.6 billion as of 31 December 2012. Net losses incurred on fund units, which are generally accounted for as financial investments available-for-sale, were not material in 2012.

In accordance with standard industry practice, our wealth and asset management businesses occasionally also provide short-term funding facilities to certain investment funds to cover timing gaps in the redemption and subscription processes. These facilities did not result in any losses in 2012.

Guarantees and similar obligations

In the normal course of business, we issue various forms of guarantees, commitments to extend credit, standby and other letters of credit to support our clients, commitments to enter into forward starting transactions, note issuance facilities and revolving underwriting facilities. With the exception of related premiums, generally these guarantees and similar obligations are kept as off-balance sheet items unless a provision to cover probable losses is required.

On 31 December 2012, the exposure (gross values less sub-participations) from guarantees and similar instruments was CHF 17.8 billion, compared with CHF 17.4 billion as of 31 December 2011. Fee income from issuing guarantees was not significant to total revenues in 2012.

Guarantees represent irrevocable assurances, subject to the satisfaction of certain conditions, that we will make a payment in the event that clients fail to fulfill their obligations to third parties. We also enter into commitments to extend credit in the form of credit lines that are available to secure the liquidity needs of clients. The majority of these unutilized credit lines range in maturity from one month to five years. If customers fail to meet their obligations, our maximum exposure to credit risk is the contractual amount of these instruments. The risk is similar to the risk involved in extending loan facilities and is subject to the same risk management and control framework. For the year ended 31 December 2012, we recognized net credit loss recoveries of CHF 16 million, compared with net credit loss recoveries of CHF 22 million for the year ended 31 December 2011, related to obligations incurred for guarantees and loan commitments. Provisions recognized for guarantees and loan commitments were CHF 64 million as of 31 December 2012 and CHF 93 million as of 31 December 2011.

For certain obligations, we enter into partial sub-participations to mitigate various risks from guarantees and loan commitments. A sub-participation is an agreement by another party to take a share of the loss in the event that the obligation is not fulfilled by the obligor and, where applicable, to fund a part of the credit facility. We retain the contractual relationship with the obligor, and the sub-participant has only an indirect relationship. We will only enter into sub-participation agreements with banks to which we ascribe a credit rating equal to or better than that of the obligor.

Furthermore, we provide representations, warranties and indemnifications to third parties in the normal course of business.

Clearinghouse and exchange memberships

We are a member of numerous securities and derivative exchanges and clearinghouses. In connection with some of those memberships, we may be required to pay a share of the financial obligations of another member who defaults, or we may be otherwise exposed to additional financial obligations. While the membership rules vary, obligations generally would arise only if the exchange or clearinghouse had exhausted its resources. We consider the probability of a material loss due to such obligations to be remote.

Swiss deposit insurance

Swiss banking law and the deposit insurance system require Swiss banks and securities dealers to jointly guarantee an amount of up to CHF 6 billion for privileged client deposits in the event that a Swiss bank or securities dealer becomes insolvent. For the period from 1 July 2012 to 30 June 2013, the Swiss Financial Market Supervisory Authority (FINMA) estimates our share in the deposit insurance system to be CHF 1.0 billion. The deposit insurance is a guarantee and exposes us to additional risk. This is not reflected in the table on the following page due to its unique characteristics. As of 31 December 2012, we consider the probability of a material loss from our obligation to be remote.

Underwriting commitments

Gross equity underwriting commitments on 31 December 2012 and 31 December 2011 amounted to CHF 0.2 billion and CHF 1.1 billion, respectively. Gross debt and private equity underwriting commitments on 31 December 2012 and 31 December 2011 were not material.

Purchase commitments

As of 31 December 2012, UBS had a firm commitment to acquire Link Investimentos, a Brazilian financial services firm for an acqui-

Financial instruments not recognized on the balance sheet

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

	31.12.12			31.12.11		
CHF million	**Gross**	**Sub-participations**	**Net**	Gross	Sub-participations	Net
Guarantees						
Credit guarantees and similar instruments	**8,313**	**(734)**	**7,579**	8,671	(315)	8,356
Performance guarantees and similar instruments	**3,673**	**(829)**	**2,844**	3,337	(493)	2,845
Documentary credits	**8,072**	**(660)**	**7,412**	6,897	(737)	6,160
Total guarantees	**20,058**	**(2,223)**	**17,835**	18,905	(1,545)	17,360
Commitments						
Loan commitments	**59,818**	**(867)**	**58,950**	58,192	(1,640)	56,552
Underwriting commitments	**167**	**(167)**	**0**	1,160	(278)	882
Total Commitments	**59,985**	**(1,034)**	**58,951**	59,352	(1,918)	57,434
Forward starting transactions[1]						
Reverse repurchase agreements	**18,576**			27,113		
Securities borrowing agreements	**249**			502		
Repurchase agreements	**9,993**			21,134		

1 Cash to be paid in the future by either UBS or the counterparty.

sition cost of approximately CHF 90 million. The acquisition closed in the first quarter of 2013.

Contractual obligations

The table below summarizes payments due by period under contractual obligations as of 31 December 2012.

All contracts included in this table, with the exception of purchase obligations (those in which we are committed to purchasing determined volumes of goods and services), are either recognized as liabilities on our balance sheet or, in the case of operating leases, disclosed in "Note 26 Operating lease commitments" in the "Financial information" section of this report.

Long-term debt obligations as of 31 December 2012 were CHF 182 billion and consisted of long-term debt issued (CHF 86 billion) and financial liabilities designated at fair value (CHF 96 billion) and represent both estimated future interest and principal payments on an undiscounted basis. Refer to the "Maturity analysis of financial liabilities" table in the "Risk, treasury and capital management" section of this report for more information. Approximately half of total long-term debt obligations had a variable rate of interest. Amounts due on interest rate swaps used to hedge interest rate risk inherent in fixed-rate debt issued, and designated in fair value hedge accounting relationships, are not included in the table below. The notional amount of these interest rate swaps was CHF 38 billion as of 31 December 2012. Financial liabilities designated at fair value (CHF 96 billion on an undiscounted cash flow basis) mostly consist of structured notes and are generally economically hedged but it would not be practicable to estimate the amount and/or timing of the payments on interest swaps used to hedge these instruments, as interest rate risk inherent in respective liabilities is generally risk managed on a portfolio level.

Within purchase obligations, the obligation to employees under mandatory notice periods is excluded (i.e. the period in which we must pay contractually-agreed salaries to employees leaving the firm).

Our obligations recognized on the balance sheet as Due to banks, Cash collateral on securities lent, Repurchase agreements, Trading portfolio liabilities, Negative replacement values, Cash collateral payables on derivative instruments, Due to customers, Provisions and Other liabilities are excluded from the table below. Refer to the respective Notes in the "Financial information" section of this report for more information on these liabilities.

Contractual obligations

	Payment due by period			
CHF million	< 1 year	1–3 years	3–5 years	> 5 years
Long-term debt obligations	48,430	45,420	36,712	51,376
Finance lease obligations	35	67	3	104
Operating lease obligations	808	1,408	1,085	2,409
Purchase obligations	1,139	1,182	337	287
Total	**50,412**	**48,077**	**38,137**	**54,176**

Cash flows

As a global financial institution, our cash flows are complex and bear little relation to our net earnings and net assets. Consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the liquidity, funding and capital management polices described within the "Risk, treasury and capital management" section of this report. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our businesses.

With regard to the cash flow activities described below, refer to the "Statement of cash flows" in the "Financial information" section of this report for more information.

In 2012, the estimation of the effects of foreign currency translation on the statement of cash flows was refined. In conjunction with this change in estimate, the presentation of amounts within Net cash flows from/(used in) operating activities has been enhanced by eliminating the estimated foreign currency effects from individual balance sheet movements presented under Net (increase)/decrease in operating assets and liabilities and reflecting these within Other net adjustments, for which comparatives have been restated.

2012

As of 31 December 2012, cash and cash equivalents totaled CHF 99.1 billion, an increase of CHF 13.5 billion from 31 December 2011.

Operating activities

For the year ended 31 December 2012, net cash flow generated from operating activities was CHF 67.1 billion, primarily reflecting deleveraging of our balance sheet, compared with net cash flow used in operating activities of CHF 14.2 billion in 2011. Net operating cash inflows (before changes in operating assets and liabilities and income taxes paid, net of refunds) totaled CHF 11.2 billion in 2012 compared with net operating cash outflows of CHF 3.0 billion in 2011.

In 2012, net cash inflows of CHF 56.1 billion were generated by the overall decrease in operating assets and liabilities. Gross cash inflows of CHF 131.6 billion primary resulted from the reduction of reverse repurchase agreements and cash collateral on securities borrowed assets of CHF 102.4 billion. A key component of the gross cash outflows of CHF 75.5 billion was the reduction of the repurchase agreements and cash collateral on securities lent liabilities of CHF 66.1 billion.

Investing activities

Net cash flow used in investing activities was CHF 14.8 billion compared with net cash flow generated of CHF 19.4 billion in 2011. The 2012 cash outflow primarily reflected the net investment in financial investments available-for-sale of CHF 13.9 billion. This includes gross cash inflows from sales and maturities of CHF 8,796 million and gross cash outflows from purchases of CHF 7,422 million related to the Wealth Management Americas available-for-sale portfolio. The remaining net cash outflow of CHF 15,320 million almost entirely related to our multi-currency portfolio of unencumbered, high-quality, short-term assets.

Financing activities

Net cash flow used in funding activities was CHF 38.0 billion in 2012, primarily reflecting net repayment of short-term debt issuances of CHF 38.0 billion. The net acquisition of treasury shares and own equity derivative activity of CHF 1.2 billion, dividends paid to UBS shareholders of CHF 0.4 billion and dividends paid on preferred securities reflected in non-controlling interests of CHF 0.3 billion also resulted in cash outflows, which were partly offset by the net issuance of long-term debt (issuances less redemptions) of CHF 1.8 billion. In 2011, financing activities generated net cash inflows of CHF 2.7 billion.

2011

As of 31 December 2011, cash and cash equivalents totaled CHF 85.6 billion, an increase of CHF 5.7 billion from 31 December 2010.

Operating activities

For the year ended 31 December 2011, net cash flows used in operating activities were CHF 14.2 billion compared with net cash flow generated from operating activities of CHF 13.4 billion in 2010. Net operating cash flow generated (before changes in operating assets and liabilities and income taxes paid, net of refunds) totaled CHF 3.0 billion in 2011, compared with net cash flow generated in 2010 of CHF 24.0 billion.

In 2011, net cash of CHF 16.9 billion was utilized by an overall increase in operating assets and liabilities. Gross cash generation of CHF 66.4 billion primarily resulted from an increase of repurchase agreements and cash collateral on securities lent liabilities of CHF 27.1 billion and from a decrease of net trading balances of CHF 17.2 billion. The gross cash consumption was mainly due to an increase of reverse repurchase agreements and cash collateral on securities borrowed assets of CHF 67.3 billion and an increase in net due from / to banks of CHF 14.6 billion.

Investing activities

Net cash flow generated from investing activities was CHF 19.4 billion compared with CHF 4.1 billion in 2010. The 2011 cash inflow primarily reflected the net divestment of financial investments available-for-sale of CHF 20.3 billion, which included CHF 14.2 billion from the sale of our strategic investment portfolio.

Financing activities

Net cash inflow from UBS's funding activities was CHF 2.7 billion, reflecting net cash inflow from net short-term debt issuances of CHF 15.3 billion, offset by cash outflows for the net redemption of long-term debt (repayments less issuances) of CHF 10.0 billion, net acquisition of treasury shares and own equity derivative activity of CHF 1.9 billion and redemptions and dividends paid on preferred securities reflected in non-controlling interests of CHF 0.7 billion. In 2010, financing activities generated net cash inflows of CHF 1.8 billion.

Wealth Management

Business division reporting[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Net interest income	**1,951**	1,968	1,737	(1)
Net fee and commission income	**4,275**	4,363	4,964	(2)
Net trading income	**778**	878	647	(11)
Other income	**37**	425	(3)	(91)
Income	**7,040**	7,634	7,345	(8)
Credit loss (expense) / recovery	**1**	11	11	(91)
Total operating income	**7,041**	7,645	7,356	(8)
Personnel expenses	**2,865**	3,300	3,228	(13)
General and administrative expenses	**1,360**	1,192	1,264	14
Services (to) / from other business divisions	**243**	318	449	(24)
Depreciation and impairment of property and equipment	**159**	165	163	(4)
Amortization and impairment of intangible assets	**7**	37	19	(81)
Total operating expenses[2]	**4,634**	5,012	5,123	(8)
Business division performance before tax	**2,407**	2,633	2,233	(9)
Key performance indicators[3]				
Pre-tax profit growth (%)	**(8.6)**	17.9	(1.3)	
Cost / income ratio (%)	**65.8**	65.7	69.7	
Net new money growth (%)[4]	**3.5**	3.1	(1.5)	
Gross margin on invested assets (bps)[5]	**89**	101	92	(12)
Additional information				
Average attributed equity (CHF billion)[6]	**4.0**	5.0	4.4	(20)
Return on attributed equity (RoaE) (%)	**60.9**	52.7	50.8	
BIS risk-weighted assets (CHF billion)[7]	**17.3**	16.6	16.9	4
Return on risk-weighted assets, gross (%)[8]	**41.4**	45.7	41.4	
Goodwill and intangible assets (CHF billion)	**1.4**	1.4	1.5	0
Net new money (CHF billion)[4]	**26.3**	23.5	(12.1)	
Invested assets (CHF billion)	**821**	750	768	9
Client assets (CHF billion)	**951**	875	920	9
Loans, gross (CHF billion)	**86.6**	75.1	67.1	15
Due to customers (CHF billion)	**180.2**	170.2	156.8	6
Personnel (full-time equivalents)	**16,210**	15,904	15,663	2
Client advisors (full-time equivalents)	**4,128**	4,202	4,172	(2)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 4 Net new money excludes interest and dividend income. 5 Excludes any effect on profit or loss from a property fund (2012: gain of CHF 4 million, 2011: loss of CHF 22 million, 2010: loss of CHF 45 million). 6 Refer to the "Capital management" section of this report for more information about the equity attribution framework. 7 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 8 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010.

Regional breakdown of key figures[1,2]

As of or for the year ended 31.12.12	Europe	Asia Pacific	Switzerland	Emerging Markets	*of which: ultra high net worth*	*of which: Global Family Office*[3]
Net new money (CHF billion)[4]	**(5.2)**	**18.4**	**4.2**	**8.9**	***19.9***	***(0.2)***
Net new money growth (%)[4]	**(1.6)**	**11.3**	**3.1**	**7.7**	***6.3***	***(0.6)***
Invested assets (CHF billion)	**344**	**196**	**145**	**127**	***362***	***43***
Gross margin on invested assets (bps)	**89**	**76**	**101**	**96**	***52***	***37***[5]
Client advisors (full-time equivalents)	**1,620**	**987**	**782**	**668**	***815***[6]	***N/A***

1 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 2 Based on the Wealth Management business area structure, and excluding minor functions with 71 client advisors, and CHF 9 billion of invested assets, and CHF 0.0 billion of net new money inflows, which are mainly attributable to the employee share and option plan service provided to corporate clients and their employees. 3 Joint venture between Wealth Management and the Investment Bank. Since June 2012, Global Family Office is reported as a sub-segment of ultra high net worth and is included in the ultra high net worth figures. 4 Net new money excludes interest and dividend income. 5 Gross margin includes income booked in the Investment Bank. Gross margin only based on income booked in Wealth Management is 19 basis points. 6 Dedicated ultra high net worth units: 597 client advisors. Non-dedicated ultra high net worth units: 218 client advisors.

Business performance

2012

Results

Pre-tax profit was CHF 2,407 million in 2012 compared with CHF 2,633 million in the previous year, which included a gain of CHF 433 million from the sale of our strategic investment portfolio in the third quarter of 2011. Operating expenses in 2012 included a credit to personnel expenses of CHF 358 million related to changes to our pension plans. Adjusted for these two items and restructuring costs, pre-tax profit decreased by CHF 207 million to CHF 2,075 million, partly reflecting the fact that the previous year benefited from CHF 103 million of accrued interest from the aforementioned strategic investment portfolio. Net new money was CHF 26.3 billion compared with CHF 23.5 billion in the prior year.

Operating income

Total operating income in 2012 was CHF 7,041 million compared with CHF 7,645 million in 2011. Adjusted for the gain on the sale of our strategic investment portfolio, total operating income declined by CHF 171 million, mainly because 2011 included CHF 103 million of interest income stemming from the abovementioned strategic investment portfolio.

➔ **Refer to the "Certain items affecting our results in 2011" sidebar in our Annual Report 2011 for more information on the sale of our strategic investment portfolio**

Net interest income decreased by CHF 17 million to CHF 1,951 million, mainly as the previous year included CHF 103 million of interest income stemming from the abovementioned strategic investment portfolio. Moreover, net interest income was negatively affected by increased costs of CHF 69 million related to assets managed centrally by Group Treasury and CHF 22 million lower allocations related to investment proceeds from the firm's equity. These factors were largely offset by CHF 180 million higher product-related interest income, reflecting the beneficial effects of increases in client deposit and lending volumes.

Net fee and commission income declined by CHF 88 million to CHF 4,275 million, mainly reflecting lower recurring fees on discretionary business, investment funds and non-asset based fees, primarily resulting from the business transformation in Europe. This was partly offset by 4% higher transaction-based fees due to increased client activity levels in Asia Pacific throughout the year.

Trading income decreased by CHF 100 million to CHF 778 million, primarily due to lower treasury-related income and lower client activity following the reduced volatility on the foreign exchange market.

Other income was CHF 37 million compared with CHF 425 million in 2011, mainly as the prior year included the abovementioned gain on the sale of our strategic investment portfolio.

Operating expenses

Total operating expenses were CHF 4,634 million, down CHF 378 million from the prior year. Restructuring charges were CHF 26 million in 2012, down from CHF 82 million in the previous year. Adjusted for these restructuring costs and the abovementioned credit related to changes to our pension plans, costs increased by CHF 36 million to CHF 4,966 million.

Personnel expenses decreased to CHF 2,865 million from CHF 3,300 million in the previous year. Excluding the abovementioned factors, personnel expenses decreased by CHF 38 million, primarily reflecting lower accruals for variable compensation as well as reduced personnel expenses related to technology and operations costs. This was partially offset by higher personnel expenses of

CHF 129 million due to the centralization of operations units from the business divisions in the Corporate Center on 1 July 2012. As Wealth Management previously obtained significant support from Retail & Corporate, the centralization and subsequent reallocation of operations units had the effect of reducing net charges from other business divisions and increasing personnel and non-personnel costs in 2012.

➔ Refer to the "Significant accounting and financial reporting structure changes" section of this report for more information on changes related to the centralization of operations units

General and administrative expenses were CHF 1,360 million compared with CHF 1,192 million in 2011. This included higher investments in marketing and branding and increased charges for provisions for litigation, regulatory and similar matters. Further, the aforementioned centralization of operations units in 2012 led to increased expenses of CHF 45 million in 2012.

Charges for services from other business divisions decreased to CHF 243 million from CHF 318 million, mainly due to the aforementioned lower allocations of CHF 175 million from the centralization of operations units, partially offset by higher allocations from other business transfers.

Depreciation was CHF 159 million compared with CHF 165 million in the prior year. Amortization of intangible assets was CHF 7 million, down from CHF 37 million in 2011, which included the impairment of intangible assets related to a past acquisition in the UK.

Cost/income ratio

The cost/income ratio in 2012 was 65.8%. On an adjusted basis excluding restructuring charges, the effect from the credit related to changes to our pension plans in 2012 and the gain from the sale of the strategic investment portfolio in 2011, the cost/income ratio increased 2.0 percentage points to 70.5% and was outside our target range of 60% to 70%.

Net new money growth

The net new money growth rate increased from 3.1% to 3.5% and was within our target range of 3% to 5%. The strongest net inflows were recorded in Asia Pacific and emerging markets as well as globally from ultra high net worth clients. Europe reported net outflows in the offshore business, mainly related to clients from countries neighboring Switzerland. This was partly offset by net inflows in the European onshore business. Swiss wealth management reported increased net inflows compared with the prior year.

Invested assets

Invested assets were CHF 821 billion on 31 December 2012, representing an increase of CHF 71 billion from 31 December 2011. Positive market performance as well as net new money inflows were partially offset by negative currency effects, mainly resulting from a slight strengthening of the Swiss franc against the US dollar and the euro.

Gross margin on invested assets

In 2012, the gross margin on invested assets decreased 12 basis points to 89 basis points. Adjusted for the aforementioned gain on the sale of the strategic investment portfolio in the previous year, the gross margin declined 7 basis points to 89 basis points and was outside our target range of 95 to 105 basis points. The gross margin calculation excludes any effect on profit or loss from a property fund.

Personnel

Wealth Management employed 16,210 personnel on 31 December 2012 compared with 15,904 on 31 December 2011. The abovementioned centralization and subsequent reallocation of personnel from operations units led to an increase of personnel. Excluding this effect, non-client-advisor staff and client advisors decreased mainly reflecting measures taken as a part of our cost reduction program announced in July 2011.

The number of client advisors decreased to 4,128 from 4,202 in the prior year due to reductions in more established markets, partly offset by further increases in the strategic growth areas of Asia Pacific and emerging markets.

2011

Results

Pre-tax profit was CHF 2,633 million in 2011 compared with CHF 2,233 million in 2010, and included a gain of CHF 433 million from the sale of our strategic investment portfolio and CHF 82 million of restructuring charges. When adjusted for these two items, pre-tax profit was CHF 2,282 million, slightly up from the previous year as adverse currency effects and reduced client activity were more than offset by ongoing cost management.

➔ **Refer to the "Certain items affecting our results in 2011" sidebar in our Annual Report 2011 for more information on our cost reduction program and the sale of our strategic investment portfolio**

Operating income

Total operating income was CHF 7,645 million compared with CHF 7,356 million. When adjusted for the gain on the sale of our strategic investment portfolio, total operating income declined 2% to CHF 7,212 million.

Net interest income increased 13% to CHF 1,968 million which included higher treasury-related income, partially due to interest income resulting from the strategic investment portfolio (which was acquired in late 2010) and an adjustment to the allocation of treasury-related income between Wealth Management and Retail & Corporate. Further, net interest income benefited from 10% higher average lending volumes. This was offset by margin pressure as a result of low market interest rates.

Net fee and commission income declined 12% to CHF 4,363 million. This was mainly due to lower asset-based fees, reflecting a CHF 44 billion lower average invested asset base, primarily as a result of the strengthening Swiss franc and negative equity market performance. Deterioration in client activity, primarily in the second half of the year, impacted fee income further.

Trading income increased 36% to CHF 878 million, due to higher income linked to foreign exchange and precious metal client trading activities as well as changes in the revenue-sharing agreement related to the Investment Products & Services unit and higher treasury-related revenues.

Other income was CHF 425 million in 2011 due to the above-mentioned gain on the sale of our strategic investment portfolio.

Operating expenses

Total operating expenses were CHF 5,012 million, down 2% from the prior year, or down 4% when adjusted for restructuring costs.

Personnel expenses were CHF 3,300 million, an increase of 2% compared with CHF 3,228 million in 2010. Excluding restructuring costs, personnel expenses were stable, primarily reflecting lower accruals for variable compensation and a 4% increase in average headcount.

General and administrative expenses were CHF 1,192 million compared with CHF 1,264 million, which included a charge of CHF 40 million for provisions for litigation, regulatory and similar matters and a CHF 40 million charge to reimburse the Swiss government for costs incurred in connection with the US cross-border matter.

Charges for services from other business divisions were down significantly to CHF 318 million from CHF 449 million, mainly due to higher charges to other businesses in relation to the Investment Products & Services unit.

Depreciation was CHF 165 million compared with CHF 163 million one year earlier. Amortization of intangible assets was CHF 37 million, up from CHF 19 million, mainly due to the impairment of intangible assets related to a past acquisition in the UK.

Cost/income ratio

The cost/income ratio in 2011 was 65.7%, down 4.0 percentage points versus the previous year. If adjusted for the gain of the sale of the strategic investment portfolio and restructuring charges, the cost/income ratio was 68.5%.

Net new money growth

Net new money growth rate for 2011 was 3.1% compared with negative 1.5% in the prior year. Total wealth management net new money improved significantly, with net inflows of CHF 23.5

billion compared with net outflows of CHF 12.1 billion in 2010. The strongest net inflows were recorded in Asia Pacific and emerging markets as well as globally from ultra high net worth clients. Europe reported net outflows, mainly related to the offshore business with countries neighboring Switzerland partly offset by net inflows from the European onshore business. Swiss wealth management reported increased net inflows in 2011 compared with the prior year.

Invested assets

Invested assets were CHF 750 billion on 31 December 2011, a decrease of CHF 18 billion from 31 December 2010. Negative equity market performance as well as adverse currency effects, mainly resulting from a 3% decline in the value of the euro against the Swiss franc, more than offset net new money inflows and positive bond market performance.

Gross margin on invested assets

The gross margin on invested assets was 101 basis points. When adjusted for the abovementioned gain on the sale of our strategic investment portfolio, the gross margin was 96 basis points, an improvement of 4 basis points from the prior year. The gross margin calculation excludes any effect on profit or loss from a property fund.

Personnel

Wealth Management employed 15,904 personnel on 31 December 2011 compared with 15,663 on 31 December 2010, reflecting an increase of 30 client advisors and 211 non-client-advisors.

The number of client advisors increased to 4,202 from 4,172 in the prior year as client-facing staff increased in the strategic growth areas of Asia Pacific and emerging markets, partly offset by reductions in more established markets. The increase in non-client-advisors reflects the transfer of approximately 400 personnel from the Investment Bank and Retail & Corporate to Wealth Management, as part of forming the Investment Products & Services unit in 2011. This was partly offset by a lower allocation of Corporate Center shared services personnel.

Wealth Management Americas

Business division reporting – in US dollars[1]

	As of or for the year ended			% change from
USD million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Net interest income	**849**	828	671	3
Net fee and commission income	**4,925**	4,559	4,093	8
Net trading income	**507**	509	549	0
Other income	**266**	121	55	120
Income	**6,547**	6,017	5,368	9
Credit loss (expense) / recovery	**(15)**	(6)	(1)	150
Total operating income	**6,532**	6,011	5,367	9
Personnel expenses	**4,556**	4,348	4,062	5
Financial advisor compensation[2]	**2,399**	2,249	1,996	7
Compensation commitments and advances related to recruited financial advisors[3]	**679**	609	577	11
Salaries and other personnel costs	**1,477**	1,490	1,489	(1)
General and administrative expenses	**958**	887	1,189	8
Services (to) / from other business divisions	**(16)**	(11)	(5)	45
Depreciation and impairment of property and equipment	**107**	112	189	(4)
Amortization and impairment of intangible assets	**55**	54	53	2
Total operating expenses[4]	**5,659**	5,389	5,489	5
Business division performance before tax	**873**	622	(122)	40
Key performance indicators[5]				
Pre-tax profit growth (%)[6]	**40.4**	N/A	N/A	
Cost / income ratio (%)	**86.4**	89.6	102.3	
Share of recurring revenues (%)	**65.3**	65.2	62.9	
Net new money growth (%)[7]	**2.9**	1.9	(0.8)	
Gross margin on invested assets (bps)	**81**	80	79	1
Additional information				
Recurring income	**4,265**	3,921	3,377	9
Average attributed equity (USD billion)[8]	**6.6**	9.1	7.7	(27)
Return on attributed equity (RoaE) (%)	**13.2**	6.8	(1.6)	
BIS risk-weighted assets (USD billion)[9]	**24.9**	27.8	25.5	(10)
Return on risk-weighted assets, gross (%)[10]	**25.4**	22.8	23.4	
Goodwill and intangible assets (USD billion)	**3.9**	3.9	4.0	0
Net new money (USD billion)[7]	**22.1**	14.1	(5.4)	
Net new money including interest and dividend income (USD billion)[11]	**44.8**	34.7	13.2	
Invested assets (USD billion)	**843**	756	738	12
Client assets (USD billion)	**885**	795	790	11
Loans, gross (USD billion)	**34.1**	29.7	24.1	15
Due to customers (USD billion)	**56.6**	41.4	38.3	37
of which: deposit accounts (USD billion)	***43.6***	*30.4*	*27.9*	*43*
Personnel (full-time equivalents)	**16,094**	16,207	16,330	(1)
Financial advisors (full-time equivalents)	**7,059**	6,967	6,796	1
Business division reporting excluding PaineWebber acquisition costs[12]				
Business division performance before tax	**982**	718	(17)	37
Cost / income ratio (%)	**84.9**	88.1	100.3	
Average attributed equity (USD billion)[8]	**3.4**	5.8	4.5	(41)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. 3 Compensation commitments and advances related to recruited financial advisors represents costs related to compensation commitments and advances granted to financial advisors at the time of recruitment which are subject to vesting requirements. 4 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information. 5 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 6 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 7 Net new money excludes interest and dividend income. 8 Refer to the "Capital management" section of this report for more information about the equity attribution framework. 9 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 10 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010. 11 Presented in line with the historical US methodology. 12 Acquisition costs represent goodwill and intangible assets funding costs and intangible asset amortization costs primarily related to UBS's 2000 acquisition of the PaineWebber retail brokerage business.

Business division reporting – in Swiss francs[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Net interest income	**792**	729	695	9
Net fee and commission income	**4,597**	4,018	4,244	14
Net trading income	**473**	450	570	5
Other income	**249**	103	56	142
Income	**6,110**	5,300	5,565	15
Credit loss (expense)/recovery	**(14)**	(6)	(1)	133
Total operating income	**6,097**	5,295	5,564	15
Personnel expenses	**4,252**	3,830	4,216	11
Financial advisor compensation[2]	**2,239**	1,982	2,068	13
Compensation commitments and advances related to recruited financial advisors[3]	**634**	536	599	18
Salaries and other personnel costs	**1,379**	1,313	1,548	5
General and administrative expenses	**893**	783	1,223	14
Services (to)/from other business divisions	**(15)**	(9)	(6)	67
Depreciation and impairment of property and equipment	**100**	99	198	1
Amortization and impairment of intangible assets	**51**	48	55	6
Total operating expenses[4]	**5,281**	4,750	5,685	11
Business division performance before tax	**816**	544	(121)	50
Key performance indicators[5]				
Pre-tax profit growth (%)[6]	**50.0**	N/A	N/A	
Cost/income ratio (%)	**86.4**	89.6	102.2	
Share of recurring revenues (%)	**65.3**	65.2	62.9	
Net new money growth (%)[7]	**2.9**	1.8	(0.9)	
Gross margin on invested assets (bps)	**81**	79	80	3
Additional information				
Recurring income	**3,980**	3,454	3,502	15
Average attributed equity (CHF billion)[8]	**6.2**	8.0	8.0	(23)
Return on attributed equity (RoaE) (%)	**13.3**	6.8	(1.5)	
BIS risk-weighted assets (CHF billion)[9]	**22.8**	26.1	23.8	(13)
Return on risk-weighted assets, gross (%)[10]	**25.6**	22.3	23.8	
Goodwill and intangible assets (CHF billion)	**3.5**	3.7	3.7	(5)
Net new money (CHF billion)[7]	**20.6**	12.1	(6.1)	
Net new money including interest and dividend income (CHF billion)[11]	**41.7**	30.4	13.0	
Invested assets (CHF billion)	**772**	709	689	9
Client assets (CHF billion)	**810**	746	738	9
Loans, gross (CHF billion)	**31.2**	27.9	22.5	12
Due to customers (CHF billion)	**51.8**	38.9	35.8	33
of which: deposit accounts (CHF billion)	***39.9***	*28.5*	*26.0*	*40*
Personnel (full-time equivalents)	**16,094**	16,207	16,330	(1)
Financial advisors (full-time equivalents)	**7,059**	6,967	6,796	1
Business division reporting excluding PaineWebber acquisition costs[12]				
Business division performance before tax	**918**	629	(12)	46
Cost/income ratio (%)	**84.9**	88.1	100.2	
Average attributed equity (CHF billion)[8]	**3.2**	5.1	4.6	(37)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. 3 Compensation commitments and advances related to recruited financial advisors represents costs related to compensation commitments and advances granted to financial advisors at the time of recruitment which are subject to vesting requirements. 4 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 5 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 6 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 7 Net new money excludes interest and dividend income. 8 Refer to the "Capital management" section of this report for more information about the equity attribution framework. 9 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 10 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010. 11 Presented in line with the historical US methodology. 12 Acquisition costs represent goodwill and intangible assets funding costs and intangible asset amortization costs primarily related to UBS's 2000 acquisition of the PaineWebber retail brokerage business.

Business performance

2012

Results

Wealth Management Americas reported a record pre-tax profit of USD 873 million in 2012 compared with USD 622 million in 2011. This improved performance resulted from a 9% increase in revenue due to increases in fees and commissions as well as realized gains on financial investments in our available-for-sale portfolio. Operating expenses increased 5% due to higher financial advisor related compensation and higher charges for provisions for litigation, regulatory and similar matters, partially offset by lower restructuring charges. In addition, 2012 included a pre-tax gain of USD 53 million net of compensation charges related to a change in accounting estimates for certain mutual fund and annuity fee income, compared with USD 32 million related to a change in accounting estimates for certain mutual fund fees in 2011. Net new money inflows of USD 22.1 billion were the highest full year total since 2007.

Operating income

Total operating income increased 9% to USD 6,532 million from USD 6,011 million in 2011.

Net fee and commission income increased by USD 366 million to USD 4,925 million. Recurring fees increased 10% due to higher fees on managed accounts corresponding to higher invested asset levels. In addition, recurring fees included USD 59 million related to a change to accrual-based accounting estimates from a cash basis for certain mutual fund and annuity fee income, compared with USD 48 million related to the prior year. Transaction-based revenues increased 3%, primarily due to higher income from taxable fixed income products.

Interest income increased by USD 21 million to USD 849 million primarily due to higher client balances in securities-based lending and mortgages. Average securities-backed lending balances increased 12% and average mortgage balances nearly doubled from 2011. In addition, 2012 included lower income from mortgage-backed securities in the available-for-sale portfolio due to yield adjustments arising from updated cash flow estimates compared with an upward adjustment reclassifying USD 22 million from other comprehensive income in 2011.

Trading income decreased USD 2 million to USD 507 million due to lower municipal securities trading mostly offset by higher income derived from taxable fixed income, unit investment trusts and emerging market products.

Other income increased by USD 145 million to USD 266 million as realized gains on sales of financial investments held in the available-for-sale portfolio increased to USD 234 million from USD 96 million in the prior year. These gains resulted from the rebalancing of the investment portfolio risk profile as guided by the portfolio's investment policy. This rebalancing, which addresses faster prepayment speeds on agency mortgage-backed securities arising from a lower yield curve, may reduce the level of interest income on the portfolio going forward. Because this rebalancing is primarily driven by the interest rate environment, future gains from portfolio sales are not predictable.

Recurring income, the combination of recurring fees and net interest income, increased by USD 344 million to USD 4,265 million due to higher managed account and annuity fees as well as higher interest income. Recurring income for 2012 comprised 65% of operating income, broadly unchanged from 2011. Non-recurring income increased by USD 186 million to USD 2,282 million, primarily due to higher realized gains on the sale of financial investments in the available-for-sale portfolio and higher transaction-based activity.

Operating expenses

Operating expenses increased by USD 270 million to USD 5,659 million from USD 5,389 million due to higher financial advisor compensation corresponding to higher revenues. In 2012, Wealth Management Americas recognized restructuring provision releases of USD 1 million, while 2011 included restructuring charges of USD 10 million.

Personnel expenses were USD 4,556 million, up USD 208 million from USD 4,348 million due to a 7% increase in financial advisor compensation corresponding to higher revenue production, and an 11% increase in expenses for compensation commitments and advances related to recruited financial advisors. Salaries and other personnel costs declined 1%. Compensation advance balances were USD 3,830 million as of 31 December 2012, up USD 10 million from 31 December 2011.

Non-personnel expenses increased USD 62 million to USD 1,103 million from USD 1,042 million. General and administrative costs increased 8% to USD 958 million from USD 887 million in 2011 due to higher Corporate Center shared services expense and higher charges for provisions for litigation, regulatory and similar matters. This increase was partly offset by lower professional legal fees. Depreciation expenses declined USD 5 million to USD 107 million compared with USD 112 million in 2011.

Cost/income ratio

The cost/income ratio improved to 86.4% from 89.6% in 2011. On an adjusted basis excluding restructuring provision releases in 2012 and charges in 2011, the cost/income ratio was 86.5% compared with 89.4% in 2011 and remained within the target range of 80% to 90%.

Net new money growth

Net new money growth rate for 2012 improved to 2.9% from 1.9% in 2011, moving within the target range of 2% to 4%. Net new money inflows improved to USD 22.1 billion compared with USD 14.1 billion in 2011 due to stronger inflows from net recruiting of financial advisors as well as financial advisors employed with UBS for more than one year. Including interest and dividend income, Wealth Management Americas had net new money inflows of USD 44.8 billion in 2012 compared with USD 34.7 billion in 2011.

Invested assets

Wealth Management Americas had USD 843 billion in invested assets on 31 December 2012, up 12% from USD 756 billion on 31 December 2011, reflecting positive market performance and strong net new money inflows. As of 31 December 2012, managed account assets had increased by USD 40 billion to USD 248 billion, and comprised 29% of invested assets compared with 28% on 31 December 2011.

Gross margin on invested assets

The gross margin on invested assets was 81 basis points in 2012, up one basis point from 80 basis points in 2011 and remained within our target range of 75 to 85 basis points. This reflected a 9% increase in income compared with an 8% increase in average invested assets. The gross margin from recurring income increased by 1 basis point driven by higher managed account fees and higher annuities fees, while the gross margin from non-recurring income remained unchanged from 2011.

Personnel

As of 31 December 2012, Wealth Management Americas employed 16,094 personnel, including 7,059 financial advisors, down 113 from 31 December 2011. Financial advisor headcount increased by 92 from the prior year, mainly reflecting the hiring of experienced financial advisors and continued low financial advisor attrition. The number of non-financial advisor employees decreased by 205 to 9,035, reflecting staff reductions related to our cost reduction program.

2011

Results

Wealth Management Americas reported a pre-tax profit of USD 622 million in 2011 compared with a pre-tax loss of USD 122 million in 2010. This improved performance resulted from a 12% increase in revenue due to increases in fees and commissions, interest income and realized gains on investments in our available-for-sale portfolio. Operating expenses declined 2% as a result of significantly lower charges for provisions for litigation, regulatory and similar matters and lower restructuring charges. In 2011, Wealth Management Americas incurred restructuring charges of USD 10 million, while 2010 included restructuring charges of USD 150 million. In addition, 2011 included a pre-tax gain of USD 32 million, net of compensation charges, related to a change to accrual-based accounting estimates from a cash basis for certain mutual fund income.

Operating income

Total operating income increased by USD 644 million to USD 6,011 million from USD 5,367 million in 2010.

Net fee and commission income increased 11% or USD 466 million to USD 4,559 million. Recurring fees increased 14% due to higher fees on managed accounts and mutual funds corresponding to higher invested asset levels. In addition, recurring fees included USD 48 million related to the abovementioned change to accrual-based accounting estimates from a cash basis for certain mutual fund income. Transaction-based revenues increased 6% primarily due to higher income from alternative investments and equities products.

Interest income increased by USD 157 million to USD 828 million due to higher client balances in securities-based lending and mortgages, as well as from higher yields on lending products. In addition, 2011 included an upward adjustment reclassifying USD 22 million from other comprehensive income relating to mortgage-backed securities in our available-for-sale portfolio to properly reflect estimated future cash flows under the effective interest method. This adjustment was not material to prior periods.

Trading income declined 7% or USD 40 million due to lower taxable fixed income and municipal trading income, partly offset by higher trading income from structured notes.

Other income increased by USD 66 million to USD 121 million due to a USD 91 million increase in realized gains on sales of financial investments held in the available-for-sale portfolio, as realized gains were USD 96 million in 2011 compared with USD 4 million in the prior year. These gains resulted from rebalancing of the investment portfolio risk profile as guided by the portfolio's investment policy. In addition, other income in 2010 included a USD 6 million demutualization gain from Wealth Management Americas' stake in the Chicago Board of Options Exchange.

Operating expenses

Operating expenses decreased by USD 100 million to USD 5,389 million from USD 5,489 million, due to lower non-personnel expenses. In 2011, operating expenses included USD 10 million in restructuring charges compared with USD 150 million in restructuring charges in 2010.

Personnel expenses were USD 4,348 million, up USD 286 million from USD 4,062 million due to a 13% increase in financial advisor compensation corresponding to higher revenue production, and a 6% increase in expenses for compensation commitments and advances related to recruited financial advisors. In addition, personnel expenses included USD 5 million in restructuring charges compared with USD 32 million in 2010. Salaries and other personnel costs were broadly flat. Compensation advance balances were USD 3,820 million as of 31 December 2011, up 15% from 31 December 2010. This increase included scheduled payments in early 2011 related to the second tranche of the GrowthPlus program.

Non-personnel expenses decreased by USD 384 million to USD 1,042 million from USD 1,426 million. Non-personnel-related restructuring charges were USD 5 million compared with USD 118 million in 2010. General and administrative costs declined 25% due to lower charges for provisions for litigation, regulatory and similar matters, which decreased to USD 78 million from USD 322 million, as well as lower restructuring charges related to real estate writedowns. This decline was partly offset by higher professional legal and consulting fees. Depreciation expenses declined 41% to USD 112 million from USD 189 million in 2010 due to lower restructuring charges related to the impairment of real estate assets and lower allocations from shared services areas in the Corporate Center.

Cost/income ratio

The cost/income ratio improved to 89.6% from 102.3% in 2010, primarily due to lower restructuring charges and charges for provisions for litigation, regulatory and similar matters.

Net new money growth

Net new money growth rate for 2011 improved to positive 1.9% from negative 0.8% in 2010. Net new money inflows were USD 14.1 billion compared with outflows of USD 5.4 billion in 2010. This turnaround was due to improved inflows from net recruiting of financial advisors, which was primarily due to lower outflows from financial advisors attrition. Net new money from financial advisors employed with UBS for more than one year remained positive, but declined from 2010. Including interest and dividend income, Wealth Management Americas had net new money inflows of USD 34.7 billion in 2011 compared with USD 13.2 billion in 2010.

Invested assets

Wealth Management Americas had USD 756 billion in invested assets on 31 December 2011, up 2% from USD 738 billion on 31

December 2010 due to net new money inflows and slightly positive total market performance. As of 31 December 2011, managed account assets were USD 208 billion, a 7% increase from one year earlier at USD 195 billion and comprised 28% of invested assets compared with 26% on 31 December 2010.

Gross margin on invested assets

The gross margin on invested assets increased by 1 basis point to 80 basis points in 2011, reflecting a 12% increase in income compared with a 10% increase in average invested assets. The gross margin from recurring income increased by 2 basis points due to higher managed account fees and mutual fund fees, while the gross margin from non-recurring income decreased 1 basis point from 2010.

Personnel

As of 31 December 2011, Wealth Management Americas employed 16,207 personnel, including 6,967 financial advisors, down 123 from 31 December 2010. Financial advisor headcount increased by 171 from the prior year, mainly reflecting the hiring of experienced financial advisors. The number of non-financial advisor employees decreased by 294 to 9,240, primarily due to reduction in the shared services personnel.

Investment Bank

Business division reporting[1]

	As of or for the year ended				% change from
			Excluding unauthorized trading incident		
CHF million, except where indicated	31.12.12	31.12.11	31.12.11[2]	31.12.10	31.12.11
Investment banking	**1,593**	1,371		2,414	16
Advisory revenues	**638**	964		846	(34)
Capital market revenues	**1,727**	1,329		1,994	30
Equities	**777**	574		1,020	35
Fixed income, currencies and commodities	**951**	755		974	26
Other fee income and risk management	**(773)**	(921)		(426)	(16)
Securities (excluding unauthorized trading incident)	**6,971**	8,459		9,534	(18)
Equities	**2,614**	3,698		4,469	(29)
Fixed income, currencies and commodities	**4,357**	4,761		5,064	(8)
Total income (excluding unauthorized trading incident)	**8,564**	9,830		11,947	(13)
Credit loss (expense) / recovery	**34**	(13)		155	
Total operating income (excluding unauthorized trading incident)	**8,598**	9,817	9,817	12,102	(12)
Unauthorized trading incident		(1,849)			
Total operating income as reported	**8,598**	7,968		12,102	8
Personnel expenses	**5,141**	5,716		6,605	(10)
General and administrative expenses	**2,730**	2,490		2,486	10
Services (to) / from other business divisions	**132**	108		(27)	22
Depreciation and impairment of property and equipment	**257**	251		273	2
Impairment of goodwill	**3,030**	0		0	
Amortization and impairment of intangible assets	**41**	34		34	21
Total operating expenses[3]	**11,331**	8,599	8,599	9,371	32
Business division performance before tax	**(2,734)**	(631)	1,218	2,731	333
Key performance indicators[4]					
Pre-tax profit growth (%)[5]	**N/A**	N/A		44.2	
Cost / income ratio (%)	**132.3**	107.7	87.5	78.4	
Return on attributed equity (RoaE) (%)	**(11.5)**	(2.4)	4.6	13.7	
Return on assets, gross (%)	**1.1**	1.0	1.2	1.4	
Average VaR (1-day, 95% confidence, 5 years of historical data)	**30**	75	N/A	56	

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Excludes the impact from the unauthorized trading incident of CHF 1,849 million in the income statement on an absolute basis and its impact on risk-weighted assets. 3 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 5 Not meaningful and not included if either the reporting period or the comparison period is a loss period.

Business division reporting (continued)[1]

	As of or for the year ended				% change from
			Excluding unauthorized trading incident		
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.11[2]	31.12.10	31.12.11
Additional information					
Total assets (CHF billion)[3]	**672.3**	896.2		797.5	(25)
Average attributed equity (CHF billion)[4]	**23.7**	26.4		19.9	(10)
BIS risk-weighted assets (CHF billion)[5]	**88.6**	128.1	118.0	89.9	(31)
Return on risk-weighted assets, gross (%)[6]	**7.9**	8.0	10.3	13.3	
Goodwill and intangible assets (CHF billion)	**0.1**	3.2		3.2	(97)
Compensation ratio (%)	**60.0**	71.6		55.3	
Impaired loan portfolio as a % of total loan portfolio, gross (%)[7]	**3.3**	4.2		7.0	
Personnel (full-time equivalents)	**15,866**	17,007		16,488	(7)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Excludes the impact from the unauthorized trading incident of CHF 1,849 million in the income statement on an absolute basis and its impact on risk-weighted assets. 3 Based on third-party view, i.e. without intercompany balances. Refer to "Note 2a Segment Reporting" in the "Financial Information" section of this report for more information. 4 Refer to the "Capital management" section of this report for more information about the equity attribution framework. 5 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 6 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010. 7 Refer to the "Risk management and control" section of this report for more information on impairment ratios.

Business performance

2012

Results

The Investment Bank recorded a pre-tax loss of CHF 2,734 million in 2012 compared with a pre-tax loss of CHF 631 million in 2011, mainly reflecting impairment losses of CHF 3,064 million on goodwill and other non-financial assets in 2012. 2011 was adversely affected by the loss relating to the unauthorized trading incident of CHF 1,849 million. Excluding impairment losses, restructuring charges of CHF 331 million in 2012 and of CHF 216 million in 2011, a credit of CHF 98 million related to changes to a retiree benefit plan in the US and a credit of CHF 56 million related to changes to our Swiss pension plan, both in 2012, we recorded an adjusted pre-tax profit of CHF 507 million compared with an adjusted pre-tax loss of CHF 415 million. Pro-forma Basel III risk-weighted assets were reduced by CHF 81 billion to CHF 131 billion.

Operating income

Total operating income was CHF 8,598 million compared with CHF 7,968 million in the prior year, an increase of 8%. In US dollar terms, revenues increased 3%. Excluding the loss of CHF 1,849 million relating to the unauthorized trading incident, total operating income decreased 12% to CHF 8,598 million from CHF 9,817 million. This decline was mainly due to lower revenues in our equities business which was affected by lower client activity and reduced volatility levels, as well as the loss of CHF 349 million in 2012 related to the Facebook initial public offering. Revenues in the fixed income, currencies and commodities (FICC) business declined due to negative debit valuation adjustments on our derivatives portfolio, partly offset by an increase in credit revenues. Investment banking revenues improved due to higher capital market revenues and lower risk management premiums. In 2012 we recorded net credit loss recoveries of CHF 34 million, due to recoveries on corporate loans and other claims, compared with net credit loss expenses, mainly on corporate loans, of CHF 13 million in 2011.

➔ Refer to the "Risk management and control" section of this report for more information on credit risk

Operating expenses

Total operating expenses increased to CHF 11,331 million compared with CHF 8,599 million, an increase of 32%, largely due to impairment losses of CHF 3,064 million on goodwill and other non-financial assets in 2012. In US dollar terms, operating expenses increased 24%. Excluding impairment losses, restructuring charges, a credit related to changes to a retiree benefit plan in the US and a credit related to changes to our Swiss pension plan, operating expenses declined 3% to CHF 8,090 million from CHF 8,383 million. On an adjusted basis, in US dollar terms, operating expenses decreased 9%.

Personnel expenses decreased to CHF 5,141 million from CHF 5,716 million. On an adjusted basis, excluding restructuring charges of CHF 312 million compared to CHF 143 million in the prior year, a credit related to changes to a retiree benefit plan in the US and a credit related to changes to our Swiss pension plan, personnel expenses declined to CHF 4,983 million from CHF 5,573 million, mainly due to reduced variable compensation accruals and savings associated with our cost reduction programs.

General and administrative expenses increased to CHF 2,730 million from CHF 2,490 million due to higher charges for provisions for litigation, regulatory and similar matters and professional fees, partly offset by savings associated with our cost reduction programs and lower restructuring charges. In 2012, we reported a charge of CHF 120 million for the annual UK bank levy compared with a charge of CHF 106 million in 2011.

Depreciation increased 2% from CHF 251 million to CHF 257 million.

An impairment of goodwill of CHF 3,030 million was recognized in 2012.

➔ Refer to "Note 17 Goodwill and intangible assets" in the "Financial information" section of this report for more information

Cost/income ratio

The cost/income ratio deteriorated to 132.3% from 107.7%. On an adjusted basis, excluding the abovementioned impairment losses, restructuring charges, a credit related to changes to a retiree benefit plan in the US and a credit related to changes to our Swiss pension plan, the cost/income ratio improved to 94.5% from 105.0%, against the target range of 70% to 80%.

BIS risk-weighted assets

Risk-weighted assets (RWA) measured on a Basel 2.5 basis decreased by CHF 39 billion to CHF 89 billion at the end of 2012. Credit risk RWA decreased by CHF 26 billion mainly as a result of reduced exposures on over-the-counter derivatives and additional hedging. Market risk RWA were reduced by CHF 12 billion as a result of de-risking activities. Our pro-forma Basel III RWA measured on a fully applied basis decreased by CHF 81 billion to CHF 131 billion mainly as credit risk RWA reduced by CHF 54 billion and market risk RWA declined by CHF 13 billion, as well as due to a transfer from the Investment Bank to the Legacy Portfolio of CHF 11 billion of risk-weighted assets for the Basel III CVA charge attributable to the Legacy Portfolio.

➔ Refer to the "Capital management" section of this report for more information

Operating income by business area

Investment banking

Investment banking revenues improved 16% to CHF 1,593 million from CHF 1,371 million due to an increase in global capital markets activity and lower risk management premiums. In US dollar terms, revenues improved 11%.

Advisory revenues decreased 34% to CHF 638 million from CHF 964 million as our market share declined against a 7% reduction in the fee pool in US dollar terms.

Capital market revenues were CHF 1,727 million compared with CHF 1,329 million, an increase of 30%. Equities capital market revenues increased 35% to CHF 777 million compared with CHF 574 million in 2011 as our market share improved against a 15% decline in the fee pool in US dollar terms. In addition, we increased our participation in private and structured transactions. Fixed income capital market revenues increased to CHF 951 million from CHF 755 million, an increase of 26%, as our market share improved in both debt and leveraged capital markets, while the global fee pool increased 6% in US dollar terms.

Other fee income and risk management revenues were negative CHF 773 million compared with negative CHF 921 million, primarily due to a decrease in risk management premiums.

Securities

Securities revenues decreased 18% to CHF 6,971 million from CHF 8,459 million. In US dollar terms, revenues decreased 21%.

Equities

Equities revenues declined 29% to CHF 2,614 million compared with CHF 3,698 million. This decline was primarily due to lower revenues in cash and derivatives. The year 2012 was characterized by lower client activity and reduced volatility levels, with increases in major equity indices. In US dollar terms, equities revenues decreased 33%.

Cash revenues were CHF 820 million compared with CHF 1,480 million due to lower commission revenues resulting from lower market activity as well as a CHF 349 million loss related to the Facebook initial public offering.

Derivatives and equity-linked revenues were CHF 780 million compared with CHF 1,035 million. During the year client activity was lower across all regions, and trading revenues particularly in Europe and Asia Pacific were affected by lower volatility levels.

In the prime services business, revenues increased to CHF 1,050 million from CHF 1,009 million, as an improvement in funding revenues more than offset a reduction in revenues in the clearing business due to lower client activity.

Other equities revenues were negative CHF 36 million compared with CHF 175 million, primarily reflecting a reduced contribution from proprietary trading as we continued to exit the business.

Fixed income, currencies and commodities

FICC revenues decreased 8% to CHF 4,357 million from CHF 4,761 million largely due to higher negative debit valuation adjustments on our derivatives portfolio. In addition, revenues declined in the businesses that we were preparing to transfer to the Corporate Center and ultimately exit following the announcement of the accelerated implementation of our strategy in October 2012. In US dollar terms, revenues declined 12%. Combined revenues from credit, macro and emerging markets rose 5% to CHF 5,132 million from CHF 4,888 million.

Credit revenues increased to CHF 2,054 million from CHF 1,613 million as revenues in 2011 were negatively affected by mark-to-market trading losses mainly in the second half of the year as trading conditions were challenging due to uncertainty surrounding the eurozone and the global economic outlook. Revenues in loan trading, flow trading, real estate finance and structured credit improved in 2012.

In macro, revenues decreased to CHF 2,673 million from CHF 2,886 million. Foreign exchange revenues declined as volatility decreased from the high levels seen in 2011 resulting from the eurozone uncertainty. Rates revenues were broadly unchanged, with improved performances in non-linear and long-end interest rates, partially offset by lower short-end interest rates revenues.

Emerging markets revenues rose to CHF 405 million from CHF 389 million. Revenues improved across all regions, mainly as a result of higher credit revenues. The second half of 2011 was significantly impacted by the eurozone crisis, which resulted in reduced client activity, primarily in credit.

Other FICC revenues including funding and hedging costs were negative CHF 776 million compared with negative CHF 129 million. Revenues in 2012 included negative debit valuation adjustments on our derivatives portfolio of CHF 383 million as credit default swap spreads tightened compared with positive debit valuation adjustments of CHF 244 million in 2011 as spreads widened.

Personnel

The Investment Bank employed 15,866 personnel on 31 December 2012, a decrease of 1,141 from 17,007 on 31 December 2011.

On 1 July 2012 operations units from the business divisions were centralized in the Corporate Center. This centralization and subsequent reallocation of operations units led to an increase in personnel of 250.

Excluding the abovementioned effect from the centralization of operations units, personnel decreased by 1,391 due to the accelerated implementation of our strategy announced in October 2012 and as we continued to adapt our cost base to the challenging business environment. This decline was partially offset by the annual graduate intake.

➔ **Refer to the "Significant accounting and financial reporting structure changes" section of this report for more information on changes related to the centralization of operations units**

2011

Results

A pre-tax loss of CHF 631 million was recorded in 2011 compared with a pre-tax profit of CHF 2,731 million in 2010. Excluding restructuring charges of CHF 216 million in 2011 and restructuring provision releases of CHF 25 million in 2010, we recorded an adjusted pre-tax loss of CHF 415 million in 2011 compared with an adjusted pre-tax profit of CHF 2,706 million in 2010. This was due to the loss relating to the unauthorized trading incident of CHF 1,849 million reported in 2011, lower revenues across all business areas and the strengthening of the Swiss franc.

Operating income

Total operating income was CHF 7,968 million compared with CHF 12,102 million in the prior year, a decrease of 34%, or 22% in US dollar terms. During the year, we incurred a loss from the unauthorized trading incident of CHF 1,849 million in the equities business area. After a strong start to the year, increasing instability in the eurozone and the US government debt rating downgrade contributed to lack of liquidity, impacting the credit business, while the macro businesses benefited from increased volatility. In addition, subdued volumes and lower client activity affected the equities business. Net credit loss expenses in 2011 were CHF 13 million, mainly related to corporate loans. In 2010, net credit loss recoveries were CHF 155 million, mainly related to certain legacy leveraged finance and asset backed loan positions.

Operating expenses

Total operating expenses decreased 8% to CHF 8,599 million from CHF 9,371 million, mostly due to the strengthening of the Swiss franc. In US dollar terms, operating expenses increased 8%. Excluding restructuring costs of CHF 216 million in 2011 and a release of CHF 25 million in 2010 associated with our cost reduction program, operating expenses decreased 11%.

Personnel expenses decreased 13% to CHF 5,716 million from CHF 6,605 million due to lower variable compensation accruals and the favorable effect of the strengthening Swiss franc. Further, 2010 included a UK bank payroll tax charge of CHF 190 million.

General and administrative expenses increased to CHF 2,490 million from CHF 2,486 million mainly due to a charge for 2011 for the UK bank levy of CHF 106 million and higher professional fees, partially offset by the strengthening Swiss franc and UK value added tax releases.

Net charges from other business divisions were CHF 108 million compared with negative CHF 27 million due to the transfer of approximately 280 personnel to Wealth Management as part of forming the Investment Products & Services unit in early 2011.

Depreciation decreased 8% to CHF 251 million from CHF 273 million, largely due to lower charges for IT hardware.

Amortization of intangible assets was in line with 2010 at CHF 34 million.

Operating income by business area

In 2011, we implemented two structural changes in our business division: allocating risk management premiums from equities and FICC to investment banking; and transferring the commodities business, formerly booked in equities, to FICC. The changes were not material and therefore did not necessitate restatement at a divisional level. However, we have made reference to these changes where relevant to aid explanation of the business area results.

Investment banking

Investment banking revenues decreased 43% to CHF 1,371 million in 2011 from CHF 2,414 million in the previous year. This was mainly due to a reduction in global capital markets activity and the revised allocation of the risk management premiums, which were higher compared with 2010, as well as the effects of the strengthening of the Swiss franc. In US dollar terms, revenues declined 34%.

Advisory revenues increased 14% to CHF 964 million from CHF 846 million, as a result of a more robust market in the first half of 2011. Our market share increased slightly compared with 2010.

Capital market revenues were CHF 1,329 million compared with CHF 1,994 million due in part to the deepening of the sovereign debt crisis in Europe as well as slower US economic growth which depressed activity levels. Equities capital market revenues were CHF 574 million, down 44% from CHF 1,020 million as revenues and market share decreased across all regions against a 25% reduction in the fee pool in US dollar terms. Fixed income capital market revenues decreased 22% to CHF 755 million from CHF 974 million as our market share declined while the market fee pool increased 12% in US dollar terms.

Other fee income and risk management revenues were negative CHF 921 million compared with negative CHF 426 million, primarily due to an increase in risk management premiums and the effect of their revised allocation to investment banking.

Securities

Securities revenues were CHF 8,459 million compared with CHF 9,534 million in 2010. In US dollar terms, revenues increased 5%.

Equities

Revenues in equities were CHF 3,698 million, down 17% from CHF 4,469 million in 2010, primarily due to the strengthening of the Swiss franc. In US dollar terms, revenues declined 2%.

Cash revenues decreased 17% to CHF 1,480 million compared with CHF 1,776 million. In US dollar terms, revenues declined 2%. The decrease was primarily due to a reduction in volumes and client activity. However, our cash equities exchange market share was slightly up on 2010.

Derivatives and equity-linked revenues were CHF 1,035 million compared with CHF 1,580 million. Within derivatives, revenues in Europe, the Middle East and Africa declined and more than offset higher revenues in Asia Pacific and the Americas. In addition, trading revenues were impacted by ongoing market volatility. In equi-

ty-linked, revenues declined due to lower valuations and volumes as well as reduced primary market activity, which impacted the secondary markets.

In the prime services business, revenues declined 3% to CHF 1,009 million, reflecting the Swiss franc appreciation as the majority of our balances are US dollar denominated. In US dollar terms, revenues were up 15% as a result of improved securities lending revenues.

Other equities revenues were CHF 175 million compared with CHF 77 million, mainly due to the abovementioned revised allocation of risk management premiums. Proprietary trading reported positive revenues, though these were lower than in 2010.

Fixed income, currencies and commodities

FICC revenues decreased 6% to CHF 4,761 million in 2011 from CHF 5,064 million in 2010, primarily due to the strengthening of the Swiss franc. In US dollar terms, revenues increased 11%.

In credit, revenues decreased to CHF 1,613 million from CHF 2,262 million in 2010, primarily due to mark-to-market losses in the flow business. Concerns surrounding the eurozone and the global economic outlook significantly impacted market volatility, liquidity and client activity, resulting in challenging conditions for flow trading, partly offset by an improved performance by credit solutions.

In macro, revenues rose to CHF 2,886 million from CHF 2,369 million in 2010. Revenues increased across all interest rates business lines. Foreign exchange benefited from market volatility in the second half of 2011 and from the contributions of our new e-trading platform. Non-linear interest rates reported a turnaround from negative to positive revenues in 2011.

Emerging markets revenues decreased to CHF 389 million from CHF 558 million, as increased foreign exchange revenues were more than offset by lower revenues in credit and rates. Latin America saw an improvement in revenues whereas both Asia and Europe reported a decrease.

Other FICC revenues including funding and hedging costs were negative CHF 129 million in 2011 compared with negative CHF 126 million in 2010. In 2011, we recorded positive debit valuation adjustments of CHF 244 million on our derivatives portfolio compared with positive debit valuation adjustments of CHF 155 million in 2010, as UBS's credit default swap spreads widened in both periods. This improvement was more than offset by higher funding charges in 2011.

Personnel

The Investment Bank employed 17,007 personnel on 31 December 2011, an increase of 519 from 16,488 on 31 December 2010. This increase was mainly due to the revised allocation methodology for the Corporate Center personnel implemented in 2011 and new hires, partly offset by attrition and the transfer of approximately 280 personnel to Wealth Management as part of forming the Investment Products & Services unit in 2011.

Global Asset Management

Business division reporting[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Net management fees[2]	**1,722**	1,704	1,918	1
Performance fees	**162**	99	141	64
Total operating income	**1,884**	1,803	2,058	4
Personnel expenses	**885**	954	1,097	(7)
General and administrative expenses	**395**	375	400	5
Services (to)/from other business divisions	**(10)**	(1)	(5)	900
Depreciation and impairment of property and equipment	**37**	38	43	(3)
Amortization and impairment of intangible assets	**8**	8	8	0
Total operating expenses[3]	**1,314**	1,373	1,543	(4)
Business division performance before tax	**570**	430	515	33
Key performance indicators[4]				
Pre-tax profit growth (%)	**32.6**	(16.5)	15.5	
Cost/income ratio (%)	**69.7**	76.2	75.0	
Net new money growth (%)[5]	**(2.3)**	0.8	0.3	
Information by business line				
Operating income				
Traditional investments	**1,120**	1,097	1,259	2
Alternative and quantitative investments	**268**	253	325	6
Global real estate	**293**	263	258	11
Infrastructure and private equity	**35**	24	14	46
Fund services	**169**	165	202	2
Total operating income	**1,884**	1,803	2,058	4
Gross margin on invested assets (bps)				
Traditional investments	**23**	23	25	0
Alternative and quantitative investments	**91**	76	88	20
Global real estate	**74**	72	69	3
Infrastructure and private equity	**44**	83	140	(47)
Total gross margin	**33**	33	36	0
Net new money (CHF billion)[5]				
Traditional investments	**(11.6)**	0.0	4.2	
Alternative and quantitative investments	**(2.7)**	(0.8)	(3.2)	
Global real estate	**1.3**	1.6	0.6	
Infrastructure and private equity	**(0.2)**	3.5	0.1	
Total net new money	**(13.3)**	4.3	1.8	
Net new money excluding money market flows	**(5.9)**	9.0	8.2	
of which: from third parties	***(0.6)***	*12.2*	*16.2*	
of which: from UBS's wealth management businesses	***(5.2)***	*(3.1)*	*(8.1)*	
Money market flows	**(7.4)**	(4.7)	(6.4)	
of which: from third parties	***0.9***	*0.2*	*2.0*	
of which: from UBS's wealth management businesses	***(8.3)***	*(5.0)*	*(8.3)*	

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Net management fees include transaction fees, fund administration revenues (including interest and trading income from lending business and foreign exchange hedging as part of the fund services offering), gains or losses from seed money and co-investments, funding costs and other items that are not performance fees. 3 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 5 Net new money excludes interest and dividend income.

Business division reporting (continued)[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Invested assets (CHF billion)				
Traditional investments	**504**	497	487	1
of which: money market funds	***83***	*92*	*96*	*(10)*
Alternative and quantitative investments	**28**	31	34	(10)
Global real estate	**40**	38	36	5
Infrastructure and private equity	**8**	8	1	0
Total invested assets	**581**	574	559	1
Assets under administration by fund services				
Assets under administration (CHF billion)[2]	**410**	375	390	9
Net new assets under administration (CHF billion)[3]	**7.7**	(5.5)	(0.8)	
Gross margin on assets under administration (bps)	**4**	4	5	0
Additional information				
Average attributed equity (CHF billion)[4]	**2.2**	2.5	2.5	(12)
Return on attributed equity (RoaE) (%)	**25.9**	17.2	20.6	
BIS risk-weighted assets (CHF billion)[5]	**3.5**	3.6	3.5	(3)
Return on risk-weighted assets, gross (%)[6]	**54.4**	50.6	56.8	
Goodwill and intangible assets (CHF billion)	**1.5**	1.5	1.5	0
Personnel (full-time equivalents)	**3,781**	3,750	3,481	1

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 This includes UBS and third-party fund assets, for which the fund services unit provides professional services, including fund set-up, accounting and reporting for traditional investment funds and alternative funds. 3 Inflows of assets under administration from new and existing funds less outflows from existing funds or fund exits. 4 Refer to the "Capital management" section of this report for more information about the equity attribution framework. 5 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 6 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010.

Business performance

2012

Results

Pre-tax profit for 2012 was CHF 570 million compared with CHF 430 million in 2011. Performance fees were significantly higher, mainly in alternative and quantitative investments. Net management fees were also higher. Operating expenses were lower due to lower personnel costs, which resulted from lower variable compensation and from credits related to changes to pension and benefit plans.

Operating income

Total operating income was CHF 1,884 million in 2012 compared with CHF 1,803 million in 2011. Performance fees were significantly higher at CHF 162 million compared with CHF 99 million, mainly driven by stronger investment performance in alternative and quantitative investments as well as in traditional investments. Net management fees were also higher, notably in global real estate.

Operating expenses

Total operating expenses were CHF 1,314 million in 2012 compared with CHF 1,373 million in 2011. Lower personnel costs were partially offset by higher general and administrative expenses. Restructuring costs were CHF 20 million in 2012, mainly associated with our cost reduction program but also including CHF 3 million related to the acquisition of the ING Investment Management business in Australia, which was completed in late 2011 and fully integrated in early 2012. The prior year's restructuring costs were CHF 26 million, of which CHF 7 million related to the same acquisition.

After adjusting for restructuring costs in 2012 and 2011, as well as credits of CHF 30 million and CHF 16 million in 2012 related to changes to our Swiss pension plan and a retiree benefit plan in the US respectively, operating expenses were marginally lower at CHF 1,340 million in 2012 compared with CHF 1,347 million in 2011.

Personnel expenses were CHF 885 million in 2012 compared with CHF 954 million in 2011. The decrease was mainly due to lower variable compensation, partly offset by higher base salaries, and the abovementioned pension and benefit-related credits.

General and administrative expenses were CHF 395 million in 2012 compared with CHF 375 million in 2011. CHF 5 million of the increase related to a charge for provisions for litigation, regulatory and similar matters, and although 2012 included a reversal of previously recognized expenses related to a past business closure of CHF 5 million, there was also a similar reversal of CHF 9 million in 2011.

Net charges to other business divisions increased to CHF 10 million in 2012 from CHF 1 million in 2011. The increase was mainly due to the centralization of operations units from the business divisions in the Corporate Center during the year, which also had the effect of increasing personnel costs by CHF 4 million and general and administrative expenses by CHF 2 million.

➔ **Refer to the "Significant accounting and financial reporting structure changes" section of this report for more information on changes related to the centralization of operations units**

Cost/income ratio

The cost/income ratio was 69.7% in 2012 compared with 76.2% in 2011. On an adjusted basis, the cost/income ratio was 71.1% compared with 74.7%. Our target cost/income ratio range is 60% to 70%.

Net new money growth

The net new money growth rate was negative 2.3% in 2012 compared with positive 0.8% in 2011. Our target net new money growth rate range is 3% to 5%.

Excluding money market flows, net new money outflows from third parties were CHF 0.6 billion in 2012 compared with net inflows of CHF 12.2 billion in 2011. Net inflows, notably from sovereign clients, were more than offset by net outflows, particularly from clients in the Americas and Asia Pacific.

Excluding money market flows, net new money outflows from clients of UBS's wealth management businesses were CHF 5.2 billion compared with CHF 3.1 billion in 2011. The net outflows in 2012 were mainly from clients booked in Switzerland and from alternative and quantitative investments.

Money market net inflows from third parties were CHF 0.9 billion compared with CHF 0.2 billion in 2011 and were mainly from sovereign clients.

Money market net outflows from clients of UBS's wealth management businesses were CHF 8.3 billion compared with CHF 5.0 billion in 2011. The net outflows in 2012 were mainly from clients in the Americas and Switzerland. An initiative by Wealth Management Americas to deposit client cash in UBS Bank USA reduced inflows into money market funds managed by Global Asset Management and accounted for net outflows of CHF 6.2 billion in 2012.

Invested assets

Invested assets increased to CHF 581 billion on 31 December 2012 from CHF 574 billion on 31 December 2011, mainly due to positive market movements, partly offset by net new money outflows and negative currency effects. The sale, as agreed prior to the acquisition, of parts of the ING Investment Management business acquired in Australia in 2011 resulted in a net divestment of CHF 14 billion of invested assets in 2012.

Gross margin on invested assets

The gross margin of 33 basis points in 2012 was in line with 2011 and within our target range of 32 to 38 basis points.

Results by business line

Traditional investments

Revenues increased to CHF 1,120 million in 2012 from CHF 1,097 million in 2011, mainly due to higher performance fees as a result of stronger investment performance.

The gross margin of 23 basis points was in line with 2011.

Net new money outflows were CHF 11.6 billion compared with zero in the prior year. Excluding money market flows, net new money outflows were CHF 4.3 billion compared with net inflows of CHF 4.7 billion. Equities net outflows were CHF 1.3 billion compared with net inflows of CHF 4.7 billion. Fixed income net inflows were CHF 2.4 billion compared with CHF 5.7 billion. Multi-asset net outflows (which included flows related to alternative investments not managed by the alternative and quantitative investments, global real estate or infrastructure and private equity investment areas) were CHF 5.4 billion compared with CHF 5.7 billion.

Invested assets were CHF 504 billion on 31 December 2012 compared with CHF 497 billion on 31 December 2011. By mandate type, CHF 163 billion of invested assets related to equities, CHF 154 billion to fixed income, CHF 83 billion to money markets and CHF 103 billion to multi-asset mandates (including CHF 7 billion of alternative investments not managed by the alternative and quantitative investments, global real estate or infrastructure and private equity investment areas).

Alternative and quantitative investments

Revenues were CHF 268 million compared with CHF 253 million. Higher performance fees as a result of strong investment performance, notably in O'Connor single manager funds, were partially offset by the full year impact of the transfer of the infrastructure and private equity fund of funds businesses to infrastructure and private equity in mid-2011.

The gross margin increased from 76 basis points to 91 basis points, primarily due to the higher performance fees.

Net new money outflows were CHF 2.7 billion compared with CHF 0.8 billion in 2011.

Invested assets were CHF 28 billion on 31 December 2012 compared with CHF 31 billion on 31 December 2011, mainly due to the net new money outflows.

Global real estate

Revenues were CHF 293 million compared with CHF 263 million, mainly due to higher net management and performance fees.

The gross margin increased to 74 basis points compared with 72 basis points in 2011, primarily due to the higher performance fees.

Net new money inflows were CHF 1.3 billion compared with CHF 1.6 billion in 2011.

Invested assets were CHF 40 billion on 31 December 2012 compared with CHF 38 billion on 31 December 2011, the increase was mainly due to positive market movements.

Infrastructure and private equity

Revenues were CHF 35 million compared with CHF 24 million with the increase reflecting the full year impact of the transfer of the infrastructure and private equity fund of funds businesses from alternative and quantitative investments in mid-2011.

Net new money outflows were CHF 0.2 billion compared with CHF 3.5 billion inflows in 2011.

Invested assets were CHF 8 billion on 31 December 2012, in line with the previous year.

Fund services

Revenues were CHF 169 million compared with CHF 165 million, mainly due to higher administrative fees resulting from higher average assets under administration.

The gross margin on assets under administration was 4 basis points, in line with the previous year.

Net new assets under administration inflows were CHF 7.7 billion compared with CHF 5.5 billion outflows in 2011.

Total assets under administration increased to CHF 410 billion from CHF 375 billion mainly due to positive market performance and net new assets under administration inflows.

Personnel

Global Asset Management employed 3,781 personnel on 31 December 2012 compared with 3,750 on 31 December 2011, a net increase of 31 personnel. Increases in personnel resulted from an increased allocation from the Corporate Center following the centralization of operations units (approximately 50 personnel) and the transfer of the Jersey fund services business from Wealth Management to Global Asset Management. These increases were partially offset by restructuring actions, mainly in the business acquired from ING Investment Management in Australia.

Investment performance

Both traditional and alternative strategies generally delivered strong performance in 2012 as they were well positioned for the volatile markets and continued macro-economic uncertainty experienced during the year.

A large majority of our active equities strategies performed in line with or above their benchmarks in 2012, as equity market focus shifted away from political and macro-economic concerns towards company fundamentals. Across global, non-US and European equity strategies, performance was generally strong versus benchmarks and ahead of peer averages. Among US strategies, the flagship US large cap growth select strongly outperformed its benchmark and peer average. While US core equity large cap fin-

ished behind its benchmark, its wholesale fund outperformed its peer group average, illustrating that it was a difficult year for most active US managers. Across Asia and emerging markets strategies, performance was mixed, but the emerging markets opportunity and Asian consumption strategies had outstanding performance. Our small cap equity range was also mixed but notably strong performance was achieved by our non-US growth, Swiss, German and Australian small cap equity strategies. In our non-traditional equities products, strong performance was delivered by several long-short unconstrained, hedged and market neutral funds, and global sustainable equity. Our range of equity index-tracking (passive) strategies met their objectives in 2012 by producing close tracking to benchmarks. On a longer-term basis, three-year performance records of our active strategies were impacted versus a year ago as a very strong 2009 dropped out of the three-year period. However, on a five-year basis a solid majority of our equities strategies outperformed their benchmarks and peer averages.

2012 was a strong year for our fixed income strategies with almost all of our key strategies outperforming their respective benchmarks. Longer-term track records also continued to strengthen. The environment was dominated by continued uncertainty around peripheral eurozone sovereigns, though towards the end of the year the focus shifted to the US fiscal cliff and debt ceiling negotiations. Traditional global and local bond strategies (such as Australian, euro, Swiss, UK and US), and also higher alpha strategies (such as euro high yield) outperformed their benchmarks. Extended sectors (such as emerging markets, Asian bonds and total return strategies) also performed strongly in the volatile market environment. Money market funds continued to achieve their capital preservation objectives.

Key multi-asset strategies managed by global investment solutions performed strongly in 2012. All key strategies achieved positive absolute returns, while most outperformed their benchmarks and ranked in the top quartile relative to peers. Over three and five years, the majority of key multi-asset strategies have significantly outperformed their peer group averages. The peer-relative performance of the Dynamic Alpha strategy in the US ranked in the first percentile for 2012, and the third percentile over five years.

In alternative and quantitative investments, hedge funds produced consistent positive returns in 2012 while remaining generally hedged to rallying global risk markets. The O'Connor core single manager funds posted positive returns and outperformed many peers on an absolute and risk-adjusted basis. In the multi-manager business, returns for the year were positive across core products and particularly fixed income and credit-oriented products.

The majority of global real estate's direct strategies covering Europe and Germany generated positive absolute returns in 2012. While the UK core fund produced a negative absolute return, the UK value-add fund was the best-performing balanced/specialist unlisted real estate fund in the UK for 2012. The Swiss composite outperformed its benchmark for the year. US real estate and farmland strategies delivered strong positive absolute returns in 2012. In Japan, both J-REITs strongly outperformed their benchmarks in 2012 and produced very strong absolute returns. The Swiss real estate securities composite performance was positive relative to benchmark for the year. Multi-manager strategies had positive absolute returns for 2012.

In infrastructure and private equity, the direct infrastructure portfolio continued to deliver stable cash flows and performance in line with target return objectives. Within our multi-manager area, the infrastructure fund of funds strategies showed improving returns and increased dividend yield. Private equity fund of funds strategies performed broadly in line with expectations.

2011

Results

Pre-tax profit for 2011 was CHF 430 million compared with CHF 515 million in 2010. Lower net management fees and lower performance fees, primarily in alternative and quantitative investments, were only partially offset by lower expenses, which included CHF 26 million in restructuring charges associated with both our cost reduction program and the acquisition of the ING Investment Management business in Australia.

Operating income

Total operating income was CHF 1,803 million in 2011 compared with CHF 2,058 million in 2010. This decrease was mainly due to lower net management fees, primarily as a result of negative market performance and the strengthening of the Swiss franc over most of the year leading to lower average invested assets. Performance fees were also lower, primarily in alternative and quantitative investments.

Operating expenses

Total operating expenses were CHF 1,373 million in 2011 compared with CHF 1,543 million in 2010, mainly due to lower personnel costs as well as lower general and administrative expenses, both partly due to the strengthening of the Swiss franc and savings associated with our cost reduction program. A total of CHF 26 million in restructuring charges was incurred in 2011, of which CHF 19 million related to our cost reduction program and CHF 7 million related to the ING Investment Management business acquisition.

Personnel expenses were CHF 954 million in 2011 compared with CHF 1,097 million in 2010, mainly due to lower accruals for variable compensation as a result of lower profits, the strengthening of the Swiss franc and savings associated with our cost reduction program.

General and administrative expenses were CHF 375 million in 2011 compared with CHF 400 million in 2010, mainly due to lower premises, IT and advertising costs as well as the reversal of previously recognized expenses of CHF 9 million related to a past business closure.

Net charges to other business divisions were CHF 1 million in 2011 compared with CHF 5 million in 2010.

Cost/income ratio

The cost/income ratio was 76.2% in 2011 compared with 75.0% in 2010. On an adjusted basis, excluding restructuring charges, the cost/income ratio was 74.7% compared with 75.0%.

Net new money growth

The net new money growth rate was positive 0.8% in 2011 compared with 0.3% in 2010.

Excluding money market flows, net new money inflows from third parties were CHF 12.2 billion in 2011 compared with net inflows of CHF 16.2 billion in 2010, and net outflows from clients of UBS's wealth management businesses were CHF 3.1 billion compared with net outflows of CHF 8.1 billion. The flows from UBS's wealth management businesses included two transfers of investment management and research responsibility from Wealth Management to Global Asset Management: a CHF 1.8 billion multi-manager alternative fund was transferred to alternative and quantitative investments, and CHF 2.9 billion in private equity funds of funds were transferred to infrastructure and private equity. It should be noted that these assets were reported as invested assets in both business divisions, as Wealth Management continued to advise the clients of the funds.

Money market net inflows from third parties were CHF 0.2 billion compared with CHF 2.0 billion in 2010, and money market net outflows from clients of UBS's wealth management businesses were CHF 5.0 billion compared with CHF 8.3 billion in 2010.

Invested assets

Total invested assets increased to CHF 574 billion on 31 December 2011 from CHF 559 billion on 31 December 2010, mainly due to the addition of CHF 25 billion from the ING Investment Management business acquisition.

Invested assets varied considerably during the year but were on average lower due to market volatility and currency movements. Taking the year as a whole, the currency impact on invested assets was flat, while positive net new money was more than offset by negative market performance.

Gross margin on invested assets

The gross margin was 33 basis points in 2011 compared with 36 basis points in 2010, reflecting lower performance fees, primarily in alternative and quantitative investments.

Results by business line

Traditional investments

Revenues were CHF 1,097 million compared with CHF 1,259 million, predominantly reflecting lower average invested assets as a result of negative market performance and the strengthening of the Swiss franc over most of the year.

The gross margin was 23 basis points compared with 25 basis points in 2010, mainly due to changes in the asset mix.

Net new money inflows were zero compared with CHF 4.2 billion inflows in the prior year. Excluding money market flows, net new money inflows were CHF 4.7 billion compared with CHF 10.6 billion. Equities net inflows were CHF 4.7 billion compared with CHF 7.5 billion. Fixed income net inflows were CHF 5.7 billion compared with CHF 9.7 billion. Multi-asset net outflows (which included flows related to alternative investments not managed by the alternative and quantitative investments, global real estate or

infrastructure and private equity investment areas) were CHF 5.7 billion compared with CHF 6.6 billion.

Invested assets were CHF 497 billion on 31 December 2011 compared with CHF 487 billion on 31 December 2010, mainly due to the ING Investment Management business acquisition, partially offset by negative market performance. By mandate type, CHF 141 billion of invested assets related to equities, CHF 141 billion to fixed income, CHF 92 billion to money markets and CHF 123 billion to multi-asset mandates (including CHF 6 billion of alternative investments not managed by the alternative and quantitative investments, global real estate or infrastructure and private equity investment areas).

Alternative and quantitative investments

Revenues were CHF 253 million compared with CHF 325 million, mainly due to performance fees being lower by CHF 50 million, which also contributed to the decline in the gross margin to 76 basis points from 88 basis points. Management fees were also lower, primarily due to lower average invested assets.

Net new money outflows were CHF 0.8 billion compared with net outflows of CHF 3.2 billion. The flows included a CHF 1.8 billion inflow related to the transfer of investment management and research responsibility for a multi-manager alternative fund from Wealth Management.

Invested assets were CHF 31 billion on 31 December 2011 compared with CHF 34 billion on 31 December 2010. The transfer within Global Asset Management of infrastructure and private equity fund of funds businesses to infrastructure and private equity was partially offset by the abovementioned transfer from Wealth Management.

Global real estate

Revenues were CHF 263 million compared with CHF 258 million, mainly due to higher transaction and performance fees, which more than offset the currency impact from the strengthening of the Swiss franc. As a result, the gross margin increased to 72 basis points compared with 69 basis points.

Net new money inflows were CHF 1.6 billion compared with CHF 0.6 billion in 2010.

Invested assets were CHF 38 billion on 31 December 2011, increased from CHF 36 billion on 31 December 2010, mainly due to net new money inflows.

Infrastructure and private equity

Revenues were CHF 24 million compared with CHF 14 million. The increase was mainly due to a one-time distribution fee from a co-investment in the UBS International Infrastructure Fund and the transfer of infrastructure and private equity fund of funds businesses from alternative and quantitative investments. As a result of this transfer, the name of this business line changed to infrastructure and private equity.

Net new money inflows were CHF 3.5 billion compared with CHF 0.1 billion in 2010, mainly due to a CHF 2.9 billion inflow resulting from a transfer of investment management and research responsibilities for private equity funds of funds from Wealth Management.

Invested assets were CHF 8 billion on 31 December 2011 compared with CHF 1 billion on 31 December 2010. This increase mainly related to the abovementioned transfer from Wealth Management and to the transfer within Global Asset Management of infrastructure and private equity fund of funds businesses from alternative and quantitative investments.

Fund services

Revenues were CHF 165 million compared with CHF 202 million, mainly due to lower administrative fees resulting from lower average assets under administration and lower interest income.

The gross margin on assets under administration was 4 basis points compared with 5 basis points.

Net new assets under administration outflows were CHF 5.5 billion compared with CHF 0.8 billion.

Total assets under administration were CHF 375 billion compared with CHF 390 billion due to negative market performance and currency impact as well as net outflows.

Personnel

Global Asset Management employed 3,750 personnel on 31 December 2011 compared with 3,481 on 31 December 2010, a net increase of 269 personnel. Increases in personnel resulted from a refined headcount allocation methodology for the Corporate Center (275 personnel) and the acquisition of the ING Investment Management business in Australia. These increases were partially offset by headcount reductions as part of our cost reduction program.

Retail & Corporate

Business division reporting[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Net interest income	**2,186**	2,328	2,422	(6)
Net fee and commission income	**1,198**	1,175	1,178	2
Net trading income	**281**	333	249	(16)
Other income	**90**	350	97	(74)
Income	**3,756**	4,186	3,946	(10)
Credit loss (expense) / recovery	**(27)**	(101)	(76)	(73)
Total operating income	**3,728**	4,085	3,870	(9)
Personnel expenses	**1,287**	1,702	1,687	(24)
General and administrative expenses	**857**	834	836	3
Services (to) / from other business divisions	**(370)**	(470)	(509)	(21)
Depreciation and impairment of property and equipment	**128**	136	146	(6)
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses[2]	**1,901**	2,201	2,160	(14)
Business division performance before tax	**1,827**	1,884	1,710	(3)
Key performance indicators[3]				
Pre-tax profit growth (%)	**(3.0)**	10.2	6.0	
Cost / income ratio (%)	**50.6**	52.6	54.7	
Net interest margin (%)	**1.60**	1.71	1.79	
Net new business volume growth (%)	**4.9**	3.5	3.9	
Impaired loan portfolio as a % of total loan portfolio, gross (%)[4]	**0.7**	0.7	0.9	
Additional information				
Average attributed equity (CHF billion)[5]	**4.5**	5.0	4.6	(10)
Return on attributed equity (RoaE) (%)	**40.6**	37.7	37.2	
BIS risk-weighted assets (CHF billion)[6]	**30.6**	25.2	26.5	21
Return on risk-weighted assets, gross (%)[7]	**13.8**	16.5	13.7	
Goodwill and intangible assets (CHF billion)	**0.0**	0.0	0.0	
Business volume (CHF billion)	**518**	468	464	11
Client assets (CHF billion)[8]	**381**	333	329	14
Loans, gross (CHF billion)	**137.3**	135.3	134.8	1
Due to customers (CHF billion)	**131.1**	117.9	111.7	11
Secured loan portfolio as a % of total loan portfolio, gross (%)	**91.7**	90.9	90.3	
Personnel (full-time equivalents)	**10,156**	11,430	12,089	(11)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 4 Refer to the "Risk management and control" section of this report for more information on impairment ratios. 5 Refer to the "Capital management" section of this report for more information about the equity attribution framework. 6 Capital management data as of 31 December 2012 and December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 7 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010. 8 In 2012, the definition of client assets was refined. Prior periods have been adjusted accordingly. Refer to "Note 35 Invested assets and net new money" in the "Financial information" section of this report for more information.

Business performance

2012

Results

Pre-tax profit decreased by CHF 57 million to CHF 1,827 million from CHF 1,884 million in the prior year. In 2012, personnel expenses benefited from a CHF 287 million credit related to changes to our Swiss pension plan. In 2011, there was a gain of CHF 289 million from the sale of our strategic investment portfolio. Adjusted for these items and restructuring charges of CHF 3 million in 2012 and CHF 32 million in 2011, pre-tax profit decreased by CHF 84 million to CHF 1,543 million, mainly as the previous year benefited from CHF 68 million of accrued interest from the abovementioned strategic investment portfolio sold in the third quarter of 2011.

➔ Refer to the "Certain items affecting our results in 2011" sidebar in our Annual Report 2011 for more information on the sale of our strategic investment portfolio

Operating income

Total operating income decreased by CHF 357 million to CHF 3,728 million, mainly reflecting the abovementioned gain from the sale of our strategic investment portfolio in 2011. Adjusted for this gain, operating income decreased by CHF 68 million to CHF 3,728 million from CHF 3,796 million.

Net interest income decreased by CHF 142 million to CHF 2,186 million as the previous year included interest income of CHF 68 million related to our strategic investment portfolio. Net interest income was also negatively affected by increased costs related to assets managed centrally by Group Treasury and lower allocations related to investment proceeds from the firm's equity. The loan margin was stable, but historically low interest rates continued to negatively affect the deposit margin. This was partly offset by growth in average deposit and, to a lesser extent, loan volumes as well as a number of pricing adjustments.

Net fee and commission income was CHF 1,198 million, up CHF 23 million from CHF 1,175 million in 2011 reflecting strong corporate finance activity related to our continued focus on our fee-based advisory offering.

Net trading income decreased to CHF 281 million from CHF 333 million due to lower treasury-related income and lower valuation income in 2012 related to credit default swaps to hedge certain loans.

Other income decreased to CHF 90 million from CHF 350 million reflecting the abovementioned gain of CHF 289 million from the sale of our strategic investment portfolio in 2011, partly offset by higher income in 2012 related to our SIX participation.

Credit loss expenses were CHF 27 million in 2012 compared with CHF 101 million in 2011, mainly reflecting a CHF 82 million increase in 2011 and a CHF 16 million decrease in 2012 in collective loan loss allowances.

➔ Refer to "Note 1a) 11) Allowance and provision for credit losses" in the "Financial information" section of this report section for more information on collective loan loss allowances

Operating expenses

Total operating expenses were CHF 1,901 million compared with CHF 2,201 million, mainly reflecting the CHF 287 million credit related to changes to our Swiss pension plan in 2012. Excluding this credit and restructuring charges, adjusted operating expenses increased by CHF 16 million to CHF 2,185 million.

Personnel expenses decreased to CHF 1,287 million from CHF 1,702 million. Excluding the abovementioned credit and restructuring charges, adjusted personnel expenses were CHF 1,571 million, down CHF 102 million from CHF 1,673 million in 2011 due to the centralization of operations units at the beginning of the third quarter of 2012, which decreased personnel expenses by CHF 176 million. As Retail & Corporate previously provided significant operations support to other business divisions, this centralization and subsequent reallocation of operations units had the effect of reducing personnel costs and non-personnel costs and decreasing net charges to other business divisions. This was partially offset by higher personnel expenses resulting from other business transfers.

➔ Refer to the "Significant accounting and financial reporting structure changes" section of this report for more information on changes related to the centralization of operations units

General and administrative expenses were CHF 857 million compared with CHF 834 million in 2011, reflecting higher net charges for provisions for litigation, regulatory and similar matters as well as increased marketing expenses related to our 150th anniversary in 2012. The abovementioned centralization of operations units led to a decrease in costs, which was partially offset by the effects of other business transfers.

Net charges to other business divisions were CHF 370 million, down from CHF 470 million in the previous year, primarily as a result of the impact from the abovementioned centralization of operations units in 2012, which reduced net charges out for services provided to other business divisions. This was partially offset by the effects of other business transfers.

Depreciation was CHF 128 million compared with CHF 136 million, reflecting a change in the depreciation period of certain IT equipment.

Cost/income ratio

The cost/income ratio improved to 50.6% from 52.6%, reflecting lower expenses partly offset by lower income. On an ad-

justed basis excluding the credit related to changes to our Swiss pension plan in 2012, the gain from the sale of our strategic investment portfolio as well as restructuring charges, the cost/income ratio was 58.2% compared with 55.7% and was within of our target range of 50% to 60%.

Net interest margin

The net interest margin decreased 11 basis points to 160 basis points, reflecting lower interest income as detailed above and a slightly higher average loan volume. The net interest margin remained within the target range of 140 to 180 basis points.

Net new business volume growth

The growth rate for net new business volume was 4.9% compared with 3.5% in the prior year. Both our retail and corporate businesses recorded strong net inflows reflecting high net new client assets. Net new loan inflows were also slightly positive in line with our strategy to grow our business selectively in high-quality loans. Net new business volume growth exceeded the target range of 1% to 4%.

Personnel

Retail & Corporate employed 10,156 personnel on 31 December 2012 compared with 11,430 on 31 December 2011 mainly reflecting the abovementioned centralization and subsequent reallocation of operations units personnel. We continued to adapt our cost base to the challenging business environment. In addition, the personnel number includes the annual intake of more than 100 apprentices, which took place in the third quarter of 2012.

2011

Results

Pre-tax profit for 2011 was CHF 1,884 million compared with CHF 1,710 million and included a CHF 289 million gain on the sale of our strategic investment portfolio as well as CHF 32 million in restructuring charges associated with our cost reduction program compared with CHF 3 million in restructuring provision releases in 2010. When adjusted for these items, pre-tax profit was CHF 1,627 million, down from CHF 1,707 million in 2010, primarily as a result of lower interest income due to the ongoing low interest rate environment.

➔ **Refer to the "Certain items affecting our results in 2011" sidebar in our Annual Report 2011 for more information on our cost reduction program and the sale of our strategic investment portfolio**

Operating income

Total operating income increased to CHF 4,085 million from CHF 3,870 million, and included the abovementioned gain on the sale of our strategic investment portfolio. When adjusted for this gain, operating income was CHF 3,796 million, down 2% from the previous year.

Net interest income decreased 4% from the prior period, primarily due to a significant decline in the deposit margin as a result of low market interest rates, which more than offset growth of deposit volumes. In addition, net interest income was negatively affected by an adjustment to the allocation of treasury-related income between Wealth Management and Retail & Corporate. Low market interest rates also impacted income from our replication portfolio, resulting in lower net interest income. These effects more than offset higher interest income derived from the strategic investment portfolio which was acquired in late 2010.

Net fee and commission income was CHF 1,175 million, virtually unchanged from CHF 1,178 million in 2010, as lower fees related to investment funds were mostly offset by higher credit related fees and increased transaction-based revenues.

Net trading income increased to CHF 333 million from CHF 249 million, mainly reflecting higher treasury-related income and higher foreign exchange income linked to client trading activities.

Other income was CHF 350 million compared with CHF 97 million in 2010 due to the abovementioned gain on the sale of our strategic investment portfolio.

Credit loss expenses were CHF 101 million in 2011 compared with CHF 76 million in 2010. This was mostly due to a CHF 82 million increase in collective loan loss allowances booked mainly in the third quarter of 2011.

➔ **Refer to the "Interest rate and currency management" section of our Annual Report 2011 for more information on our replication portfolio**

Operating expenses

Total operating expenses were CHF 2,201 million compared with CHF 2,160 million, partially due to the abovementioned restructuring charges. Excluding the effects of restructuring, operating expenses increased by CHF 6 million to CHF 2,169 million. Personnel expenses increased to CHF 1,702 million from CHF 1,687 million. Excluding the effects of restructuring, personnel expenses were CHF 1,673 million, down 1% from 2010 as a 4% reduction in average personnel during 2011 and lower variable compensation accruals compared with 2010 more than offset salary increases.

General and administrative expenses were CHF 834 million compared with CHF 836 million in 2010.

Net charges to other business divisions were CHF 470 million, down 8% from CHF 509 million the previous year, mainly due to a refinement of internal cost allocations reflecting a review of service level agreements and allocations between Retail & Corporate, Wealth Management and other parts of the organization.

Depreciation was CHF 136 million compared with CHF 146 million.

Cost/income ratio

The cost/income ratio improved to 52.6% from 54.7%, reflecting the gain of CHF 289 million from the sale of our strategic investment portfolio partly offset by slightly higher expenses. On an adjusted basis excluding this gain as well as the effects of restructuring, the cost/income ratio was 55.7% compared with 54.8%.

Net interest margin

The net interest margin decreased from 179 basis points to 171 basis points, reflecting the abovementioned lower interest income and a slightly higher average loan volume.

Net new business volume growth

The growth rate for net new business volume was 3.5% compared with 3.9% in the previous year. Our retail and corporate businesses both recorded strong net inflows, resulting from high net new client assets and, to a lesser extent, net new loan inflows reflecting our strategy to grow our business selectively in high-quality loans.

Personnel

Retail & Corporate employed 11,430 personnel on 31 December 2011 compared with 12,089 on 31 December 2010 reflecting a lower allocation of Corporate Center shared services personnel, and a shift of approximately 100 personnel to Wealth Management in connection with the Investment Products & Services unit in first quarter of 2011. In addition, the personnel number includes the annual intake of more than 100 apprentices, which took place in the third quarter of 2011.

Corporate Center

Corporate Center – Total[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Income	**409**	(569)	1,746	
Credit loss (expense) / recovery[2]	**(112)**	24	(155)	
Total operating income excluding own credit	**297**	(545)	1,591	
Own credit[3]	**(2,202)**	1,537	(548)	
Total operating income	**(1,905)**	992	1,043	
Personnel expenses	**308**	132	197	133
General and administrative expenses	**2,419**	286	376	746
Services to / from other business divisions	**21**	55	99	(62)
Depreciation and impairment of property and equipment	**7**	74	94	(91)
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses[4]	**2,756**	547	766	404
Performance before tax	**(4,661)**	446	277	
Performance before tax excluding own credit	***(2,458)***	*(1,091)*	*825*	*125*

Additional information[5]

Total assets (CHF billion)[6]	**260.1**	204.2	206.3	27
BIS risk-weighted assets (CHF billion)[7]	**29.7**	41.3	38.2	(28)
Personnel before allocations (full-time equivalents)	**25,255**	26,269	26,565	(4)
Allocations to business divisions (full-time equivalents)	**(24,733)**	(25,746)	(25,999)	(4)
Personnel after allocations (full-time equivalents)	**522**	523	566	0

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Includes credit loss (expense) / recovery mainly due to reclassified and acquired securities. 3 Represents own credit changes on financial liabilities designated at fair value through profit or loss. The cumulative own credit loss for such debt held on 31 December 2012 amounts to CHF 0.3 billion. This loss has increased the fair value of financial liabilities designated at fair value through profit or loss recognized on our balance sheet. Refer to "Note 13 Financial assets designated at fair value" in the "Financial information" section of this report for more information. 4 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 5 Comparative figures in this table may differ from those originally published in quarterly and annual reports (for example due to adjustments following organizational changes). 6 Based on third-party view, i.e. without intercompany balances. Refer to "Note 2a Segment reporting" in the "Financial information" section of this report for more information. 7 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information.

Corporate Center – Core Functions

Corporate Center reporting – Core Functions[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
Income	**29**	47	390	(38)
Credit loss (expense) / recovery	**0**	(1)	0	(100)
Total operating income excluding own credit	**29**	46	390	(37)
Own credit[2]	**(2,202)**	1,537	(548)	
Total operating income as reported	**(2,173)**	1,583	(158)	
Personnel expenses	**240**	64	78	275
General and administrative expenses	**1,648**	137	167	
Services (to) / from other business divisions	**2**	(1)	8	
Depreciation and impairment of property and equipment	**6**	70	89	(91)
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses[3]	**1,895**	271	342	599
Performance before tax	**(4,068)**	1,312	(500)	
Performance before tax excluding own credit	***(1,866)***	*(225)*	*48*	*729*
Additional information[4]				
Total assets (CHF billion)[5]	**222.5**	148.1	134.6	50
BIS risk-weighted assets (CHF billion)[6]	**8.5**	21.0	11.6	(60)
Personnel before allocations (full-time equivalents)	**25,203**	26,217	26,565	(4)
Allocations to business divisions (full-time equivalents)	**(24,964)**	(25,995)	(26,371)	(4)
Personnel after allocations (full-time equivalents)	**238**	222	194	7
Corporate Center expenses before service allocation to business divisions[4]				
Personnel expenses	**4,079**	4,611	4,835	(12)
General and administrative expenses	**5,272**	3,599	3,805	46
Depreciation and impairment of property and equipment	**647**	731	813	(11)
Amortization and impairment of intangible assets	**2**	0	0	
Total operating expenses before service allocation to business divisions	**10,000**	8,941	9,453	12
Net allocations to business divisions	**(8,105)**	(8,670)	(9,111)	(7)
Total operating expenses[3]	**1,895**	271	342	599

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Represents own credit changes on financial liabilities designated at fair value through profit or loss. The cumulative own credit loss for such debt held on 31 December 2012 amounts to CHF 0.3 billion. This loss has increased the fair value of financial liabilities designated at fair value through profit or loss recognized on our balance sheet. Refer to "Note 13 Financial assets designated at fair value" in the "Financial information" section of this report for more information. 3 Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 4 Comparative figures in this table may differ from those originally published in quarterly and annual reports (for example due to adjustments following organizational changes). 5 Based on third-party view, i.e. without intercompany balances. Refer to "Note 2a Segment reporting" in the "Financial information" section of this report for more information. 6 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information.

Business performance

2012

Results

The pre-tax result was a loss of CHF 4,068 million in 2012 compared with a gain of CHF 1,312 million in 2011. 2012 included charges for provisions for litigation, regulatory and similar matters of CHF 1,470 million, mainly arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates, and an own credit loss of CHF 2,202 million compared with a gain of CHF 1,537 million in 2011. Treasury income remaining in Corporate Center – Core Functions after allocations to the business divisions was CHF 204 million compared with CHF 38 million in 2011.

Operating income

Total operating income was negative CHF 2,173 million in 2012 compared with positive CHF 1,583 million in 2011. On an adjusted basis excluding own credit, operating income was CHF 29 million in 2012 compared with CHF 46 million in the prior year.

Total operating income excluding own credit decreased by CHF 17 million, largely due to higher charges related to our multi-currency portfolio of unencumbered high-quality, short-term assets managed centrally by Group Treasury. Treasury income remaining in Corporate Center – Core Functions after allocations to the business divisions was CHF 204 million compared with CHF 38 million in the prior year. This increase was mainly due to a gain of CHF 134 million related to hedge ineffectiveness arising from the basis risk inherent within our macro cash flow hedge accounting model.

Furthermore, 2012 operating income included a gain of CHF 112 million related to the sale of properties in Switzerland compared with a gain of CHF 78 million from the sale of a property in Switzerland in 2011.

Own credit

An own credit loss on financial liabilities designated at fair value of CHF 2,202 million was recorded in 2012, primarily due to a tightening of our credit spreads. An own credit gain of CHF 1,537 million was recorded in 2011.

➔ Refer to "Note 27 Fair value of financial instruments" in the "Financial information" section of this report for more information on own credit

Operating expenses

On a gross basis before service allocations to the business divisions, total operating expenses were CHF 10,000 million, up from CHF 8,941 million in the prior year, mainly due to charges for provisions for litigation, regulatory and similar matters of CHF 1,470 million, higher marketing costs and unfavorable currency effects. These increases were partly offset by the effect of changes to our Swiss pension plan, the effect related to the capitalization of internally generated software, reduced personnel expenses associated with our cost reduction program and lower restructuring charges in 2012.

Personnel expenses decreased by CHF 532 million to CHF 4,079 million, mainly due to changes to our Swiss pension plan, the effect related to the capitalization of internally generated software in 2012, reduced personnel expenses associated with our cost reduction program, a one-time net credit from changes to the rules for the Swiss long-service and sabbatical awards announced in the third quarter of 2012 as well as lower restructuring charges and variable compensation accruals in 2012.

General and administrative expenses increased by CHF 1,673 million to CHF 5,272 million, mainly due to charges of CHF 1,470 million for provisions for litigation, regulatory and similar matters arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates, higher marketing costs and increased business demand for IT infrastructure services, partly offset by the effect of the capitalization of internally generated software in 2012.

➔ Refer to the "Certain items affecting our results in 2012" sidebar for more information on LIBOR-related settlements

Depreciation expenses decreased by CHF 84 million to CHF 647 million, mainly due to restructuring charges and amortization of software costs in 2011.

The business divisions were charged CHF 8,105 million for shared services costs, a decrease of CHF 565 million from the previous year, primarily reflecting the aforementioned decreases.

Total operating expenses remaining after allocations to the business divisions increased to CHF 1,891 million from CHF 271 million in the prior year. This mainly reflects the charges for provisions for litigation, regulatory and similar matters of CHF 1,470 million as well as higher marketing costs in relation to our 150th anniversary including expenses related to the education initiative we launched to mark the occasion in 2012.

Personnel

At the end of 2012, Corporate Center – Core Functions employed 25,203 personnel, with 24,964 allocated to the business divisions and the Legacy Portfolio unit, based on services consumed. The decrease of 1,014 personnel from the prior year mainly reflected staff reductions related to our cost reduction program and the accelerated implementation of our strategy announced in October 2012. The 238 personnel remaining in Corporate Center – Core Functions after allocations were related to Group governance functions and other corporate activities.

2011

Results

The pre-tax result was a gain of CHF 1,312 million in 2011 compared with a loss of CHF 500 million in 2010. The year 2011 included an own credit gain of CHF 1,537 million compared with a loss of CHF 548 million in 2010. Treasury income remaining in Corporate Center – Core Functions, after allocations to the business divisions, was CHF 38 million compared with CHF 152 million in 2010.

Operating income

Total operating income was positive CHF 1,583 million in 2011 compared with negative CHF 158 million in 2010. On an adjusted basis excluding own credit, operating income was CHF 46 million in 2012 compared with CHF 390 million in the prior year.

Treasury income remaining in Corporate Center – Core Functions, after allocations to the business divisions, was CHF 38 million compared with CHF 152 million in 2010.

Furthermore, 2011 operating income included a gain of CHF 78 million from the sale of a property in Switzerland, while 2010 included a CHF 180 million gain from the sale of investments in associates owning office space in New York as well as a gain of CHF 158 million from a sale of property in Switzerland.

Own credit

An own credit gain on financial liabilities designated at fair value of CHF 1,537 million was recorded in 2011, primarily due to a widening of our credit spreads. An own credit loss of CHF 548 million was recorded in 2010.

Operating expenses

On a gross basis before service allocations to the business divisions, total operating expenses were CHF 8,941 million, down from CHF 9,453 million in 2010, mainly due to favorable currency effects resulting from the depreciation of the US dollar and British pound against the Swiss franc, as well as the effects of efficiency initiatives and other cost reductions resulting from the execution of the UBS real estate consolidation strategy and lower IT costs. This was partially offset by restructuring charges as well as an increase in expenses due to focused investments in technology, capacity expansion needed for control functions to be able to satisfy increased regulatory requirements, and the continuing consolidation of services in the Corporate Center.

Personnel expenses decreased by CHF 224 million to CHF 4,611 million, primarily due to favorable currency effects, partially offset by personnel-related restructuring expenses associated with our cost reduction program in the second half of 2011, capacity increases for regulatory requirements and personnel transfers from other business divisions.

General and administrative expenses decreased by CHF 206 million to CHF 3,599 million, mainly due to favorable currency effects, partly offset by restructuring charges due to the consolidation of our real estate portfolio as part of our cost reduction program. Furthermore, the effects of efficiency initiatives and other cost reductions were offset by the abovementioned increased business demand affecting Group Technology and the consolidation of services in the Corporate Center.

Depreciation expenses decreased by CHF 82 million to CHF 731 million, primarily due to favorable currency effects and the reversal of an impairment loss. These decreases were partly offset by restructuring charges, mainly related to the abovementioned real estate consolidation in 2011.

The business divisions were charged CHF 8,670 million for shared services costs, a decrease of CHF 441 million from 2010, primarily reflecting the aforementioned changes.

Total operating expenses remaining after allocations to the business divisions were CHF 271 million compared with CHF 342 million in 2010. This decrease was due to a value added tax provision release of CHF 22 million and a variable compensation accrual release of CHF 19 million in 2011. Furthermore, 2011 included lower charges for provisions for litigation, regulatory and similar matters.

Personnel

At the end of 2011, Corporate Center – Core Functions employed 26,217 personnel, with 25,995 allocated to the business divisions and the Legacy Portfolio unit, based on services consumed. The decrease of 348 personnel from 2010 related mainly to the abovementioned cost reduction program in the second half of 2011, partly offset by higher personnel required to meet additional regulatory requirements, and further consolidation of services in the Corporate Center. The 222 personnel remaining in Corporate Center – Core Functions after allocations were related to Group governance functions and other corporate activities.

Legacy Portfolio

Corporate Center reporting – Legacy Portfolio[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.11
SNB StabFund option	**539**	(126)	745	
Legacy Portfolio excluding SNB StabFund option	**(158)**	(489)	611	(68)
Total income	**381**	(616)	1,356	
Credit loss (expense) / recovery[2]	**(112)**	25	(155)	
Total operating income	**268**	(591)	1,201	
Personnel expenses	**68**	68	119	0
General and administrative expenses	**771**	148	209	421
Services (to) / from other business divisions	**19**	56	91	(66)
Depreciation and impairment of property and equipment	**2**	3	5	(33)
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses	**861**	276	424	212
Performance before tax	**(592)**	(866)	777	(32)
Additional information				
Total assets (CHF billion)[3]	**37.6**	56.1	71.8	(33)
BIS risk-weighted assets (CHF billion)[4]	**21.2**	20.3	26.6	4
Personnel before allocations (full-time equivalents)	**52**	52		0
Allocations from business divisions (full-time equivalents)	**231**	249	372	(7)
Personnel after allocations (full-time equivalents)	**283**	301	372	(6)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information on the adoption of IAS 19R and changes to reporting segments. 2 Includes credit loss (expense) / recovery mainly due to reclassified and acquired securities. 3 Based on third-party view, i.e. without intercompany balances. Refer to "Note 2a Segment reporting" in the "Financial information" section of this report for more information. 4 Capital management data as of 31 December 2012 and 31 December 2011 are disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information.

Business performance

2012

Results

The pre-tax result was a loss of CHF 592 million in 2012 compared with a loss of CHF 866 million in the previous year. This was primarily due to a gain from the revaluation of our option to acquire the SNB StabFund's equity, partly offset by a credit loss expense and higher charges for provisions for litigation, regulatory and similar matters in 2012.

Operating income

Total operating income was CHF 268 million in 2012 compared with negative CHF 591 million in 2011. The revaluation of our option to acquire the SNB StabFund's equity resulted in a gain of CHF 526 million in 2012, primarily due to higher market valuation of the fund's assets, compared with a loss of CHF 133 million in 2011.

➔ **Refer to the discussion of "Non-trading portfolios – valuation and sensitivity information by instrument category" in the "Risk management and control" section of this report for more information on changes in the value of our option to acquire the SNB StabFund's equity**

Excluding the SNB StabFund option, total operating income from the Legacy Portfolio was negative CHF 271 million compared with negative CHF 465 million in 2011. The year 2012 included losses in collateralized debt obligations (CDO) and related swap hedging of CHF 174 million as we exited certain CDO positions to reduce Basel III risk-weighted assets (RWA) compared with losses in the previous year of CHF 416 million predominantly resulting from the net impact of credit valuation adjustments (CVA) on monolines, including adjustments taken for commutations, and mark-to-market losses for securities. In addition, 2012 recorded improved performance in reference linked notes of CHF 147 million and real estate assets of CHF 35 million compared with 2011. These increases were partly offset by higher losses on municipal swaps and options of CHF 101 million. 2012 included a credit loss expense of CHF 112 million mainly reflecting an impairment charge related to certain student loan auction rate securities, subsequently sold to reduce Basel III RWA, compared with a credit loss recovery of CHF 25 million in 2011.

Operating expenses

Total operating expenses increased to CHF 861 million from CHF 276 million in the prior year, entirely due to higher charges for provisions for litigation, regulatory and similar matters in 2012.

BIS risk-weighted assets

RWA measured on a Basel 2.5 basis increased by CHF 1 billion to CHF 21 billion at the end of 2012, mainly resulting from rating downgrades on certain portfolio positions, almost offset by sales of certain student loan auction rate securities. Our pro-forma Basel III RWA decreased to CHF 38 billion as of 31 December 2012 from CHF 62 billion as of 31 December 2011, largely related to a CHF 15 billion reduction due to the sale or liquidation of certain CDO positions, a reduction of CHF 6 billion related to the sale of student loan auction rate securities as well as exposure reductions combined with model changes. This was partly offset by a transfer from the Investment Bank to the Legacy Portfolio of CHF 11 billion of RWA for the Basel III CVA charge attributable to the Legacy Portfolio.

Personnel

At the end of 2012, a total of 283 personnel were employed within the SNB StabFund investment management team and the management team for the remainder of the Legacy Portfolio, compared with 301 a year earlier.

2011

Results

The pre-tax result was a loss of CHF 866 million in 2011 compared with a gain of CHF 777 million in 2010. This was primarily due to a loss from the revaluation of our option to acquire the SNB StabFund's equity as well as a significant difference in the net impact of CVA in the remainder of the Legacy Portfolio.

Operating income

Total operating income was negative CHF 591 million in 2011 compared with positive CHF 1,201 million in 2010. The revaluation of our option to acquire the SNB StabFund's equity resulted in a loss of CHF 133 million in 2011 compared with a gain of CHF 745 million in 2010.

Excluding the SNB StabFund option, total operating income from the Legacy Portfolio was negative CHF 465 million compared with positive CHF 456 million in 2010. In 2011 we recorded a loss of CHF 284 million related to CVA for monoline credit protection compared with a gain of CHF 667 million in 2010. 2011 saw further losses in CDO. This movement was partly offset by a positive variance in credit loss expense as 2011 included a credit loss recovery of CHF 25 million compared with a credit loss expense of CHF 155 million in 2010, mainly due to reclassified and acquired securities primarily related to impairments on our student loan auction rate securities inventory.

Operating expenses

Total operating expenses decreased to CHF 276 million from CHF 424 million in 2010, predominantly due to lower personnel costs following reduced staff levels, lower charges for services received and decreased charges for provisions for litigation, regulatory and similar matters.

Personnel

At the end of the year 2011, a total of 301 personnel were employed within the SNB StabFund investment management team and the management team for the remainder of the Legacy Portfolio compared with 372 a year earlier. The decrease of 71 personnel was mainly associated with the reduction of assets in the unit.

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Risk, treasury and capital management

Audited information according to IFRS 7 and IAS 1

Risk disclosures provided in line with the requirements of the *International Financial Reporting Standard 7 (IFRS 7) Financial Instruments:* Disclosures, and disclosures on capital required by the *International Accounting Standard 1 (IAS 1) Financial Statements: Presentation* form part of the financial statements audited by our independent registered public accounting firm Ernst & Young Ltd., Basel. This information (the audited texts, tables and graphs) is marked by a bar on the left-hand side within this section of the report and is incorporated by cross-reference into the financial statements of this report.

Risk management and control

In line with the strategy of the firm, the structure of our risk profile has continued to shift during 2012. Having achieved a significant decrease in the level of market risk in the past few years, looking forward we see our risk focus being primarily on credit risk, operational risk and treasury-related risks.

- Credit risk comprises the vast majority of Basel III risk-weighted assets. Our lending exposure arises mainly from our Swiss domestic business, which offers corporate loans and mortgage loans secured against residential properties and income-producing real estate, and is therefore tied to the health of the Swiss economy (refer to page 140). Within the Investment Bank, our credit exposure is predominantly investment grade, but includes loan underwriting characterized by concentrated exposure to lower-rated credits, albeit of a temporary nature (refer to page 141). Credit risk also arises from derivative activities, a significant portion of which has been determined to be non-core and therefore is being transferred to the Corporate Center and will be run down. Credit risks within the Legacy Portfolio have been significantly reduced and the remainder largely relates to derivatives and securitized positions that we will continue to reduce.
- Operational risk, including the risk from pending or potential litigation (refer to "Note 23 Provisions and contingent liabilities" and "Risk factors" sections), remains a key focus, particularly the delivery of remediation of identified operational risk issues (refer to page 162).
- Treasury-related risks are associated with potential imbalances in our asset and liability structure, including liquidity and funding risks arising from stressed market conditions or from firm-specific factors.

Summary of key developments in 2012

The key developments that took place in 2012 with regard to risk management and control include the following:

- The overall level of market risk decreased significantly and value-at-risk halved to CHF 18 million at year-end. This was in line with the implementation of our strategy to make the Investment Bank more focused, less complex and less capital-intensive. The remaining market risks predominantly arose from the Investment Bank Core activities, which may increase over time, and non-core trading positions, which we will continue to reduce.
- Our credit portfolios saw net credit loss expenses totaling CHF 118 million, mainly related to sales of student loan auction rate securities as part of the run-down of the Legacy Portfolio. Our impaired loan portfolio decreased by CHF 0.6 billion to CHF 1.6 billion, mainly as a result of these sales. Although we envisage growth within our core lending businesses, credit risks arising from non-core positions will roll off or be reduced over time and the preparations to transfer these risks to the Corporate Center were initiated.
- The implementation of the enhanced Operational Risk Framework remained a primary focus. Reporting of significant risk issues and the operational effectiveness of controls was strengthened and substantial progress was made across our risk remediation programs.
- Further progress was made in reducing our legacy positions. This mainly resulted from commutations of monoline insurance and sales of student loan auction rate securities. Net exposure to monoline insurers after credit valuation adjustments reduced from USD 1.2 billion to USD 0.6 billion. The remaining exposure is hedged via single-name credit default swaps. Our student loan auction rate securities portfolio reduced from USD 5.7 billion to USD 4.1 billion.
- We maintained our strong liquidity and funding positions, ending 2012 with a Basel III estimated pro-forma liquidity coverage ratio and an estimated pro-forma net stable funding ratio comfortably above the regulatory requirements of 100%.

➔ **Refer to the "Credit risk", "Market risk", "Operational risk" and "Liquidity and funding management" sections of this report for more information**

Risk management and control principles

Audited

Five pillars support our efforts to achieve an appropriate balance between risk and return:

1. Protecting the financial strength of UBS by controlling our risk exposures and avoiding potential risk concentrations at individual exposure levels, at specific portfolio levels and at an aggregate firm-wide level across all risk types.
2. Protecting our reputation through a sound risk culture characterized by a holistic and integrated view of risk, performance and reward, and through full compliance with our standards and principles, particularly our Code of Business Conduct and Ethics.
3. Ensuring management accountability, whereby business management, as opposed to Risk Control, owns all risks assumed throughout the firm and is responsible for the continuous and active management of all risk exposures to ensure that risk and return are balanced.
4. Independent control functions which monitor the effectiveness of the business's risk management and oversee risk-taking activities.

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5. Disclosure of risks to senior management, the Board of Directors (BoD), shareholders, regulators, rating agencies and other stakeholders with an appropriate level of comprehensiveness and transparency.

Our risk management and control principles are implemented through a risk management and control framework. This framework comprises qualitative elements such as policies, procedures and authorities, and quantitative components including risk measurement methodologies and risk limits.

The framework is dynamic and continuously adapted to our evolving businesses and the market environment. It includes clearly defined processes to deal with new business initiatives as well as large and complex transactions.

Risk management and control responsibilities

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The key roles and responsibilities for risk management and control are as follows:

– The BoD is responsible for determining the firm's risk principles, risk appetite and major portfolio limits, including their allocation to the business divisions. The risk assessment and oversight of management performed by the BoD considers evolving best practices and is intended to conform to statutory requirements, as is the related disclosure in this section. The BoD is supported by the BoD Risk Committee, which monitors and oversees the firm's risk profile and the implementation of the risk framework as approved by the BoD. The BoD Risk Committee also assesses and approves the firm's key risk measurement methodologies.
– The Group Executive Board (GEB) implements the risk framework, controls the firm's risk profile and approves all major risk policies.
– The Group Chief Executive Officer (Group CEO) is responsible for the results of the firm, has risk authority over transactions, positions and exposures, and also allocates portfolio limits approved by the BoD within the business divisions.
– The divisional Chief Executive Officers, as well as the head of our Non-core and Legacy Portfolio, are accountable for the results of their business divisions. This includes actively managing their risk exposures, and ensuring that risks and returns are balanced.
– The Group Chief Risk Officer reports directly to the Group CEO and has functional and management authority over Risk Control throughout the firm. Risk Control provides independent oversight of risk and is responsible for implementing the risk control processes for credit, country, market, investment, treasury and operational risk. This includes establishing methodologies to measure and assess risk, setting risk limits, and developing and operating an appropriate risk control infrastructure. The risk control process is supported by a framework of policies and authorities, which are delegated to Risk Control Officers according to their expertise, experience and responsibilities.

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– The Group Chief Financial Officer (Group CFO) is responsible for ensuring that disclosure of our financial performance is clear and transparent and meets regulatory requirements and corporate governance standards. The Group CFO is also responsible for the management and control of UBS's tax affairs and for treasury and capital management, including management and control of funding and liquidity risk and UBS's regulatory capital ratios. Responsibility for implementation of the control framework for tax resides with the Group CFO whereas responsibility for implementation of the control framework for treasury activities is with Risk Control.
– The Group General Counsel is responsible for implementing the firm's risk management and control principles for legal and compliance matters.

Risk categories

The risks faced by our businesses can be broken down into three different categories: primary risks, operational risks and business risks. All three categories may impact the firm's reputation.

Primary and operational risks result from our business activities and are subject to independent risk control, whereas business risks are managed by divisional and firm-wide management. Primary risks are credit risk, market risk and treasury risk, as well as country risk and issuer risk. Operational risks include legal, compliance and tax risk and other risk categories. Business risks may arise from the commercial, strategic and economic risks inherent in our business activities.

Primary and operational risks are defined as follows:

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– Credit risk – the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations.
– Issuer risk – the potential total loss that would occur on a tradable name (position or group of tradable positions) if an issuer or issuer group to which UBS is exposed were subject to a credit event. The potential loss arises not only from the value of securities issued by the name but also from any other obligations in tradable form which are referenced to the name (including derivatives and basket securities).
– Market risk – the risk of loss resulting from changes in market variables, whether to our trading positions or financial investments.
– Treasury risk – the risk that the firm fails to manage its funding, balance sheet, capital and liquidity resources as well as the market and issuer risk arising from treasury activities.
– Country risk – the risk of loss resulting from country-specific events. It includes transfer risk, whereby a country's authorities prevent or restrict the payment of an obligation, as well as systemic risk events arising from country-specific political or macroeconomic developments.
– Operational risk – the risk resulting from inadequate or failed internal processes, people and systems, or from external causes. Events may cause direct financial losses or indirect consequences in the form of revenue forgone as a result of business suspen-

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sion. They may also result in damage to our reputation and to our franchise, which have longer-term financial consequences.

Risk measurement

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A variety of methodologies and measurements are applied to quantify the risks of our portfolios and our risk concentrations. Risks that are not fully reflected within standard measures are subject to additional controls, which may include pre-approval of transactions and specific restrictions. Models to quantify risk are generally developed by dedicated units within control functions. Valuations and risk models that could impact the firm's books and records are independently verified, and subjected to ongoing monitoring and control by the Group Chief Risk Officer and Group Chief Financial Officer organizations.

The base measures are position level market risk sensitivities and credit risk exposures which, in aggregate, provide an overview of our risk across positions. These measures are supplemented with portfolio level statistical and stress loss measures, which are two complementary types of risk measures we use to assess potential future losses at an aggregate level.

Statistical loss

Statistical loss measures include value-at-risk (VaR), expected loss and earnings-at-risk (EaR). VaR estimates the losses arising from market risk, which could potentially be realized over a set time period at an established level of confidence. Expected loss measures the average annual costs that are expected to arise from our credit portfolios and operational risks. EaR measures the potential shortfall in our earnings that could be realized over a set time period at an established level of confidence, and is comprised of core statistical measures complemented by management assessment.

➔ **Refer to the "Credit risk", "Market risk" and "Operational risk" sections of this report for a description of our key statistical loss measures**

Stress loss

Stress loss is the loss that could result from extreme events under specified scenarios. We perform stress testing to complement our statistical loss measures and to give us a better understanding of our risk capacity and appetite. Stress testing quantifies our exposures to plausible yet extreme and unusual market movements and enables us to identify, understand and manage our potential vulnerabilities and risk concentrations. Our stress testing framework incorporates a comprehensive range of portfolio-specific stress tests as well as combined firm-wide stress tests.

Portfolio-specific stress tests are measures that focus on the risks of specific portfolios within the business divisions. Our portfolio stress loss measures are informed by past events but also include forward-looking elements. The stress scenarios for trading risks capture the liquidity characteristics of different markets and positions. For example, our stress frameworks include a scenario which reflects the extreme market conditions that were experienced at the height of the financial crisis in the fourth quarter of 2008.

Our combined stress test (CST) framework captures firm-wide exposures to a number of global systemic events, including a eurozone crisis and a severe global recession triggered by severe market events similar to those observed in 2008. These stress tests are based on forward-looking market events and macroeconomic scenarios calibrated to different levels of severity. The evolution of market indicators and economic variables under these scenarios is defined and applied to our entire risk portfolio. The impact of primary risks, operational risks, other consequential risks (e.g. structural foreign exchange risk) and business risks is assessed with the aim of calculating the loss and capital implications should these stress scenarios occur.

Stress test results are included in risk reporting and are important inputs for the risk control, risk appetite and business planning processes of the firm. Our firm-wide stress testing, which captures all major identified risks across our business divisions, is one of the key inputs for discussions between senior management, the BoD and regulators with regard to our risk profile. We continue to provide detailed stress analyses to FINMA in accordance with their requirements.

The stress scenarios are reviewed, updated and expanded regularly in the context of the macroeconomic and geopolitical environment by a committee of representatives from the business divisions, Risk Control and economic research. Our stress testing therefore attempts to provide a control framework that is forward-looking and responsive to changing market conditions. However, the market moves experienced in real stress events may differ from moves envisaged in our scenario specifications.

Most major financial firms employ stress tests, but their approaches vary significantly, and there are no industry standards defining stress scenarios or the way they should be applied to a firm's positions. Consequently, comparisons of stress results between firms can be misleading and, therefore, like most of our peers, we do not publish quantitative stress test results.

➔ **Refer to the "Credit risk" and "Market risk" sections of this report for a description of our key stress loss measures**

Group risk appetite framework

Our risk appetite framework establishes risk appetite objectives that we seek to maintain, even after experiencing severe losses over a defined time horizon. The risk appetite objectives are approved by the BoD.

In order to monitor our risk profile against our risk appetite, we use two complementary firm-wide risk measurement frameworks: one statistical, comprising the metrics earnings-at-risk (EaR) and capital-at–risk (CaR), and the other a scenario-based combined stress test (CST). Both frameworks seek to capture risks across all of our business divisions and from all major risk categories, including primary risks, operational risks, other consequential risks (e.g. structural foreign exchange risk) and business risks. The firm-wide risk metrics have a central place in our risk control, capital management and business planning processes, and can be summarized as follows:

– EaR is measured as the potential shortfall in earnings at a 95% confidence level and is evaluated over both three-month and one-year periods.
– CaR extends EaR to consider the impact on BIS tier 1 capital of a more severe earnings shortfall and is measured at confidence levels from 95% to 99.9%.
– CST evaluates the potential impact of specific stress scenarios across our risk portfolios, as described in the "Stress loss" section above, from which the impact on our earnings and capital is assessed.

For each risk appetite objective, aggregate risk exposure as measured by our firm-wide risk metrics is compared to risk capacity, which is based on our capital and forecasted earnings. Overall risk appetite is expressed through a defined risk capacity for each objective, which thus sets an upper limit on aggregate risk exposure. The comparison of risk exposure to risk capacity is a key consideration in management decisions on potential adjustments to the risk profile of our firm. The risk appetite objectives are evaluated each year in the context of the prospective business plans. The risk limit framework reflects the risk appetite as expressed through the approved risk appetite objectives, but also takes prevailing operating conditions into account.

As of 1 January 2013 the risk appetite objectives consider the impact of our specified stress events on Basel III CET1 capital. Specifically, we have set as an objective that the Basel III CET1 phase-in capital ratio remains at 10% or above if a severe stress event were to occur, for which we consider both the prevailing CST stress scenarios and the statistical CaR metric at a 95% confidence level. In both cases, we apply a one-year time horizon during which we model how the risks, earnings and costs of the firm will evolve. All elements that impact income, regulatory capital (including planned dividends and other capital distributions) and RWA are included in the assessment. In addition, we have set as an objective that available Basel III CET1 capital plus outstanding loss-absorbing notes are sufficient to absorb losses from an extreme 99.9% worst-case CaR stress event. The strategic plan approved by the BoD on 29 October 2012 is consistent with the achievement of these objectives. It is our intention to use fully applied Basel III CET1 as the capital measure for the purpose of the risk appetite framework by 2015.

➔ **Refer to the "Capital" section of this report for more information**

Risk concentrations

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A risk concentration exists where (i) a position in financial instruments is affected by changes in a group of correlated factors, or a group of positions are affected by changes in the same risk factor or a group of correlated factors, and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses.

The identification of risk concentrations requires judgment, as potential future developments cannot be predicted and may vary from period to period. In determining whether we have a risk concentration, we consider a number of elements, both individually and collectively. These elements include: the shared characteristics of the instruments and counterparties; the size of the position or group of positions; the sensitivity of the position or group of positions to changes in risk factors; and the volatility and correlations of those factors. Also important in our assessment is the liquidity of the markets where the instruments are traded, and the availability and effectiveness of hedges or other potential risk-mitigating factors. The value of a hedge instrument may not always move in line with the position being hedged, and this mismatch is referred to as basis risk.

Risk concentrations are subject to increased monitoring by Risk Control and assessed to determine whether they should be reduced or mitigated depending on the available means to do so. It is possible that material losses could occur on asset classes, positions and hedges, particularly if the correlations that emerge in a stressed environment differ markedly from those we anticipated. We are exposed to price risk, basis risk, credit spread risk and default risk as well as other idiosyncratic and correlation risks on both our equities and fixed income inventories. In addition, we have lending, counterparty and country risk exposures that could result in significant losses if economic conditions were to change.

➔ **Refer to the "Credit risk", "Market risk" and "Operational risk" sections of this report for more information on the risks to which we are exposed**

Risk disclosures

Our measures of risk exposure may differ depending on the purpose for which exposures are calculated, for example, for financial accounting purposes under International Financial Reporting Standards (IFRS), determination of our required regulatory capital or our internal management purposes. The exposures detailed in the "Credit risk" and "Market risk" sections are typically based on our internal management view of risk exposure.

➔ **Refer to the "Basel 2.5 Pillar 3" section of this report for more information on the exposures we use in the determination of our required regulatory capital**

Credit risk

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Credit risk is the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. This includes settlement risk, an example of which would be a counterparty failing to deliver the counter-value of a foreign exchange transaction in which we have fulfilled our obligation. In addition, a credit loss can be triggered by economic or political difficulties in the country in which a counterparty or issuer of a security is based or has substantial assets (country risk).

Sources of credit risk

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Credit risk arises from traditional banking products such as loans, loan commitments and guarantees (for example, letters of credit). It also arises from traded products, including over-the-counter (OTC) derivative transactions and exchange-traded derivatives, as well as securities financing transactions such as repurchase agreements (repos and reverse repos), securities borrowing and lending transactions. The same general risk control processes are applied to these products, although the accounting treatment may vary, as products may be carried at amortized cost (loans and receivables), at fair value through profit and loss (instruments held for trading, instruments designated at fair value) or at fair value through other comprehensive income (available-for-sale instruments) depending on the product type and the nature of the exposure. Securities and other obligations in tradable form also pose credit risk, as their fair values are affected by changing expectations regarding the probability of issuers failing to meet these obligations or when issuers actually fail to meet these obligations. Where these securities and obligations are held in connection with a trading activity, we view the risk as an issuer risk. Debt securities not held in connection with a trading activity are reported as debt investments and discussed at the end of this section. Many of the business activities of Wealth Management, Wealth Management Americas, Retail & Corporate, the Investment Bank and the Corporate Center – Legacy Portfolio expose us to credit risk. Credit risk exposures also arise from our Global Asset Management business, albeit to a lesser extent.

Credit risk control

Limits and controls

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Limits are established for individual counterparties and their counterparty groups covering banking and traded products, as well as settlement amounts. These limits apply not only to the current outstanding amount, but also to contingent commitments and the potential future exposure of traded products. Credit engagements may not be entered into without the appropriate approvals and adherence to these limits.

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In the Investment Bank, a distinction is made between exposures intended to be held to maturity (take-and-hold exposures) and those which are intended to be held for a short term, pending distribution or risk transfer (temporary exposures).

Credit risk concentrations can arise if clients are engaged in similar activities, are located in the same geographical region or have comparable economic characteristics, for example if their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. To avoid credit risk concentrations, we establish limits and/or operational controls that constrain risk concentrations at portfolio and sub-portfolio levels with regard to sector exposures, country risk and specific product exposures.

Risk mitigation

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We actively manage the credit risk in our portfolios by taking collateral against exposures and utilizing credit hedging. In Wealth Management, Wealth Management Americas and Retail & Corporate, the majority of loans are extended on a secured basis. For real estate financing, a mortgage over the property is taken to secure the claim. Commercial loans may also be secured by mortgages on business premises or other real estate. We apply measures to evaluate collateral and determine maximum loan-to-value ratios, including an assessment of income cover.

Lombard loans are made against the pledge of eligible marketable securities, guarantees and other forms of collateral. The Investment Bank also takes collateral in the form of marketable securities and cash in its OTC derivatives and securities financing businesses. Discounts (haircuts) are generally applied to the market value of the collateral reflecting the quality, liquidity and volatility of the underlying collateral. Exposure and collateral values are continuously monitored, and margin calls or close-out procedures are enforced when the market value of collateral falls below a predefined trigger level. Concentrations within individual collateral portfolios and across clients are also monitored where relevant and may affect the haircut applied to a specific collateral pool.

Our OTC derivatives trading is generally conducted under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of all transactions in the event of default. For certain major market participant counterparties like hedge funds, we may also use two-way collateral agreements under which either party can be required to provide collateral in the form of cash or marketable securities when the exposure exceeds a predefined level. We have clearly defined processes for entering into netting and collateral agreements, including the requirement to have a legal opinion on the enforceability of contracts in relevant jurisdictions in the case of insolvency.

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Primarily in the Investment Bank and for the Corporate Center – Legacy Portfolio, we actively manage the credit risk of our portfolios with the aim of reducing concentrations of risk from specific counterparties, sectors or portfolios. Hedging measures used include single-name credit default swaps (CDS), index CDS and total return swaps. Single-name CDS are generally executed under bilateral netting and collateral agreements with high-grade market counterparties. We observe strict standards for recognizing credit hedges. For example, when monitoring exposures against limits, we do not usually recognize credit risk mitigants such as proxy hedges (credit protection on a correlated but different name) or index CDS. Buying credit protection creates credit exposure against the hedge provider. We monitor our exposures to credit protection providers and the effectiveness of credit hedges as part of our overall credit exposures to the relevant counterparties. In addition, we identify and monitor positions where we believe there is significant exposure and correlation between the counterparty and the hedge provider (so-called wrong-way risk). Our policy is to discourage such activity, but in any event or as market correlations may change, not to recognize wrong-way-risk hedge benefits within counterparty limits and capital calculations.

➔ **Refer to the "Basel 2.5 Pillar 3" section of this report for more information on credit derivatives**

Credit risk measurement

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We have developed tools and models to measure credit risk. Exposures to individual counterparties are measured based on three generally accepted parameters: probability of default, exposure at default and loss given default. These parameters are the basis for the majority of our internal measures of credit risk, and are key inputs for the regulatory capital calculation under the advanced internal ratings-based approach of the Basel 2.5 framework governing international convergence of capital. We also use models to derive the portfolio credit risk measures of expected loss, statistical loss and stress loss.

Probability of default

The probability of default is an estimate of the likelihood of a counterparty defaulting on its contractual obligations. This probability is assessed using rating tools tailored to the various categories of counterparties. These categories are also calibrated to our internal credit rating scale (masterscale), which is designed to ensure a consistent assessment of default probabilities across counterparties. We regularly assess the performance of our rating tools and adjust our model parameters as necessary. In addition to using ratings for credit risk measurement, we use them as an important input for determining credit risk approval authorities.

In the Investment Bank and for the Corporate Center – Legacy Portfolio, rating tools are applied to broad segments including banks, sovereigns, corporates, funds, hedge funds and commercial real estate. We determine our choice of the relevant assessment criteria, for example, financial ratios and qualitative factors, for the rating tools on the basis of various statistical analyses, externally available information and expert judgment.

Within Retail & Corporate, we rate our business and corporate clients in the small to medium enterprise segment using statistically developed scorecards. The underlying data used in our scorecards is predominantly based on a combination of clients' financial information, qualitative criteria and credit loss history over several years. To rate our large corporate clients domiciled in Switzerland, Retail & Corporate uses templates established for this segment by our Investment Bank. We assess the probability of default from loans secured on owner-occupied or investment properties with a model that takes into account loan-to-value ratios and debt service capacity of the obligor. We rate Lombard loan exposures by means of a model simulating potential changes in the value of the collateral, and the probability that it may become lower than the loan amount.

Our masterscale expresses default probabilities that we determine through our various rating tools by means of distinct classes, whereby each class incorporates a range of default probabilities. Counterparties migrate between rating classes as our assessment of their probability of default changes.

During the third quarter of 2012 we recalibrated the internal ratings for counterparties in several of our portfolios, extending the sample of historical defaults to take into account observations further back in time than had been considered previously. The extension of the sample reduces the pro-cyclicality of the rating tools. This resulted in some internal ratings changing, a generally downward shift in the ratings of counterparties within our Swiss mortgage portfolio and a generally upward shift in the ratings of counterparties within the corporate portfolio.

The ratings of the major credit rating agencies, and their mapping to our internal rating masterscale, are shown in the "Internal UBS rating scale and mapping of external ratings" table. The

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Internal UBS rating scale and mapping of external ratings

Internal UBS rating	Description	Moody's Investors Service mapping	Standard & Poor's mapping
0 and 1	*Investment grade*	Aaa	AAA
2		Aa1 to Aa3	AA+ to AA–
3		A1 to A3	A+ to A–
4		Baa1 to Baa2	BBB+ to BBB
5		Baa3	BBB–
6	*Sub-investment grade*	Ba1	BB+
7		Ba2	BB
8		Ba3	BB–
9		B1	B+
10		B2	B
11		B3	B–
12		Caa	CCC
13		Ca to C	CC to C
14	*Defaulted*		D

mapping is based on the long-term average of one-year default rates available from the rating agencies. For each external rating category, the average default rate is compared with our internal default probability bands to derive a mapping to our internal rating scale. Our internal rating of a counterparty may, therefore, diverge from one or both of the correlated external ratings shown in the table. Observed defaults by rating agencies may vary through economic cycles, and we do not necessarily expect the actual number of defaults in our equivalent rating band to equal the rating agencies' average in any given period. We periodically assess the long-term average default rates of credit rating agencies' grades, and we adjust their mapping to our masterscale as necessary to reflect any material changes.

Exposure at default

Exposure at default (EaD) represents the amount we expect to be owed by a counterparty at the time of a possible default. We derive EaD from our current exposure to the counterparty and the possible future development of that exposure.

The EaD of a loan is the drawn or face value of the loan. For loan commitments and guarantees, the EaD includes the amount drawn as well as potential future amounts that may be drawn, which are estimated based on historical observations.

For traded products, we derive the EaD by modeling the range of possible exposure outcomes at various points in time. For securities financing transactions, we assess the net amount that may be owed to us or that we may owe to others, taking into account the impact of market moves over the potential time it would take to close out all our positions. For exchange-traded derivatives, our calculation of EaD takes into account initial and daily variation margins. We derive the EaD for OTC derivatives by modeling the potential development of replacement values of the portfolio of trades by counterparty (potential credit exposure) less the values of legally enforceable netting agreements. For collateralized OTC derivatives, our potential credit exposure is based on modeling the potential development of replacement values and collateral values, and the price correlation between the various instruments.

When measuring individual counterparty exposure against credit limits, we consider the maximum likely exposure measured to a high level of confidence of outstanding obligations. However, when aggregating exposures to different counterparties for portfolio risk measurement purposes, we use the expected exposure to each counterparty at a given time period (usually one year) generated by the same model.

We monitor the performance of our exposure models by backtesting and benchmarking them, whereby model outcomes are compared with actual results, based on our internal experience as well as externally observed results.

We assess our exposures where there is a material correlation between the factors driving the credit quality of the counterparty and those driving the potential future value of our traded product exposure (wrong-way risk), and we have established specific controls to mitigate these risks.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss in case of default. LGD estimates include loss of principal, interest and other amounts (such as workout costs, including the cost of carrying an impaired position during the workout process) less recovered amounts. We determine LGD based on the likely recovery rate of claims against defaulted counterparties, which depends on the type of counterparty and any credit mitigation by way of collateral or guarantees. In our Investment Bank, LGD estimates are based on an assessment of key risk drivers such as industry segment, collateral and seniority of a claim as well as a country's legal environment and bankruptcy procedures, supported by our internal loss data and external information where available. In our other lending portfolios, the LGD differs by counterparty and collateral type and is statistically estimated based on our internal loss data. Where we hold collateral, such as marketable securities or a mortgage on a property, loan-to-value ratios are a key factor in determining LGD.

Expected loss

Credit losses are an inherent cost of doing business, but the occurrence and amount of credit losses can be erratic. In order to quantify future credit losses that may be implicit in our current portfolio, we use the concept of expected loss.

Expected loss is a statistical measure used to estimate the average annual costs we expect to experience from positions in our current credit portfolio that become impaired. The expected loss for a given credit facility is a function of the three components described above: probability of default, EaD and LGD. We aggregate the expected loss for individual counterparties to derive our expected portfolio credit losses.

Expected loss is the basis for quantifying credit risk in all our portfolios. It is also the starting point for the measurement of our portfolio statistical loss and stress loss and may be used as an input to value certain products.

Statistical and stress loss

We use a statistical modeling approach to estimate the loss profile of our credit portfolios over a one-year period to a specified level of confidence. The mean value of this loss distribution is the expected loss. The loss estimates deviate from the mean due to the statistical uncertainty on the defaulting counterparties and to systematic default relationships among counterparties within and between segments. The statistical measure is sensitive to concentration risks on individual counterparties and groups of counterparties. The outcome provides an indication of the level of risk in our portfolio and the way it may develop over time.

Stress loss is a scenario-based measure which complements our statistical modeling approach. We use it to assess our potential loss in various stress scenarios based on the assumption that one or more of the three key credit risk parameters will deteriorate substantially. We run stress tests on a regular basis to monitor and limit the potential impact of extreme, but nevertheless plausible events on our portfolios and apply limits on this basis.

Composition of credit risk – Group

The exposures detailed in the tables in this section are based on our internal management view of credit risk.

The "Credit exposure by business division and Corporate Center" table shows a breakdown of our banking and traded product exposures before and after allowances and provisions for credit losses, credit valuation adjustments (CVA) on traded products and single-name credit hedges. The effect of portfolio hedges, such as index CDS, is not reflected in this analysis. Banking product exposures are shown on an amortized cost-basis, guarantees and loan commitments on a notional basis, without applying credit conversion factors. Exposures to OTC derivatives are generally shown in the tables as net positive replacement values (RV) after the application of legally enforceable netting agreements and the deduction of cash collateral. In some cases, however, the exposures are based on a more simplistic RV plus add-on approach. Exchange-traded derivatives (ETD) exposures take into account initial and daily variation margins. Securities financing exposures are shown net of the collateral received.

Our lending businesses saw increased levels of exposure in 2012. Total gross credit exposure amounted to CHF 496 billion on 31 December 2012 compared with CHF 476 billion at the end of 2011. Our banking product exposures increased to CHF 440 billion from CHF 394 billion, mainly due to increases in the balances with central banks and in the loan books of Wealth Management and Wealth Management Americas. Our traded products exposures, which arise largely in our Investment Bank, declined by CHF 26 billion to CHF 56 billion.

Additional information on the composition and credit quality of our Wealth Management and Retail & Corporate loan portfolios and the Investment Bank's banking products and OTC derivatives portfolios is provided further on in this section.

➔ Refer to the "Basel 2.5 Pillar 3" section of this report for more information on the credit exposures used in the determination of our required regulatory capital and additional information on credit derivatives

➔ Refer to "Note 25 Derivative instruments and hedge accounting" and "Note 29a Measurement categories of financial assets and liabilities" in the "Financial information" section of this report for the IFRS required disclosures on derivatives and credit risk

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Credit exposure by business division and Corporate Center

	Wealth Management		Wealth Management Americas		Investment Bank		Global Asset Management		Retail & Corporate		Corporate Center[1]		Group	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Balances with central banks	**413**	1,165	**11,260**	2,161	**21,049**	31,743		155	**2,173**	2,205	**29,224**	1,135	**64,119**	38,565
Due from banks	**1,039**	555	**2,298**	1,594	**15,521**	18,182	**343**	317	**2,713**	3,840	**599**	338	**22,513**	24,826
Loans[2]	**86,581**	75,056	**31,250**	27,894	**16,288**	13,942	**91**	141	**137,344**	135,320	**4,420**	4,625	**275,973**	256,977
Guarantees	**2,326**	2,641	**406**	406	**6,074**	5,551			**10,042**	9,156	**12**	129	**18,860**	17,884
Loan commitments	**1,574**	1,220	**1,214**	1,076	**48,755**	46,763			**6,787**	6,735	**39**	164	**58,369**	55,958
Banking products[3]	**91,932**	80,637	**46,428**	33,131	**107,686**	116,181	**433**	613	**159,059**	157,256	**34,295**	6,390	**439,834**	394,209
OTC derivatives	**2,884**	3,869	**57**	74	**23,848**	38,748	**286**	330	**1,406**	1,839	**4,306**	7,011	**32,787**	51,871
Exchange-traded derivatives	**779**	817	**814**	877	**5,545**	7,938			**61**	167			**7,199**	9,799
Securities financing transactions			**154**	155	**14,462**	20,051					**1,072**	3	**15,687**	20,209
Traded products	**3,663**	4,686	**1,025**	1,106	**43,855**	66,737	**286**	330	**1,467**	2,006	**5,377**	7,014	**55,673**	81,880
Total credit exposure	**95,595**	85,323	**47,453**	34,238	**151,541**	182,918	**719**	943	**160,526**	159,262	**39,672**	13,404	**495,506**	476,088
Total credit exposure, net[4]	**95,554**	85,278	**47,436**	34,235	**128,197**	154,349	**719**	943	**159,826**	158,198	**38,547**	10,328	**470,279**	443,331

1 Includes the Legacy Portfolio. 2 Does not include reclassified securities and similar acquired securities in our Legacy Portfolio. 3 Excludes loans designated at fair value. 4 Net of allowances, provisions, CVA and hedges.

Swiss residential mortgage loans

Our largest loan portfolio is our mortgage loan portfolio, which principally comprises loans within Switzerland which are secured by residential and commercial real estate. These mortgage loans mainly originate from our Retail & Corporate business but also include mortgage loans originating from our Wealth Management business. The majority of these mortgage loans relate to residential properties that the borrower either occupies or rents out and are full recourse to the borrower.

We use a scoring model as part of a standardized front-to-back process to support credit decisions for the origination or modification of all Swiss mortgage loans. The two key factors within this model are an affordability calculation relative to gross income and the loan-to-value ratio (LTV). The calculation of affordability takes into account interest payments, minimum amortization requirements, potential property maintenance costs and, in the case of properties expected to be rented out, the level of rental income. Interest payments are estimated using a predefined framework, which takes into account the potential for significant increases in interest rates during the lifetime of the loan.

Approximately 70% of the Swiss residential mortgage loan portfolio relates to properties occupied by the borrower. For such mortgage loans, the maximum LTV allowed within the standard approval process is 80%. This is reduced to 60% in the case of vacation properties and luxury real estate. The value assigned by UBS to each property is based on the lowest value determined based on an internal valuation, the purchase price and, in some cases, an additional external valuation. Valuations of owner-occupied real estate are reviewed and updated throughout the lifetime of the loan, typically using real estate price indices. The average LTV ratio of this portfolio was approximately 55% at 31 December 2012 compared with 58% at 31 December 2011. Over 99% of the aggregate amount of mortgage loans within this portfolio would continue to be covered by the real estate collateral even if the value assigned to that collateral were to decrease by 20%. Furthermore, these loans are full recourse to the borrower. The average LTV for 2012 of newly originated loans in this portfolio was 63%.

Approximately 30% of the Swiss residential mortgage loan portfolio relates to properties rented out by the borrower. For such mortgage loans, the maximum LTV allowed within the standard approval process ranges from 60% to 80%, depending on the type of property, the age of the property and the amount of any renovation work required. LTVs are reviewed and updated periodically throughout the lifetime of the loan. The rental income from properties is reviewed, at a minimum, once every three years, but indications of significant changes in the amount of rental income or the level of vacancy rate can trigger an interim reappraisal. The average LTV ratio of this portfolio was approximately 58% at 31 December 2012 compared with 59% at 31 December 2011. Over 99% of the aggregate amount of mortgage loans within this portfolio would continue to be covered by the real estate collateral even if the value assigned to that collateral were to decrease by 20%. Furthermore, these loans are full recourse to the borrower. The average LTV for 2012 of newly originated loans in this portfolio was 56%.

Composition of credit risk – business divisions and Corporate Center

Wealth Management

The total gross banking products exposure of Wealth Management increased to CHF 92 billion on 31 December 2012 compared with CHF 81 billion on 31 December 2011, in line with our strategy.

Our Wealth Management loan portfolio is mainly secured by marketable securities, residential property and cash (including certain fiduciary investments) as outlined in the table "Wealth Management and Retail & Corporate: composition of loan portfolio, gross". The majority of loans secured by securities were of high quality, with 91% (94% on 31 December 2011) rated investment grade.

Wealth Management Americas

The total gross banking products exposure of Wealth Management Americas increased to CHF 46 billion on 31 December 2012 compared with CHF 33 billion on 31 December 2011. This exposure largely relates to loans secured by marketable securities (CHF 27.6 billion), residential mortgage loans (CHF 3.5 billion) and credit cards (CHF 0.2 billion).

The majority of loans secured by marketable securities were of high quality, with 87% (88% in 2011) rated investment grade. Our Wealth Management Americas mortgage loan portfolio consists primarily of residential mortgages offered in all US states. Exposure continued to grow to CHF 3.5 billion as of 31 December 2012 from CHF 1.8 billion the prior year. The overall quality of this portfolio remains high with an average loan-to-value ratio (LTV) of 58% and we have experienced no credit losses since the inception of the mortgage program. The credit risk exposure arising from the credit card business was CHF 152 million on 31 December 2012 compared with CHF 135 million in the prior year.

Investment Bank

The table "Investment Bank: banking products and OTC derivatives exposure" shows the Investment Bank's banking products (loans, guarantees and loan commitments) and OTC derivatives portfolios, gross and net of allowances, provisions, credit valuation adjustments (CVA) and single-name credit hedges based on our internal risk view. The effect of portfolio hedges, such as index CDS, is not reflected in this analysis. The gross banking product exposures shown in this table exclude exposure to central banks, due from banks, nostro accounts and money market balances, which are included in the "Credit exposure by business division and Corporate Center" table. The Investment Bank's net banking products exposure increased to CHF 56.0 billion as of 31 December 2012 from CHF 47.6 billion at the end of 2011. The Investment Bank continued to actively manage the credit risk of this portfolio and, as of 31 December 2012, held CHF 20.6 billion of single-name CDS hedges against its exposures to corporates

Investment Bank: banking products and OTC derivatives exposure[1]

	Banking products		OTC derivatives	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Total exposure, before deduction of allowances and provisions, CVA and hedges	**76,673[2]**	70,606[2]	**23,848**	38,748
Less: allowances, provisions and CVA	***(51)***	*(75)*	***(559)***	*(981)*
Less: credit protection bought (credit default swaps, notional)	***(20,619)***	*(22,886)*	***(2,005)***	*(4,513)*
Net exposure after allowances and provisions, CVA and hedges	**56,003**	47,645	**21,285**	33,254

1 Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments; OTC derivatives: net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law. 2 Banking products including money market and nostro accounts amount to CHF 107,686 million (31 December 2011: CHF 116,181 million).

Investment Bank: distribution of net banking products exposure, across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			**31.12.12**						31.12.11	
				LGD buckets						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	**Exposure**	**0–25%**	**26–50%**	**51–75%**	**76–100%**	**Weighted average LGD (%)**	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB-	**35,075**	**9,875**	**17,035**	**2,679**	**5,486**	**44**	30,326	47
Sub-investment grade			**20,928**	**12,017**	**6,632**	**1,573**	**705**	**25**	17,318	31
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***14,139***	***9,104***	***3,937***	***847***	***251***	***22***	*9,686*	*35*
of which: 10–12	*B2 to Caa*	*B to CCC*	***6,590***	***2,805***	***2,621***	***710***	***454***	***32***	*7,112*	*27*
of which:13 and defaulted	*Ca and lower*	*CC and lower*	***199***	***108***	***75***	***16***	***0***	***21***	*520*	*20*
Net banking products exposure, after application of credit hedges[1]			**56,003**	**21,892**	**23,667**	**4,252**	**6,191**	**37**	47,645	42

1 Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments.

Investment Bank: distribution of net OTC derivatives exposure, across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			**31.12.12**						31.12.11	
				LGD buckets						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	**Exposure**	**0–25%**	**26–50%**	**51–75%**	**76–100%**	**Weighted average LGD (%)**	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB-	**20,008**	**5,210**	**12,609**	**1,339**	**850**	**34**	31,374	32
Sub-investment grade			**1,276**	**649**	**375**	**51**	**201**	**34**	1,879	53
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***1,131***	***600***	***289***	***44***	***198***	***34***	*1,464*	*59*
of which: 10–12	*B2 to Caa*	*B to CCC*	***41***	***4***	***31***	***5***	***1***	***41***	*117*	*45*
of which:13 and defaulted	*Ca and lower*	*CC and lower*	***104***	***45***	***55***	***2***	***2***	***30***	*297*	*31*
Net OTC derivatives exposure, after application of credit hedges[1]			**21,285**	**5,859**	**12,984**	**1,390**	**1,051**	**34**	33,254	34

1 OTC derivatives: net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

Investment Bank: net banking products and OTC derivatives exposure by industry sector[1]

	Banking products		OTC derivatives	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Banks	**5,540**	5,082	**7,947**	10,935
Chemicals	**1,336**	1,866	**224**	188
Electricity, gas, water supply	**3,944**	3,760	**463**	252
Non-bank financial institutions	**16,211**	13,145	**8,823**	15,764
Manufacturing	**8,127**	6,307	**331**	626
Mining	**5,959**	5,990	**114**	211
Public authorities	**2,841**	1,264	**1,992**	3,585
Retail and wholesale	**2,046**	1,791	**54**	43
Transport, storage and communication	**3,543**	4,041	**601**	943
Other	**6,456**	4,398	**736**	707
Total	**56,003**	47,645	**21,285**	33,254

1 Banking products: exposure to commercial counterparties after risk transfer and application of credit hedges. OTC derivatives: net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

Investment Bank: net banking products and OTC derivatives exposure by geographical region

	Banking products		OTC derivatives	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Asia Pacific	**4,158**	4,259	**3,499**	3,345
Latin America	**210**	653	**186**	201
Middle East and Africa	**278**	271	**755**	433
North America	**40,798**	33,771	**6,524**	9,293
Switzerland	**257**	758	**864**	1,263
Rest of Europe	**10,301**	7,932	**9,457**	18,718
Total	**56,003**	47,645	**21,285**	33,254

and other non-banks down from CHF 22.9 billion at the end of 2011. In addition the Investment Bank held CHF 403 million of loss protection from the subordinated tranches of structured credit protection which is not reflected in the table.

Further breakdowns are provided within the table “Investment Bank: distribution of net banking products exposure, across internal UBS ratings and loss given default (LGD) buckets”. At the end of the year, and based on internal ratings, approximately 63% of the Investment Bank’s net banking products exposure was classified as investment grade compared with 64% at the end of the prior year. The majority of the Investment Bank’s net banking products exposure had estimated loss given defaults of between 0% to 50%. The Investment Bank’s lending activities are largely associated with corporates and other non-banks, which is broadly diversified across industry sectors, but concentrated in North America.

The Investment Bank’s net OTC exposure decreased to CHF 21.3 billion as of 31 December 2012 from CHF 33.3 billion at the end of 2011. Approximately 94% of the Investment Bank’s net OTC derivatives portfolio was traded with counterparties rated investment grade, the vast majority of which were banks and regulated financial institutions with which trading was conducted primarily on a collateralized basis. The tables shown on the previous and on this page provide additional analysis of the portfolio by our internal rating and LGD, by industry sector and by geographical region.

➔ Refer to “Note 29b) Reclassification of financial assets” in the “Financial information” section of this report for more information on reclassified securities

Retail & Corporate

The total gross banking products exposure of Retail & Corporate was CHF 159 billion on 31 December 2012 compared with CHF 157 billion on 31 December 2011. Approximately 70% of Retail & Corporate’s banking product portfolio is rated investment grade, with over 80% of this portion categorized in the lowest LGD bucket of 0–25%.

Retail & Corporate’s gross loan portfolio increased to CHF 137 billion, from CHF 135 billion in the prior year. The composition of the Retail & Corporate loan portfolio was largely unchanged over the year. At year-end 2012, 92% of this portfolio was secured by collateral and, based on our internal ratings, 54% of the unsecured loan portfolio was rated investment grade. Furthermore, 60% of the unsecured portfolio related to cash flow-based lending to corporate counterparties compared with 61% on 31 December 2011, and 22% to lending to public authorities compared with 23% on 31 December 2011.

Wealth Management and Retail & Corporate: composition of loan portfolio, gross

	Wealth Management				Retail & Corporate			
CHF million, except where indicated	**31.12.12**[1]		31.12.11		**31.12.12**		31.12.11	
		%		%		**%**		%
Secured by residential property	**30,829**	**35.6**	28,467	37.9	**98,681**	**71.8**	96,172	71.1
Secured by commercial / industrial property	**1,972**	**2.3**	1,805	2.4	**19,861**	**14.5**	19,542	14.4
Secured by cash	**12,235**	**14.1**	10,000	13.3	**173**	**0.1**	637	0.5
Secured by securities	**34,973**	**40.4**	26,718	35.6	**1,414**	**1.0**	1,327	1.0
Secured by guarantees and other collateral	**6,265**	**7.2**	8,010	10.7	**5,875**	**4.3**	5,285	3.9
Unsecured loans	**307**	**0.4**	55	0.1	**11,340**	**8.3**	12,356	9.1
Total loans, gross	**86,581**	**100.0**	75,056	100.0	**137,344**	**100.0**	135,320	100.0
Total loans, net of allowances and credit hedges	**86,540**		75,011		**136,770**		134,561	

1 Exposures as of 31 December 2012 reflect a refined reporting process for allocating Wealth Management loans to the secured and unsecured categories and are therefore not directly comparable to the prior period exposures.

Retail & Corporate: distribution of net banking products exposure across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			**31.12.12**						31.12.11	
				LGD buckets						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	**Exposure**	**0–25%**	**26–50%**	**51–75%**	**76–100%**	**Weighted average LGD (%)**	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB-	**109,221**	**92,245**	**15,953**	**1,014**	**9**	**10**	104,748	10
Sub-investment grade			**47,971**	**38,557**	**7,067**	**1,283**	**1,064**	**15**	50,314	15
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***45,704***	***36,614***	***6,764***	***1,264***	***1,062***	***16***	*47,922*	*15*
of which: 10–12	*B2 to Caa*	*B to CCC*	***1,916***	***1,598***	***297***	***18***	***2***	***14***	*2,132*	*15*
of which: 13	*Ca and lower*	*CC and lower*	***351***	***345***	***5***	***0***	***0***	***6***	*261*	*6*
Total non-defaulted			**157,192**	**130,802**	**23,020**	**2,297**	**1,073**	**12**	155,062	12
Defaulted[1]			***1,168***						*1,130*	
Net banking products exposure[2]			**158,359**						156,192	

1 Due to the applied risk calculation approach for default positions, no LGD is assigned. 2 Gross exposure before deduction of allowances and provisions for credit losses of CHF 610 million (31 December 2011: CHF 665 million) and credit hedges of CHF 90 million (31 December 2011: CHF 400 million) is CHF 159,059 million (31 December 2011: CHF 157,256 million).

Retail & Corporate: unsecured loans by industry sector

CHF million	**31.12.12**	31.12.11
Construction	**108**	120
Financial institutions	**1,106**	882
Hotels and restaurants	**51**	252
Manufacturing	**1,921**	2,165
Private households	**1,578**	1,730
Public authorities	**2,562**	2,906
Real estate and rentals	**430**	1,110
Retail and wholesale	**1,818**	1,520
Services	**1,289**	1,454
Other	**478**	218
Total	**11,340**	12,356

Corporate Center – Legacy Portfolio

The loans of CHF 11.7 billion in our Legacy Portfolio predominantly comprise assets that were reclassified in the fourth quarter of 2008 and in the first quarter 2009 from *Held for trading* to *Loans and receivables*, student loan auction rate securities and our loan to the RMBS Opportunities Master Fund, LP, a special purpose entity managed by BlackRock Financial Management Inc.

The net replacement value of our OTC contracts within the Legacy Portfolio after application of master netting agreements, hedges, allowances and credit valuation adjustments was CHF 3.2 billion at year-end 2012.

Loan to BlackRock fund

In the second quarter of 2008, we sold a portfolio of US residential mortgage-backed securities (RMBS) for USD 15 billion to the RMBS Opportunities Master Fund, LP (RMBS fund), a special purpose entity managed by BlackRock Financial Management, Inc. The RMBS fund was capitalized with approximately USD 3.75 billion in equity raised by BlackRock from third-party investors and an eight-year amortizing USD 11.25 billion senior secured loan provided by UBS.

The RMBS fund amortizes the loan through monthly payments drawn from amounts collected from the underlying assets. These collections are allocated to the payment of interest and principal of the loan and to the holders of equity interests in the RMBS fund in accordance with the terms of the loan agreement. Allocations to equity holders may be reduced or suspended in the event of specified declines in the aggregate notional balance of the portfolio, and we may assume control of the underlying assets in the event of a further specified decline in the notional balance.

As of 31 December 2012, the loan had a balance outstanding of USD 3.6 billion compared with USD 4.7 billion on 31 December 2011, taking into account amounts held in escrow. The aggregate notional balance of the RMBS fund's assets collateralizing the loan on 31 December 2012 was USD 9.7 billion. By notional balance, the portfolio is primarily comprised of Alt-A (53%) and sub-prime (34%) credit grades. In terms of priority, the portfolio was dominated by senior positions (97%).

The RMBS fund is not consolidated in our financial statements. We continue to monitor the RMBS fund and its performance and will reassess the consolidation status if events warrant and deterioration of the underlying RMBS mortgage pools indicates that the equity investors in the fund no longer control it. We also continue to assess the loan to the RMBS fund to determine whether it has been impaired. Developments through the year ended 31 December 2012 have not altered our conclusion that the loan is not impaired and that consolidation is not required.

Exposure to student loan auction rate securities

Audited

Our overall exposure to student loan auction rate securities (ARS) was reduced by USD 1.6 billion to USD 4.1 billion on 31 December 2012 following sales during the year.

At the end of 2012, 88% of the collateral underlying the remaining student loan auction rate securities inventory was backed by Federal Family Education Loan Program guaranteed collateral, which is reinsured by the US Department of Education for no less than 97% of principal and interest. All of our student loan auction rate securities positions are held as *Loans and receivables* and are subject to a quarterly impairment test that includes a review of performance reports for each issuing trust.

Audited

Student loan ARS inventory

	Carrying value	
USD million	**31.12.12**	31.12.11
US student loan ARS	**4,110**[1]	5,683
of which: rated BB– and above	***4,062***	*5,154*
of which: rated below BB–	***47***	*529*

1 Includes USD 1.8 billion (CHF 1.6 billion) at carrying value of student loan ARS that were reclassified to Loans and receivables from Held for trading in the fourth quarter of 2008. Refer to "Note 29b) Reclassification of financial assets" in the "Financial information" section of this report for more information.

Audited

Exposure to monoline insurers, by rating[1]

	31.12.12			
	Notional amount[2]	Fair value of CDS	CVA	Fair value of CDS after CVA
USD million	Column 1	Column 2	Column 3	Column 4 (=2–3)
Credit protection bought from monoline insurers, by rating[3]				
of which: from monolines rated investment grade (BBB and above)	***1,130***	***291***	***66***	***225***
of which: from monolines rated sub-investment grade (BB and below)	***4,599***	***684***	***277***	***407***
Total 31.12.12	**5,729**	**975**	**343**	**633**
Total 31.12.11	7,714	2,825	1,597	1,228

1 Excludes the benefit of credit protection purchased from unrelated third parties. 2 Represents gross notional amount of credit default swaps (CDS) purchased as credit protection. 3 Categorization based on the lowest insurance financial strength rating assigned by external rating agencies.

Exposure to monoline insurers

Audited All our exposure to monoline insurers is within the Legacy Portfolio and arises from credit default swap (CDS) protection purchased to hedge specific positions. The table "Exposure to monoline insurers, by rating" shows the CDS protection purchased from monoline insurers, calculated as the sum of the fair values of individual CDS after credit valuation adjustments (CVA).

The total fair value of CDS protection purchased from monoline insurers decreased from USD 1.2 billion to USD 0.6 billion after cumulative CVA of USD 0.3 billion. This reduction was largely a result of trade commutation on monoline exposures. This exposure is materially hedged with single-name credit default swaps.

➔ **Refer to the "Non-trading portfolios – valuation and sensitivity information by instrument category" section below for more information**

Impairment and default – distressed claims

Audited With respect to distressed claims resulting from banking products, we distinguish between loans that are "past due" and those that are "impaired". We also assess claims from securities financing transactions for default and impairment using the same principles and processes we use for banking products.

We consider a loan to be past due when a contractual payment has not been received by its contractual due date. Past due but not impaired loans are those that have suffered missed payments, but are not considered impaired because we expect to collect all amounts due under the contractual terms of the loans or the equivalent value from liquidation of collateral.

A loan is considered impaired when management determines that it is probable that we will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realizable value of any collateral.

Loans in arrears for 90 days are evaluated individually for impairment. However, an impairment analysis would be carried out irrespective of whether the loan was in arrears if other objective evidence indicates that a loan may be impaired. Any event that impacts current and future cash flows may be an indication of impairment and trigger an assessment by the risk officer. Such events may be: (i) past due and non-performing status of credit exposures, (ii) significant collateral shortfalls due to a fall in lending values (securities and real estate), (iii) increase in loan or derivative exposures, (iv) significant financial difficulties of a client, (v) high probability of bankruptcy, (vi) debt moratorium, (vii) financial restructuring including granting of preferential interest rates and (viii) extension of maturity or even partial forgiveness to prevent a credit default.

We have established processes to ensure that the carrying values of impaired claims are determined in compliance with IFRS requirements. Our credit controls applied to valuation and workout are the same for both amortized cost and fair-valued credit products. With the exception of a part of the mortgage portfolio and small unsecured retail account overdrafts, we assess each identified case individually. Our workout strategy and estimation of recoverable amounts are independently approved in accordance with our credit authorities.

We also assess our portfolios of claims carried at amortized cost with similar credit risk characteristics for collective impairment in order to consider if these portfolios contain impaired claims that cannot yet be identified. In our retail and corporate banking business in Switzerland, we typically review individual positions for impairment only after they have been in arrears for a certain time as described above. To cover the time lag between the occurrence of an impairment event and its identification, we establish collective loan loss allowances based on the estimated loss for the portfolio over the average period between trigger events and the identification of individual impairment. Collective loan loss allowances of this kind typically apply to our retail and corporate portfolio.

None of the portfolios with collective loan loss allowances are included in the totals of impaired loans in the tables shown in the composition of credit risk for business divisions in this section.

Audited Additionally, for all of our portfolios we assess whether there have been any unforeseen developments which might result in impairments but that are not immediately observable. These events could be stress situations, such as a natural disaster or a country crisis, or they could result from structural changes in the legal or regulatory environment. To determine whether an event-driven collective impairment exists, we regularly use a set of global economic drivers to assess the most vulnerable countries and review the impact of any potential impairment event.

The recognition of impairment in our financial statements depends on the accounting treatment of the claim. For products carried at amortized cost, impairment is recognized through the creation of an allowance or provision charged to the income statement as a credit loss expense. For products recorded at fair value, such as derivatives, a deterioration of the credit quality is recognized through a CVA charged to the income statement through the *Net trading income* line.

➔ **Refer to "Note 1 Significant accounting policies" and "Note 27a) Valuation principles" in the "Financial information" section of this report for more information on credit valuation adjustments**

Impaired loans, allowances and provisions

The credit risk exposures reported in the table "Allowances and provisions for credit losses" represent the IFRS balance sheet view of our gross banking products portfolio. This comprises the balance sheet line items *Balances with central banks*, *Due from banks* and *Loans* as well as the off-balance sheet items *Guarantees* and *Loan commitments*. The table also shows the IFRS reported allowances and provisions for credit losses and impairments.

The table shows that our allowances and provisions for credit losses, excluding collective loan loss allowances of CHF 114 mil-

Allowances and provisions for credit losses[1]

	IFRS exposure, gross		Impaired exposure[2]		Specific allowances and provisions for credit losses[3]		Estimated liquidation proceeds of collateral		Impairment ratio (%)	
CHF million, except where indicated	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Group										
Balances with central banks	**64,119**	38,565							**0.0**	0.0
Due from banks	**21,252**	23,235	**56**	20	**22**	17			**0.3**	0.1
Loans	**280,606**	267,429	**1,550**	2,135	**591**	694	**437**	893	**0.6**	0.8
of which: related to Legacy Portfolio[4]	***11,718***	*16,048*	***113***	*572*	***38***	*86*	***74***	*483*	***1.0***	*3.6*
of which: related to other loans	***268,888***	*251,381*	***1,437***	*1,563*	***553***	*607*	***363***	*411*	***0.5***	*0.6*
Guarantees	**20,058**	18,905	**76**	94	**56**	87	**6**	3	**0.4**	0.5
Loan commitments	**59,818**	58,192	**68**	70	**8**	6		1	**0.1**	0.1
Banking products	**445,852**	406,326	**1,749**	2,318	**677**	804	**443**	897	**0.4**	0.6
Wealth Management										
Balances with central banks	**413**	1,165							**0.0**	0.0
Due from banks	**1,039**	555							**0.0**	0.0
Loans	**86,581**	75,056	**55**	45	**38**	42	**20**	6	**0.1**	0.1
Guarantees	**2,326**	2,641							**0.0**	0.0
Loan commitments	**1,574**	1,220							**0.0**	0.0
Banking products	**91,932**	80,637	**55**	45	**38**	42	**20**	6	**0.1**	0.1
Wealth Management Americas										
Balances with central banks	**11,260**	2,161							**0.0**	0.0
Due from banks	**2,298**	1,594							**0.0**	0.0
Loans	**31,250**	27,894	**15**		**15**				**0.0**	0.0
Guarantees	**406**	406							**0.0**	0.0
Loan commitments	**1,214**	1,076							**0.0**	0.0
Banking products	**46,428**	33,131	**15**	0	**15**	0	**0**	0	**0.0**	0.0
Investment Bank										
Balances with central banks	**21,049**	31,743							**0.0**	0.0
Due from banks	**14,260**	16,397	**11**	11	**2**	5			**0.1**	0.1
Loans	**12,646**	12,957	**412**	542	**36**	71	**99**	159	**3.3**	4.2
Guarantees	**7,271**	6,571	**49**	52	**48**	46			**0.7**	0.8
Loan commitments	**50,206**	48,999	**61**	67		1			**0.1**	0.1
Banking products	**105,432**	116,666	**533**	672	**85**	122	**99**	159	**0.5**	0.6
Global Asset Management										
Balances with central banks		155								0.0
Due from banks	**343**	317							**0.0**	0.0
Loans	**91**	141							**0.0**	0.0
Guarantees										
Loan commitments										
Banking products	**433**	613	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Retail & Corporate										
Balances with central banks	**2,173**	2,205							**0.0**	0.0
Due from banks	**2,713**	3,840	**45**	9	**20**	12			**1.6**	0.2
Loans	**137,344**	135,320	**955**	975	**464**	495	**244**	246	**0.7**	0.7
Guarantees	**10,042**	9,156	**27**	25	**8**	26	**6**	3	**0.3**	0.3
Loan commitments	**6,787**	6,735	**7**	3	**8**	5		1	**0.1**	0.0
Banking products	**159,059**	157,256	**1,033**	1,012	**500**	539	**251**	250	**0.6**	0.6
Corporate Center										
Balances with central banks	**29,224**	1,135							**0.0**	0.0
Due from banks	**599**	532							**0.0**	0.0
Loans	**12,695**	16,063	**113**	572	**38**	86	**74**	483	**0.9**	3.6
of which: related to Legacy Portfolio[4]	***11,718***	*16,048*	***113***	*572*	***38***	*86*	***74***	*483*	***1.0***	*3.6*
Guarantees	**12**	130		17		15			**0.0**	13.1
Loan commitments	**37**	163							**0.0**	0.0
Banking products	**42,568**	18,023	**113**	589	**38**	101	**74**	483	**0.3**	3.3

1 Excludes allowances for securities borrowed. 2 Excludes reclassified securities that are not considered impaired. 3 Excludes CHF 114 million collective loan loss allowances (31 December 2011: CHF 131 million).
4 Refer to "Note 29b Reclassification of financial assets" in the "Financial information" section of this report.

lion, decreased 16% to CHF 677 million on 31 December 2012 from CHF 804 million (excluding collective loan loss allowances of CHF 131 million) at the end of 2011.

We consider a reclassified security an impaired loan if the carrying value at the balance sheet date is, on a cumulative basis, 5% or more below the carrying value at the reclassification date adjusted for redemptions.

Our gross impaired loan portfolio decreased to CHF 1,550 million as of 31 December 2012 from CHF 2,135 million at the end of the prior year.

The ratio of the impaired loan portfolio to the total loan portfolio (both measured gross) reduced to 0.6% compared with 0.8% on 31 December 2011, mainly due to sales of impaired reclassified assets. For loans excluding securities the ratio decreased to 0.5% compared with 0.6% in the prior year.

Audited

We reclassified loans and receivables with carrying amounts of CHF 79 million and CHF 186 million from impaired to performing during 2012 and 2011, respectively. These reclassifications occurred because the loans had either been renegotiated and the new terms and conditions met normal market criteria for the quality of the obligor and type of loan, or because the financial position of the obligor improved, enabling it to repay any overdue amounts such that we deemed future principal and interest to be fully collectible in accordance with the original contractual terms.

Audited

Collateral held against our impaired loan portfolio mainly consisted of real estate and securities on 31 December 2012.

It is our policy to dispose of foreclosed real estate as soon as practicable. The carrying amount of foreclosed property recorded in our balance sheet under *Other assets* at the end of 2012 and 2011 amounted to CHF 47 million and CHF 58 million, respectively.

We seek to liquidate collateral held in the form of financial assets expeditiously and at prices considered fair. This may require us to purchase assets for our own account, where permitted by law, pending orderly liquidation.

The table "Impaired assets by type of financial instrument" includes impaired loans, impaired guarantees and loan commitments, and defaulted derivative and securities financing transactions, which are subject to the same workout and recovery processes. Our impaired assets decreased by CHF 2.0 billion to CHF 2.5 billion on 31 December 2012, largely as a result of trade commutation on monoline exposures. After deducting allocated specific allowances, provisions and CVA of CHF 1.1 billion and the estimated liquidation proceeds of collateral of CHF 0.4 billion, net impaired assets amounted to CHF 0.9 billion as of 31 December 2012.

➔ **Refer to "Note 9 Due from banks and loans" in the "Financial information" section of this report for more information**

Audited

Impaired assets by type of financial instrument

CHF million	Impaired exposure		Specific allowances, provisions and CVA		Estimated liquidation proceeds of collateral		Net impaired exposure	
	31.12.12	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Impaired loans (incl. due from banks)	**1,605**	2,155	**(613)**[1]	(711)[1]	**(437)**	(893)	**555**	551
Impaired guarantees and loan commitments	**144**	164	**(64)**	(93)	**(6)**	(4)	**73**	67
Defaulted derivatives contracts	**716**	2,143	**(438)**	(1,457)			**278**	686
Defaulted securities financing transactions	**2**	3	**(2)**	(3)				
Total	**2,467**	4,465	**(1,117)**	(2,263)	**(443)**	(897)	**906**	1,304

1 Excludes CHF 114 million collective loan loss allowances (31 December 2011: CHF 131 million).

Audited

Past due but not impaired loans

CHF million	31.12.12	31.12.11
1–10 days	104	105
11–30 days	30	54
31–60 days	44	57
61–90 days	14	9
>90 days	793	670
of which: mortgage loans	*639*	*486*
Total	**986**	895

Past due but not impaired mortgage loans

CHF million	31.12.12		31.12.11	
	Total mortgage exposure	of which: past due > 90 days but not impaired	Total mortgage exposure	of which: past due > 90 days but not impaired
Total	144,667	639	139,356[1]	486

1 Restated prior-year number includes CHF 4,119 million related to Wealth Management and Wealth Management Americas.

Past due but not impaired loans

Audited

The table above shows a breakdown of our total loan balances where payments have been missed, but which we do not consider impaired because we expect to collect all amounts due under the contractual terms of the loans or the equivalent value from liquidation of collateral. The loan balances in the table relate entirely to our Wealth Management and Retail & Corporate divisions, where delayed payments are routinely observed. We currently have no past due but not impaired loans in Wealth Management Americas, the Investment Bank and our Corporate Center – Legacy Portfolio.

The increase in our past due but not impaired loan exposures resulted primarily from mortgage loans that were past due over 90 days but not impaired. Our overall past due but not impaired levels on mortgage loans were not significant compared with the overall size of the mortgage portfolio.

Settlement risk

Settlement risk arises in transactions involving exchange of value where we must fulfill our obligation to deliver without first being able to determine with certainty that we will receive the countervalue. We use multilateral and bilateral agreements with counterparties to reduce our actual settlement volumes.

Our most significant source of settlement risk is foreign exchange transactions. UBS is a member of Continuous Linked Settlement, a foreign exchange clearing house which allows transactions to be settled on a delivery-versus-payment basis, thereby significantly reducing foreign exchange-related settlement risk relative to the volume of business.

The mitigation of settlement risk through Continuous Linked Settlement membership and other means, such as payment netting, does not eliminate our credit risk in foreign exchange transactions resulting from changes in exchange rates prior to settlement. We measure and control such counterparty risk in forward foreign exchange transactions as part of our overall credit risk management of OTC derivatives.

Country risk

Country risk framework

Country risk includes all country-specific events that occur within a sovereign's jurisdiction and may lead to an impairment of UBS's exposures. Country risk can take the form of either sovereign risk, which refers to the ability and willingness of a government to honor its financial commitments, or transfer risk, which would arise if an issuer or counterparty could not acquire foreign currencies following a moratorium of a central bank on foreign exchange transfers, or "other" country risk that may manifest itself through increased and multiple counterparty and issuer default risk (systemic risk) on the one hand, and by events that may affect the standing of a country (e.g. political stability, institutional and legal framework) on the other hand. We have a well-established risk control framework through which we assess the risk profile of all countries where we have exposure.

We attribute to each country a sovereign rating, which expresses the probability of the sovereign defaulting on its own financial obligations in foreign currency. Our ratings are expressed by statistically derived default probabilities as described in the "Probability of default" section above. Based on this internal analysis we also define the probability of a transfer event occurring and establish rules as to how the aspects of "other" country risk should be incorporated into the analysis of the counterparty rating of incorporated entities that are domiciled in the respective country.

We ensure that our exposure to all countries is commensurate with the credit ratings we assign to them, and that it is not disproportionate to the respective country risk profile. For all coun-

tries rated 3 and below we set country risk ceilings, which are approved either by the Board of Directors or under delegated authority by the Group Chief Executive Officer or Group Chief Risk Officer, depending on the size of the limit and the country rating. A country risk ceiling applies to all our exposures to counterparties or issuers of securities and financial investments in the respective country. We may limit the extension of credit, transactions in traded products or positions in securities based on a country ceiling, even if our exposure to a counterparty is otherwise acceptable.

For internal measurement and control of country risk, we also consider the financial impact of market disruptions arising prior to, during and following a country crisis. These may take the form of a severe deterioration in a country's debt, equity or other asset markets or of a sharp depreciation of the currency. We use stress testing to assess the potential financial impact of a severe country and/or sovereign crisis. This involves the development of plausible stress scenarios for combined stress testing and the identification of countries that may potentially be subject to a crisis event, determining potential losses and making assumptions about recovery rates depending on the types of credit transactions involved and their economic importance to the affected countries.

Our exposures to market risks are also subject to regular stress tests that cover major global scenarios, which are used for combined stress testing as well, whereby we apply market shock factors to equity indices, interest and currency rates in all relevant countries and consider the potential liquidity of the instruments.

In light of the ongoing European sovereign debt crisis, we increased the monitoring and focus on the quality of collateral we hold.

Country risk exposure

Country risk exposure measure

The presentation of country risk follows our internal risk view, whereby the basis for measurement of exposures depends on the product category into which we have classified our exposures:

– *Banking products* are loans (at amortized cost), loan commitments (notional basis) and guarantees (notional basis), and include an immaterial amount of available-for-sale debt and equity positions (at fair value).
– *Traded products* include the counterparty risk arising from OTC derivatives and securities financing transactions, presented at net positive replacement value after taking into account valid master netting agreements.
– *Trading inventory* includes securities such as bonds and equities, as well as the risk relating to the underlying reference assets for derivative positions, including those linked to credit protection we buy or sell.

As we manage the trading inventory on a net basis, we net the value of long positions against short positions with the same underlying issuer. Net exposures are, however, floored at zero per issuer in the figures presented. We therefore do not recognize the potentially offsetting benefit of certain hedges and short positions across issuers.

We do not recognize any expected recovery values when reporting country exposures as "Exposure before hedges" except for the risk-reducing effects of master netting agreements and collateral held in the form of either cash or portfolios of diversified marketable securities, which we deduct from the basic positive exposure values. Within banking products and traded products, the risk-reducing effect of any credit protection is taken into account on a notional basis when determining the "Net of hedges" exposures.

Country risk exposure allocation

In general, exposures are shown against the country of domicile of the contractual counterparty or the issuer of the security. For some counterparties whose economic substance in terms of assets or source of revenues is primarily located in a different country, the exposure is allocated to the risk domicile of that different country.

This is the case, for example, with legal entities incorporated in financial offshore centers, which have their main assets and revenue streams outside the country of domicile. The same principle applies to exposures for which we hold third-party guarantees or collateral, where we report the exposure against the country of domicile of either the guarantor or the issuer of the underlying security, or against the country where pledged physical assets are located.

We apply a specific approach to banking products exposures to branches of financial institutions which are located in a country other than that of the domicile of the legal entity. In such cases, exposures are recorded in full against the country of domicile of the counterparty and additionally in full against the country in which the branch is located.

In the case of derivatives, we show the counterparty risk associated with the positive replacement value against the country of domicile of the counterparty (presented within "Traded products"). In addition, the risk associated with the instantaneous fall in value of the underlying reference asset to zero (assuming no recovery) is shown against the country of domicile of the issuer of the reference asset (presented within "Trading inventory"). This approach ensures that we capture both the counterparty and, where applicable, issuer elements of risk arising from derivatives and applies comprehensively for all derivatives, including single-name CDS and other credit derivatives.

As a basic example: if a CDS protection for a notional value of 100 bought from a counterparty domiciled in country X referencing debt of an issuer domiciled in country Y has a positive replacement value of 20, we record (i) the fair value of the CDS (20) against country X (within "Traded products") and (ii) the hedge benefit (notional minus fair value) of the CDS (100–20=80) against country Y (within "Trading inventory"). In the example of protection bought, the 80 hedge benefit would offset against any exposure arising from securities held and issued by the same entity as the reference asset, floored at zero per issuer. In the case

Exposures to selected eurozone countries

CHF million	Total		Banking products (loans, loan commitments, guarantees)			Traded products (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral		Trading inventory (securities and potential benefits / remaining exposure from derivatives)
31.12.12		Net of hedges[1]	Exposure before hedges	Net of hedges[1]	*of which: unfunded*	Exposure before hedges	Net of hedges	Net long per issuer
France	**9,990**	**8,777**	**3,462**	**2,403**	***899***	**1,817**	**1,663**	**4,711**
Sovereign, agencies and central bank	4,656	4,448	190	103		341	220	4,125
Local governments	48	48	10	10		4	4	34
Banks	1,719	1,719	1,285	1,285		400	400	33
Other[2]	3,567	2,562	1,976	1,005		1,072	1,038	519
Italy	**5,897**	**4,389**	**1,647**	**1,065**	***705***	**1,973**	**1,048**	**2,276**
Sovereign, agencies and central bank	2,361	1,471	28	28		1,315	424	1,019
Local governments	141	141				141	141	0
Banks	715	715	438	438		264	264	13
Other[2]	2,679	2,061	1,181	598		253	218	1,244
Spain	**4,567**	**3,712**	**3,325**	**2,680**	***101***	**408**	**198**	**834**
Sovereign, agencies and central bank	180	180	15	15				164
Local governments	20	20				14	14	6
Banks	2,667	2,667	2,580[3]	2,580		85	85	2
Other[2]	1,701	846	729	85		310	99	662
Austria	**2,060**	**1,927**	**175**	**175**	***54***	**1,054**	**920**	**831**
Sovereign, agencies and central bank	1,609	1,476	12	12		921	787	676
Local governments	11	11				7	7	4
Banks	238	238	16	16		120	120	101
Other[2]	202	202	148	148		5	5	49
Ireland[4]	**1,391**	**1,391**	**399**	**399**	***3***	**855**	**855**	**137**
Sovereign, agencies and central bank	15	15				3	3	12
Local governments								
Banks	441	441	381	381		28	28	32
Other[2]	936	936	18	18		824	824	93
Belgium	**573**	**558**	**103**	**103**	***32***	**391**	**376**	**79**
Sovereign, agencies and central bank	344	329	3	3		316	302	24
Local governments	1	1						1
Banks	91	91	36	36		44	44	11
Other[2]	137	137	64	64		31	31	42
Portugal	**160**	**63**	**118**	**22**	***21***	**8**	**8**	**34**
Sovereign, agencies and central bank	12	12						12
Local governments								
Banks	31	31	21	21		8	8	2
Other[2]	117	20	97	0		0	0	20
Greece	**48**	**48**	**4**	**4**	***3***	**1**	**1**	**43**
Sovereign, agencies and central bank	35	35	0	0		1	1	34
Local governments								
Banks	0	0	0	0		0	0	
Other[2]	12	12	3	3				9
Other	**212**	**212**	**146**	**146**	***25***	**51**	**51**	**14**

1 Not deducted are total allowances and provisions of CHF 35 million (of which: Austria CHF 13 million, Malta CHF 8 million and France CHF 7 million). 2 Includes corporates, insurance companies and funds. 3 The majority of the banking products exposure shown to Spanish banks relates to secured facilities that are collateralized by non-European sovereign debt securities 4 The majority of the Ireland exposure relates to funds and foreign bank subsidiaries.

of protection sold, this would be reflected as a risk exposure of 80 in addition to any exposure arising from securities held and issued by the same entity as the reference asset. In the case of derivatives referencing a basket of assets, the issuer risk against each reference entity is calculated as the expected change in fair value of the derivative given an instantaneous fall in value to zero of the corresponding reference asset (or assets) issued by that entity. Exposures are then aggregated by country across issuers, floored at zero per issuer.

Exposures to selected eurozone countries

We continue to monitor and manage our exposure to peripheral European countries closely, and our direct exposure to Greece, Italy, Ireland, Portugal and Spain remains limited.

In addition to monitoring direct exposure, we actively consider the inter-linkages among eurozone countries and institutions. We monitor and evaluate the policy responses of key EU institutions and the International Monetary Fund. In addition, we evaluate the implications of these developments for a broad range of countries and institutions beyond Europe when calibrating our eurozone-focused stress scenarios and making assumptions about the behavior of a variety of factors, including currencies, GDP, equity markets, consumer price index, corporate spreads, sovereign CDS and interest rates, for a number of key countries and regions. We apply these stress scenarios to our risk portfolios as part of our firm-wide stress testing framework. Furthermore, we subject our OTC exposures with a wide range of counterparties to these stress scenarios to gain an understanding of potential adverse impacts on our counterparty exposures, as well as to help identify so-called wrong-way risks.

The table "Exposures to selected eurozone countries" provides an overview of our exposure to eurozone countries rated lower than AAA/Aaa by at least one of the major rating agencies. The overview provides an internal risk view of gross and net exposures split by sovereign, local governments, banks and other counterparties. The sovereign category includes agencies and central banks. Corporates, insurance companies and funds are included in the "Other" category. The exposures to Andorra, Cyprus, Estonia, Malta, Monaco, Montenegro, San Marino, Slovakia and Slovenia are grouped in "Other".

CDS are primarily bought and sold in relation to our trading businesses, but are also used to hedge parts of our risk exposure, including that related to selected eurozone countries. At 31 December 2012, and not taking into account the risk-reducing effect of master netting agreements, we had purchased approximately CHF 91 billion gross notional of single name CDS protection on issuers domiciled in Greece, Italy, Ireland, Portugal or Spain (GIIPS) and had sold CHF 88 billion gross notional of single name CDS protection. On a net basis, taking into account the risk reducing effect of master netting agreements, this equates to approximately CHF 18 billion notional purchased and CHF 15 billion notional sold. More than 99% of gross protection purchased was from investment grade counterparties (based on internal ratings) and on a collateralized basis. The vast majority of this was from financial institutions domiciled outside the eurozone. Less than CHF 1 billion of the gross protection purchased was from counterparties domiciled in a GIIPS country and less than CHF 0.5 billion was with counterparties domiciled in the same country as the reference entity.

Holding CDS for credit default protection does not necessarily protect the buyer of protection against losses, as the contracts will only pay out under certain scenarios. The effectiveness of our CDS protection as a hedge of default risk is influenced by a number of factors, including the contractual terms under which the CDS was written. Generally, only the occurrence of a credit event as defined by the CDS terms (which may include among other events, failure to pay, restructuring or bankruptcy) results in a payment under the purchased credit protection contracts. For CDS contracts on sovereign obligations, repudiation can also be deemed as a default event. The determination as to whether a credit event has occurred is made by the relevant International Swaps and Derivatives Association (ISDA) determination committees (comprised of various ISDA member firms) based on the terms of the CDS and the facts and circumstances surrounding the event.

Exposure from single-name credit default swaps referencing Greece, Italy, Ireland, Portugal and Spain

31.12.12	Protection bought						Protection sold		Net position (after application of counterparty master netting agreements)			
			of which: counterparty domiciled in GIIPS country		of which: counterparty domicile is the same as the reference entity domicile							
CHF million	Notional	RV	Notional	RV	Notional	RV	Notional	RV	Buy notional	Sell notional	PRV	NRV
Greece	1,405	155					(1,388)	(162)	346	(329)	54	(62)
Italy	47,884	2,285	550	26	226	3	(46,406)	(2,460)	8,024	(6,394)	365	(539)
Ireland	6,363	32	22	0			(6,446)	(84)	1,442	(1,526)	70	(121)
Portugal	7,163	387	71	9	7	0	(7,110)	(430)	1,702	(1,622)	124	(167)
Spain	27,702	968	289	6	129	4	(26,994)	(990)	6,355	(5,395)	320	(342)
Total	90,516	3,828	933	42	362	7	(88,343)	(4,126)	17,869	(15,266)	933	(1,231)

Emerging markets net exposure[1] by internal UBS country rating category

CHF million	31.12.12	31.12.11
Investment grade	16,953	19,341
Sub-investment grade	1,428	3,053
Total	18,381	22,394

1 Net of credit hedges (for banking products and for traded products); net long per issuer (for trading inventory). Total allowances and provisions of CHF 73 million are not deducted (31 December 2011: CHF 61 million).

Emerging market exposures by major geographical region

CHF million	**Total**		**Banking products** (loans, loan commitments, guarantees)		**Traded products** (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral		**Trading inventory** (securities and potential benefits / remaining exposure from derivatives)	
	Net of hedges[1]		Net of hedges[1]		Net of hedges		Net long per issuer	
	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11
Emerging Americas	2,498	3,692	707	656	489	791	1,302	2,245
Brazil	1,353	1,538	185	168	305	527	863	842
Chile	322	258	200	154	82	75	40	29
Mexico	214	487	97	125	75	134	43	228
Colombia	192	597	124	122	23	37	44	438
Venezuela	141	226	0	0			141	226
Other	276	586	101	87	4	18	171	482
Emerging Asia	11,184	13,671	4,341	5,240	1,846	2,390	4,998	6,041
China	3,163	2,978	838	1,373	245	733	2,080	872
India	2,155	2,620	1,156	1,158	254	172	744	1,290
Hong Kong	1,557	3,048	674	983	510	602	374	1,462
South Korea	1,532	2,037	447	513	462	432	623	1,091
Taiwan	1,072	1,459	299	458	247	310	526	692
Other	1,704	1,529	926	754	127	142	651	634
Emerging Europe	1,833	2,500	864	939	247	337	722	1,224
Russia	1,061	905	489	355	174	117	398	433
Turkey	264	843	204	310	23	45	38	488
Ukraine	121	140	37	61	0	0	84	79
Hungary	112	159		3	8	95	104	61
Poland	64	110	18	29	30	52	16	30
Other	210	343	115	182	12	28	83	133
Middle East and Africa	2,867	2,531	1,006	1,094	1,105	807	756	630
Saudi Arabia	599	649	107	170	473	438	19	41
South Africa	559	526	114	137	31	61	414	328
United Arab Emirates	525	451	196	214	217	142	112	95
Kuwait	309	104	16	20	293	84	0	0
Israel	299	149	190	85	4	10	105	55
Other	575	652	383	468	86	72	107	111
Total	18,381	22,394	6,918	7,929	3,686	4,325	7,777	10,140

1 Not deducted are total allowances and provisions of CHF 73 million (31 December 2011: CHF 61 million).

Exposure to emerging market countries
The table "Emerging markets net exposure by major geographical region" shows the five largest emerging market country exposures in each major geographical area by product type on 31 December 2012 compared with 31 December 2011. Based on the main country rating categories, on 31 December 2012, 92% of our emerging market country exposure was rated investment grade compared with 86% on 31 December 2011.

Debt investments

Audited

Debt investments classified according to IFRS as *Financial investments available-for-sale* are measured at fair value with changes in fair value recorded through equity, and can be broadly categorized as money market instruments and debt securities primarily held for statutory, regulatory or liquidity reasons. Debt investments available-for-sale may also include non-performing loans purchased in the secondary market by the Investment Bank.

The risk control framework applied to debt instruments classified as *Financial investments available-for-sale* depends on the nature of the instruments and the purpose for which we hold them. Our exposures may be included in market risk limits or be subject to specific monitoring such as interest rate sensitivity analysis, firm-wide earnings-at-risk, capital-at-risk and combined stress test metrics.

Composition of debt investments

Audited

Debt instruments classified as *Financial investments available-for-sale* were CHF 65.7 billion on 31 December 2012 compared with CHF 52.5 billion on 31 December 2011. These instruments primarily comprised highly liquid short-term securities issued by governments and government-controlled institutions. The increase was mainly due to an increase in government bills/bonds.

➔ Refer to "Note 14 Financial investments available-for-sale" in the "Financial information" section of this report for more information

➔ Refer to the "Non-trading portfolios" section of this report for more information

➔ Refer to the "Treasury management" section of this report for more information

Market risk

Market risk is the risk of loss resulting from changes in market variables. There are two broad categories of market variables: general market risk factors and specific components. General market risk factors include interest rates, equity index levels, exchange rates, commodity prices and general credit spreads. The volatility of these risk factors and the correlations between them are also general market risk factors. Specific components relate to the prices of debt and equity instruments, which result from factors and events particular to individual companies or entities.

Sources of market risk

We take general and specific market risks both in our trading activities and in some non-trading businesses.

Trading portfolios

In 2012, most of our market risk originated from the Investment Bank's trading activities, including the non-core assets that have been transferred to Corporate Center in the first quarter of 2013 as part of the accelerated implementation of our strategy announced in October 2012. In addition, the Group Treasury function (part of Corporate Center) assumes foreign-exchange and interest-rate risk in connection with its balance sheet, profit and loss and capital management responsibilities. Market risk also arises within our Legacy Portfolio within Corporate Center and our wealth and asset management operations also take limited market risk in relation to client business.

Our trading businesses are subject to multiple market risk limits. Traders are required to manage their risks within these limits, which may involve utilizing hedging and risk mitigation strategies. These strategies can expose the firm to additional risks as the hedge instrument and the position being hedged may not always move in parallel (often referred to as basis risk). We actively manage such basis risks. Management and Risk Control may also give instructions to reduce the risk, even when limits are not exceeded.

Our asset management and wealth management businesses carry small trading positions, principally to support client activity. The market risk from these positions is not material to UBS as a whole.

Non-trading portfolios

Market risk exposures, primarily general interest rate and foreign exchange risks, may arise from non-trading activities such as retail banking and lending in our wealth management businesses, our retail and corporate banking business in Switzerland, the Investment Bank's lending businesses and our treasury activities, primarily from funding, balance sheet, liquidity and capital management needs. Equity and certain debt investments can also give rise to specific market risks.

Non-trading foreign exchange risks are managed under market risk limits, with the exception of Group Treasury management of consolidated capital activity. Non-trading interest rate risk is either managed under market risk limits or subject to specific monitoring and is reported in firm-wide earnings-at-risk, capital-at-risk and combined stress testing metrics.

➔ Refer to the "Non-trading portfolios" and "Treasury management" sections of this report for more information

Market risk limits

We use a limit framework to control our market risks. We have two major portfolio measures of market risk: value-at-risk (VaR) and stress loss. Both are common to all our business divisions and subject to limits that are approved by the Board of Directors.

In the Investment Bank, these portfolio measures are complemented by concentration and other supplementary limits on portfolios, asset classes and products, and also cover exposures to general market risk factors and single-name risk. Single-name risk (or issuer risk) is a measure of our exposure to the tradable instruments (debt, equity and derivatives) of a single issuer (or issuer group) were that issuer to be subject to a credit event, including default. Our concentration and other supplementary limits take a variety of forms, including values (market or notional) and risk sensitivities, which are measures of exposure to a given risk factor such as interest rates, credit spreads, equity indices, foreign exchange rates or volatilities. These limits take into account the extent of market liquidity and volatility, available operational capacity, valuation uncertainty, and, for our single-name exposures, the credit quality of issuers.

Our exposures from security underwriting commitments are subject to the same concentration measures and controls as secondary market positions. Underwriting commitments are approved under delegated risk management and risk control authorities. As such, certain larger or more complex transactions are required to be approved by our Commitment Committee, which includes representatives from both business and control functions.

Market risk limits are set for each of the business divisions and Corporate Center. The limit framework in the Investment Bank is more detailed than in the other business divisions, reflecting the nature and magnitude of the risks it takes.

Trading portfolios

For the purposes of our risk disclosure, the 1-day 95% confidence level value-at-risk (VaR) is used to quantify market risk exposures in our trading portfolios. This measure is also used for internal management purposes and applies to the market risk position population, that group of portfolios for which positions are gen-

erally marked to market on a daily basis and that are actively managed under market risk trading limits. Any material market risks that arise from positions outside of this population (e.g. the option to acquire equity of the SNB StabFund) are discussed separately either via sensitivity analysis within the "Non-trading portfolios – valuation and sensitivity information by instrument category" section, as part of our disclosure of sensitivity of "Interest rate risk in the banking book", or by other means for example the composition of equity investments in this section.

Value-at-risk definition

Audited

VaR is a statistical measure of market risk, representing the market risk losses that could potentially be realized over a set time horizon at an established level of confidence. This assumes no change in the firm's trading positions over the relevant time period.

We calculate VaR on a daily basis on our end-of-day positions. Our VaR calculation is based on the application of historical changes in market risk factors directly to our current positions – a method known as historical simulation. We use a single VaR model for both internal management purposes and for determining market risk regulatory capital requirements, although the confidence levels and time horizons differ. For internal management purposes we measure VaR at the 95% confidence level using a 1-day holding period. The regulatory measure of risk used to underpin the market risk capital requirement under the Basel accord, by contrast, requires a measure equivalent to a 99% confidence level and using a 10-day holding horizon.

Our VaR model is approved by FINMA and significant revisions of our VaR methodology and model, certain of which are ongoing, are also subject to regulatory approval.

Value-at-risk limitations

Audited

Actual realized market risk losses may differ from those implied by our VaR for a variety of reasons. All VaR measures are subject to limitations and must be interpreted accordingly and used in conjunction with other risk measures. The limitations of VaR include the following:

- The use of a five-year window means that sudden increases in market volatility will not tend to increase VaR as quickly as the use of shorter historical observation periods, but the increase will impact our VaR for a longer period of time.
- The VaR measure is calibrated to a specified level of confidence and may not indicate potential losses beyond this confidence level.
- The 1-day time horizon in the VaR measure, or 10-day in the case of regulatory VaR, may not fully capture the market risk of positions that cannot be closed out or hedged within the specified period.

Audited

Group: management value-at-risk (1-day, 95% confidence, 5 years of historical data) by business division and Corporate Center

	For the year ended 31.12.12				For the year ended 31.12.11			
CHF million, except where indicated	**Min.**	**Max.**	**Average**	**31.12.12**	Min.	Max.	Average	31.12.11
Wealth Management	**0**	**0**	**0**	**0**				0
Wealth Management Americas	**1**	**2**	**2**	**2**	1	2	1	2
Investment Bank[1]	**15**	**164**	**30**	**15**	30	219	75	34
Global Asset Management	**0**	**0**	**0**	**0**	0	0	0	0
Retail & Corporate	**0**	**0**	**0**	**0**				0
Corporate Center[1]	**3**	**17**	**11**	**10**	4	14	7	4
Diversification effect	**–[2]**	**–[2]**	**(10)**	**(9)**	–[2]	–[2]	(7)	(4)
Total management VaR, Group	**18**	**167**	**33**	**18**	31	222	76	36
Diversification effect (%)			**(23)**	**(34)**			(8)	(9)

1 The prior period has not been restated for the transfer of legacy positions from the Investment Bank to the Corporate Center. 2 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

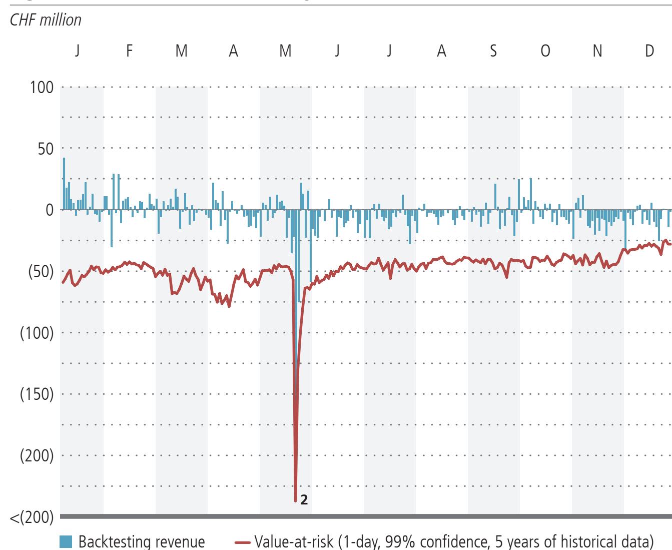
Audited

Group: management value-at-risk (1-day, 95% confidence, 5 years of historical data) by risk type

	For the year ended 31.12.12				For the year ended 31.12.11			
CHF million, except where indicated	**Min.**	**Max.**	**Average**	**31.12.12**	Min.	Max.	Average	31.12.11
Equities	**7**	**160**	**12**	**8**	10	76	15	13
Interest rates	**11**	**33**	**19**	**12**	14	35	24	18
Credit spreads	**23**	**42**	**31**	**26**	29	84	56	29
Foreign exchange	**3**	**13**	**6**	**5**	3	17	8	5
Energy, metals and commodities	**1**	**7**	**3**	**3**	2	10	4	3
Diversification effect	**–[1]**	**–[1]**	**(38)**	**(37)**	–[1]	–[1]	(31)	(32)
Total management VaR, Group	**18**	**167**	**33**	**18**	31	222	76	36
Diversification effect (%)			**(54)**	**(68)**			(29)	(47)

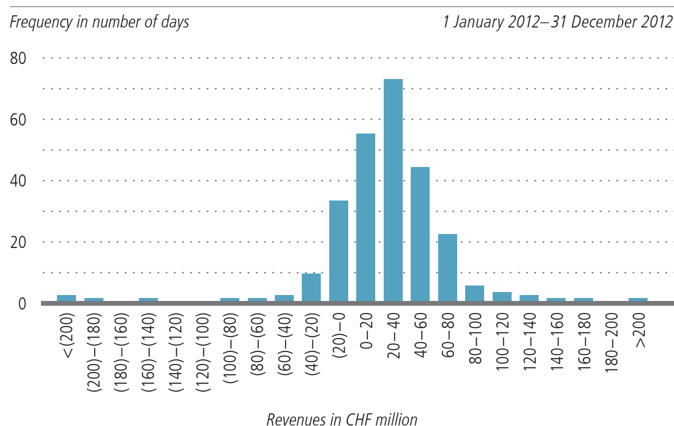
1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Group: development of backtesting revenues[1] against value-at-risk (1-day, 99% confidence)



1 Excludes non-trading revenues, such as commissions and fees, and revenues from intraday trading.
2 Due to previously disclosed incident related to the Facebook initial public offering.

Investment Bank: all revenue distribution[1]



1 Includes all revenues from business areas which have trading activities.

Audited

- In certain cases, VaR calculations approximate the impact of changes in risk factors on the values of positions and portfolios. This may happen because the number of risk factors included in the VaR model is necessarily limited; for example, yield curve risk factors do not exist for all future dates.
- The effect of extreme market movements is subject to estimation errors, which may result from non-linear risk sensitivities, as well as the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations.

We recognize that no single measure may encompass the entirety of risks associated with a position or portfolio. Consequently, we employ a suite of various metrics with both overlapping and complementary characteristics in order to create a holistic framework which ensures material completeness of risk identification and measurement.

As a statistical aggregate risk measure, VaR is supplemented by a comprehensive framework of non-statistical measures and corresponding limits. This includes an extensive series of stress tests and scenario analyses that undergo continuous evaluation to ensure that, were an extreme but nevertheless plausible event to occur, the resulting losses would not exceed our appetite for losses.

Furthermore, we have an established framework to identify and quantify potential risks that are not adequately captured by our VaR model.

Starting in the fourth quarter of 2012, this framework is used as the basis for underpinning such risks with regulatory capital by means of a methodology approved by FINMA. The resulting risk-weighted-assets (RWA) add-on does not reflect any diversification benefits across risks capitalized through VaR and those subject to this additional capital underpinning. As at 31 December 2012, the add-on amounted to approximately one-third of the sum of RWA from VaR and stressed VaR.

Value-at-risk developments in 2012

Audited

The Group's management VaR decreased to CHF 18 million on 31 December 2012 from CHF 36 million on 31 December 2011. This decrease was mainly due to active steps taken by the Investment Bank to reduce trading risks following the announcement in October 2012 regarding the accelerated implementation of our strategy. Average management VaR was CHF 33 million for 2012 compared with CHF 60 million in 2011 (excluding the effects of the 2011 unauthorized trading incident). The main contributors to Group VaR continue to be credit spread risk and, to a lesser extent, interest rate risk.

In the fourth quarter 2012, we improved the component of our VaR model used to calculate equity price risk by replacing the existing single-factor model with a multi-factor model, which better captures the correlations among equity returns. The effects of this model change on Group management, regulatory and stressed VaR figures, prior to and at the time of implementation, were reductions of between 10% and 20%.

Backtesting

Audited

Backtesting compares 1-day 99% confidence level regulatory VaR calculated on positions at the close of each business day with the revenues generated by those positions on the following business day. Backtesting revenues exclude non-trading revenues, such as fees and commissions, and estimated revenues from intraday trading. A backtesting exception occurs when backtesting revenues are negative and the absolute value of those revenues is greater than the previous day's VaR.

We had one backtesting exception at Group level in 2012 compared with three in the prior year. We investigate all backtesting exceptions and any exceptional revenues on the profit side of the VaR distribution. In addition, we report all backtesting results to senior business management, the Group Chief Risk Officer and the business divisions' chief risk officers.

Audited

Backtesting exceptions are also reported to internal and external auditors and to the relevant regulators.

The chart "Group: development of backtesting revenues against value-at-risk" shows the 12-month development of 1-day 99% VaR against backtesting revenues of the Group for the whole year of 2012. The histogram "Investment Bank: all revenue distribution" shows the Investment Bank's full trading revenues distribution in 2012.

Market risk – stress loss

VaR is supplemented by a comprehensive framework of non-statistical measures and corresponding limits. This includes an extensive series of stress tests and scenario analyses that undergo continuous evaluation to ensure that, were an extreme but nevertheless plausible event to occur, the resulting losses would not exceed our appetite for losses.

Our scenarios capture the liquidity characteristics of different markets, asset classes and positions.

Our market risk stress testing framework is designed to provide a control framework that is forward-looking and responsive to changing market conditions. Our stress scenarios are therefore reviewed regularly in the context of the macroeconomic and geopolitical environment by a committee comprised of representatives from the business divisions, Risk Control and Economic Research. In response to changing market conditions and new developments around the world, we develop and run ad hoc stress scenarios to assess the potential impact on our portfolio.

➔ **Refer to the discussion on stress loss in this section for more information**

Non-trading portfolios

Audited

This section includes an overview of interest rate risk in the banking book and a description of the valuation of certain significant product categories and related valuation techniques and models. In addition, sensitivity information is provided for certain significant instrument categories that are not included, or not fully captured, in management VaR.

Interest rate risk in the banking book

Audited

The banking book consists of *Available-for-sale instruments*, *Loans and receivables*, certain *Instruments designated at fair value through profit or loss*, derivatives measured at fair value through profit or loss and derivatives employed for cash flow hedge accounting purposes, as well as related funding transactions. These positions may impact *Other comprehensive income* or profit or loss, due to differences in accounting treatment.

All interest rate risk is subject to independent risk control. When not included in our VaR measure, interest rate risk is subject to specific monitoring, which may include interest rate sensitivity analysis, earnings-at-risk, capital-at-risk and combined stress test metrics.

Audited

The interest sensitivity of non-contractual maturity products is modeled using historical behavior patterns from a complete interest rate cycle.

Our largest banking book interest rate risk exposures arise primarily from loans and deposits in our Wealth Management, Retail & Corporate and Wealth Management Americas divisions, as well as our treasury activities.

Interest rate risks arising in the majority of Wealth Management and Retail & Corporate locations are transferred either by means of back-to-back transactions or, in the case of products with no contractual maturity date or direct market-linked rate, by "replicating" portfolios from the originating business into Group Treasury where they are netted against interest rate risks from other sources. Residual interest rate risks in Wealth Management and Retail & Corporate locations that are not transferred to Group Treasury are managed locally and subject to independent monitoring and control both in the locations by local risk control units as well as centrally by Treasury Risk Control.

Group Treasury manages two main types of interest rate risk positions. One type is the risk transferred from Wealth Management and Retail & Corporate banking operations (mentioned above). The other type arises from investing or funding non-monetary corporate balance sheet items that have indefinite maturities, such as equity and goodwill. For these items senior management has defined specific target durations based on which we fund and invest as applicable. These targets are defined by replication portfolios, which establish rolling benchmarks to execute against. The table on the next page includes any residual risk in the Group Treasury books against these benchmarks. This activity and associated sensitivities of these replication portfolios are further discussed in the Group Treasury section.

In addition to its regular risk management activities, Group Treasury may execute transactions that aim to economically hedge negative effects on our net interest income stemming from the prolonged period of extraordinarily low yields, mainly through income-generating fixed receiver swaps.

Interest rate risk within Wealth Management Americas arises from the business division's investment portfolio in addition to its lending and deposit products offered to clients. This interest rate risk is closely measured, monitored and managed within approved risk limits and controls, taking into account Wealth Management Americas' balance sheet items that mutually offset interest rate risk. The Corporate Center Legacy Portfolio assets that were reclassified to Loans and receivables from Held for trading in the fourth quarter of 2008 and the first quarter of 2009, and certain other debt securities held as Loans and receivables, also give rise to nontrading interest rate risk.

➔ **Refer to the "Interest rate and currency management" section of this report for more information**

The interest rate risk sensitivity figures presented in the table "Interest rate sensitivity – banking book" represent the impacts of +1, ± 100 and ±200-basis-point parallel moves in yield curves on present values of future cash flows, irrespective of accounting

treatment. For some portfolios, the +1-basis-point sensitivity has been estimated by dividing the +100-basis-point sensitivity by 100. Due to the low level of interest rates, the downward moves by 100/200 basis-points sensitivities are floored at zero to ensure that the resulting interest rates are not negative. This effect, combined with pre-payment risk on US mortgage products, results in nonlinear behavior of the sensitivity.

During the second quarter of 2012, we modified our calculation approach. Client rate durations are no longer assumed to be responsive to the applied instantaneous yield curve changes, with the exception of those products contractually referencing market rates. The figures for 31 December 2011 have been restated to reflect these changes.

The impact of an adverse parallel shift in interest rates of 200 basis points on our non-trading interest rate risk exposures is significantly below the threshold of 20% of eligible capital set by regulators.

As part of its management of interest rate risk, Group Treasury has managed portfolios that aimed to economically hedge negative effects on the firm's interest income stemming from the unusually low yield environment, as discussed in the "Interest rate and currency management" section of this report. The risk positions in these portfolios were closed during the third quarter 2012, largely explaining the change in the overall banking book sensitivity profile compared with the prior year-end.

Interest rate sensitivity of available-for-sale debt investments

Audited

Debt investments classified as *Financial investments available-for-sale* amounted to CHF 65.7 billion on 31 December 2012 compared with CHF 52.5 billion on 31 December 2011. The sensitivity of these positions (excluding hedges and excluding investments in funds accounted for as available-for-sale) to a 1-basis-point parallel increase in the yields of the respective instruments is approximately negative CHF 8.2 million, which would be recorded in other comprehensive income if such change occurred. The interest rate sensitivity of this position including the associated hedges is included within the table "Interest rate sensitivity – banking book", some elements of which are additionally included in VaR.

➔ **Refer to "Note 14 Financial investments available-for-sale" in the "Financial information" section of this report for more information**

➔ **Refer to "Debt investments" in the "Credit risk" section of this report for more information**

Interest rate sensitivity of interest rate swaps designated in cash flow hedges

Audited

Fair value gains or losses associated with the effective portion of interest rate swaps designated as cash flow hedges for cash flow repricing risk are recognized initially in Equity. When the hedged forecast cash flows affect profit or loss, the associated gains or losses on the hedging derivatives are reclassified from *Equity* to profit or loss. Interest rate swaps designated in cash flow hedges are denominated in US dollar, euro, British pound, Swiss franc and Canadian dollar. As of 31 December 2012, the fair value of these interest rate swaps amounted to CHF 7.8 billion (positive replacement values) and CHF 3.0 billion (negative replacement values). The impact on other comprehensive income under IFRS of a 1-basis-point increase of underlying LIBOR curves would have decreased equity by approximately CHF 23.7 million. The interest rate sensitivity of these swaps is included in the table below "Interest rate sensitivity – banking book" some elements of which are additionally included in VaR disclosure.

Audited

Interest rate sensitivity – banking book[1]

CHF million	31.12.12				
	–200 bps	–100 bps	+1 bp	+100 bps	+200 bps
CHF	**(22.4)**	**(13.4)**	**(0.3)**	**(27.5)**	**(51.0)**
EUR	**21.0**	**13.3**	**(0.5)**	**(48.5)**	**(94.1)**
GBP	**(0.5)**	**2.3**	**(0.1)**	**(14.3)**	**(29.5)**
USD	**(197.3)**	**(138.3)**	**4.1**	**412.6**	**793.7**
Other	**(8.3)**	**(10.5)**	**0.2**	**20.2**	**40.3**
Total impact on interest rate-sensitive banking book positions	**(207.4)**	**(146.7)**	**3.3**	**342.5**	**659.4**

CHF million	31.12.11				
	–200 bps	–100 bps	+1 bp	+100 bps	+200 bps
CHF	14.3	17.5	(0.7)	(66.9)	(130.2)
EUR	316.8	169.6	(1.6)	(160.3)	(314.1)
GBP	(6.9)	(9.4)	0.1	13.2	25.6
USD	153.5	117.3	(1.6)	(157.0)	(385.4)
Other	17.2	3.5	(0.2)	(13.4)	(25.2)
Total impact on interest rate-sensitive banking book positions	**494.9**	**298.5**	**(4.0)**	**(384.2)**	**(829.3)**

1 Does not include interest rate sensitivities for credit valuation adjustments on monoline credit protection, US and non-US reference-linked notes and the option to acquire equity of the SNB StabFund for which the interest rate sensitivities are separately disclosed. Also not included are the interest rate sensitivities of our inventory of student loan auction rate securities, as from an economic perspective these exposures are not materially affected by parallel shifts in US dollar interest rates, holding other factors constant.

Non-trading portfolios – valuation and sensitivity information by instrument category

Credit valuation adjustments on monoline credit protection

Audited

Included in our Legacy Portfolio are trades whereby we purchased credit default swaps (CDS) protection from monoline insurers against UBS-held underlyings, including residential mortgage-backed securities (RMBS) collateralized debt obligations (CDO) and commercial mortgage-backed securities (CMBS) CDO, transactions with collateralized loan obligations (CLO) and asset-backed securities (ABS) CDO. Since the start of the financial crisis, the credit valuation adjustments (CVA) relating to these monoline exposures have been a source of valuation uncertainty, given market illiquidity and the contractual terms of these exposures relative to other monoline-related instruments.

CVA amounts related to monoline credit protection are based on a methodology that uses CDS spreads on the monolines as a key input in determining an implied level of expected loss. Where a monoline has no observable CDS spread, a judgment is made on the most comparable monoline or combination of monolines, and the corresponding spreads are used instead. For RMBS CDO, CMBS CDO and CLO asset categories, cash flow projections are used in conjunction with current fair values of the underlying assets to provide estimates of expected future exposure levels. For other asset categories, future exposure is derived from current exposure levels.

To assess the sensitivity of the monoline CVA calculation to alternative assumptions, the impact of a 10% increase in monoline CDS spreads (e.g. from 1,000 basis points to 1,100 basis points for a specific monoline) was considered. On 31 December 2012, such an increase would have resulted in a USD 15 million (CHF 13 million) increase in the reported monoline CVA compared with USD 39 million (CHF 37 million) on 31 December 2011.

The sensitivity of the monoline CVA to a decrease of 1 percentage point in the monoline recovery rate assumptions (e.g. from 30% to 29% for a specific monoline, conditional on default occurring) is estimated to increase the reported figures by approximately USD 3 million (CHF 2 million) compared with USD 11 million (CHF 10 million) on 31 December 2011. The sensitivity to credit spreads and recovery rates is substantially linear.

US reference-linked notes

Audited

The US reference-linked notes (RLN) consist of a series of transactions whereby UBS purchased credit protection, predominantly in note form, on a notional portfolio of fixed income assets. The referenced assets are primarily CMBS and subprime RMBS and/or corporate bonds and loans across all rating categories. While the assets in the portfolio are marked-to-market, the credit protection embodied in the RLN is fair valued using a market standard approach to the valuation of portfolio credit protection (Gaussian copula). This approach is intended to effectively simulate correlated defaults within the portfolio, where the expected losses and defaults of the individual assets are closely linked to the observed market prices (spread levels) of those assets. Key assumptions of the model include correlations and recovery rates. We apply fair value adjustments related to potential uncertainty in each of these parameters, which are only partly observable. In addition, we apply fair value adjustments for uncertainties associated with the use of observed spread levels as the primary inputs. These fair value adjustments are calculated by applying shocks to the relevant parameters and revaluing the credit protection. These shocks for correlation, recovery and spreads are set to various levels depending on the asset type and/or region and may vary over time depending on the best judgment of the relevant trading and control personnel. Correlation and recovery shocks are generally in the reasonably possible range of 5 to 15 percentage points. Spread shocks vary more widely and depend on whether the underlying protection is funded or unfunded to reflect cash or synthetic basis effects. These fair value adjustments may also be considered a measurement of sensitivity.

On 31 December 2012, the fair value of the US RLN credit protection was USD 120 million (CHF 110 million) including adjustments described above of USD 11 million (CHF 10 million). This compares with USD 319 million (CHF 299 million) on 31 December 2011, which included an adjustment of USD 22 million (CHF 21 million). The reduction in the fair value was largely due to writedowns in the reference pool assets which led to reductions in the notional exposure and corresponding fair values changes.

Non-US reference-linked notes

Audited

The same valuation model and the same approach to the calculation of fair value adjustments are applied to the non-US RLN credit protection and the US RLN credit protection as described above, except that the spread is shocked by 10% for European corporate names.

On 31 December 2012, the fair value of the non-US RLN credit protection was USD 214 million (CHF 195 million) including adjustments of USD 42 million (CHF 39 million). This compares with a fair value of USD 468 million (CHF 439 million) on 31 December 2011, which included adjustments of USD 46 million (CHF 43 million). The reduction of the fair value exposure was mainly due to mark-to-market changes and buybacks.

Option to acquire equity of the SNB StabFund

Audited

Our call option to purchase the SNB StabFund's equity is recognized on the balance sheet as a derivative at fair value (positive replacement values) with changes to fair value recognized in profit or loss. On 31 December 2012, the fair value of the call option (after reserves) was USD 2,297 million (CHF 2,103 million). This compares with USD 1,736 million (CHF 1,629 million) on 31 December 2011. The increase in the value of the option is primarily attributable to an increase in the market value of the underlying SNB StabFund assets.

The option valuation model utilizes cash flow projections for assets within the SNB StabFund across various economic scenarios. This model is calibrated to market levels by setting the spread above the one-month LIBOR rates used to discount future cash

Audited flows, such that the model-generated price of the underlying asset pool equals our assessed fair value of the asset pool. The model incorporates a model reserve (fair value adjustment) to address the inherent valuation uncertainty associated with the forecasting process. On 31 December 2012, this adjustment was USD 173 million (CHF 158 million) compared with USD 131 million (CHF 123 million) on 31 December 2011.

On 31 December 2012, a 100-basis-point increase in the discount rate would have decreased the option value by USD 181 million (CHF 166 million) compared with USD 139 million (CHF 130 million) on 31 December 2011. A 100-basis-point decrease would have increased the option value by approximately USD 201 million (CHF 184 million) compared with USD 155 million (CHF 145 million) on 31 December 2011.

Equity investments

Audited Under IFRS, equity investments not in the trading book may be classified as *Financial investments available-for-sale, Financial assets designated at fair value through profit or loss* or *Investments in associates.*

We may make direct investments in a variety of entities or buy equity holdings in both listed and unlisted companies for a variety of purposes, including revenue generation or as part of strategic initiatives. Other investments, such as exchange and clearing house memberships, are held to support our business activities. We may also make investments in funds that we manage, in order to fund or "seed" them at inception, or to demonstrate that our interests concur with those of investors. We also buy, and are sometimes required by agreement to buy, securities and units from funds that we have sold to clients. The fair value of equity investments tends to be dominated by factors specific to the individual stocks, and our equity investments are generally intended to be held for the medium or long term and may be subject to lockup agreements. For these reasons, we generally do not control these exposures using the market risk measures applied to trading activities. Such equity investments are, however, subject to a different range of controls, including pre-approval of new investments by business management and Risk Control and regular monitoring and reporting. They are also included in our firm-wide earnings-at-risk, capital-at-risk and combined stress test frameworks.

Audited Investments made as part of an ongoing business are also subject to our standard controls, including portfolio and concentration limits. Seed money and co-investments in UBS-managed funds made by Global Asset Management are, for example, subject to a portfolio limit. All investments must be approved by delegated authorities and are monitored and reported to senior management.

Composition of equity investments

Audited On 31 December 2012, we held equity investments totaling CHF 1.6 billion, of which CHF 0.7 billion were classified as *Financial investments available-for-sale,* and CHF 0.9 billion as *Investments in associates.*

This compares with 31 December 2011, when we held equity investments totaling CHF 1.5 billion, of which CHF 0.7 billion were classified as *Financial investments available-for-sale* and CHF 0.8 billion as *Investments in associates.*

➔ **Refer to "Note 14 Financial investments available-for-sale" and "Note 15 Investments in associates" in the "Financial information" section of this report for more information**

Treasury risk control

Treasury assumes risks in the process of managing interest rate and structural foreign exchange risks and the funding and liquidity profile of the bank. Our treasury risk control function applies a holistic risk framework which sets the appetite for treasury-related risk-taking activities across the firm. This ensures that the risks remain within parameters defined by the Board of Directors (BoD) and the Group Asset and Liability Management Committee. A key element of the framework is an overarching economic value sensitivity limit, set by the BoD. This limit is linked to the level of Basel III common equity tier 1 capital (CET1) and takes into account risks arising from interest rates, foreign exchange and credit spread risks. In addition, the sensitivity of Net interest income to changes in interest rates is monitored against targets set by the Group Chief Executive Officer in order to analyze the outlook and volatility of Net interest income based on market expected interest rates. Limits are also set by the BoD to balance the impact of foreign exchange movements on our common equity and tier 1 ratio.

Operational risk

Operational risk is the risk resulting from inadequate or failed internal processes, human error and systems failure, or from external causes (deliberate, accidental or natural). Such events may cause direct financial losses or manifest themselves indirectly as revenue forgone due to the suspension of business. They may also result in damage to our reputation and to our franchise, leading to longer-term financial implications.

Operational risk is an inevitable consequence of being in business, and managing it is a core element of our business activities. Our aim is to provide a framework that supports the identification and assessment of material operational risks and their potential concentrations in order to achieve an appropriate balance between risk and reward. We seek to foster a strong firm-wide risk and control culture, which is a pre-requisite for sustainable and improved performance.

Organizational structure and governance

The business division Chief Executive Officers and the Corporate Center function heads are ultimately accountable for the effectiveness of operational risk management and implementation of our operational risk framework. Responsibility for the front-to-back control environment in the business divisions is the responsibility of the respective business divisions' Chief Executive Officers but is delegated to the respective business divisions' Chief Operating Officers. Management in all functions (business, logistics and control functions) is responsible for establishing an appropriate operational risk management environment, including the establishment and maintenance of robust internal controls, effective supervision and a strong risk culture. Controls must be regularly assessed, utilizing evidence to confirm design and operating effectiveness.

Operational risk control provides an independent and objective view on the adequacy of operational risk management in the firm. It is governed by the Operational Risk Management Committee, which is chaired by the Global Head of Operational Risk Control, who reports to the Group Chief Risk Officer and is a member of the Risk Executive Committee. The Operational Risk Management Committee oversees operational risk activities and work streams, ensures oversight of the implementation of the operational risk framework, and provides an effective and independent assessment of the operational risk profile.

Operational risk framework

The operational risk framework describes general requirements for managing and controlling operational risk at UBS. The implementation of the enhanced operational risk framework remained a key focus during 2012. The framework is built on four main pillars:

1. Classification of inherent risks through the operational risk taxonomy
2. Assessment of the design and operating effectiveness of controls through the internal control assessment process
3. Assessment of residual risk through the operational risk assessment process
4. Remediation to address identified deficiencies which are outside accepted levels of residual risk

The operational risk taxonomy provides a clear and logical classification of our inherent operational risks across all business divisions. The operational risk framework requires that for each category of the operational risk taxonomy, core controls are defined. Core controls are the critical controls that, if designed and operating effectively, will materially ensure that our operational risk profile stays within acceptable boundaries. The completeness of core controls is tested using scenarios through which the inherent risk, including stress and tail risk, may materialize. Functions are required to identify key procedural controls relevant to their activities that support the core controls. Full implementation and integration of scenarios, core and key procedural controls and their periodic review is key to ensuring a comprehensive view of the residual risk in the organization. The periodic review is achieved through a quarterly internal control assessment process that requires functions to assess and evidence operating and design effectiveness of their key procedural controls. This also forms the basis for the assessment and testing of controls over financial reporting as required by the Sarbanes-Oxley Act, Section 404 (SOX 404). The enhanced framework facilitates the identification of SOX 404 relevant controls for independent testing and functional assessments, gathering of evidence, management affirmation and remediation tracking. Significant control deficiencies surfaced during the operational risk assessment process must be reported in the operational risk inventory and sustainable remediation instigated. All significant issues are assigned to owners at senior management level and must be reflected in the respective employees' annual performance measurement and management objectives and evaluation to ensure effective remediation.

The aggregated impact of the control deficiencies and the adequacy of remediation efforts are assessed by operational risk control for all relevant operational risk taxonomy categories as part of the operational risk assessment process. This front-to-back process, complemented with internal expert opinion, provides a transparent assessment of the current operational risk exposure for residual operational risk against agreed risk appetite statements and measures.

Risk appetite measures indicate a breach of appetite limits, which requires management to adapt their business activities or adjust the internal control environment accordingly. Risk appetite

can be expressed through the establishment of quantitative constraints such as operating limits or qualitative statements in the form of policies. In the third quarter of 2012, Group Internal Audit implemented an enhanced assurance process for issue closure to promote stronger management discipline for identifying, mitigating and sustainably remediating risk control issues. To assist with prioritization of all known operational risk issues irrespective of origin, a common rating methodology was adopted by all internal control functions and both internal and external audit. Assessment of all known issues irrespective of source against the same rating scale supports clear prioritization and appropriate management focus on the key issues. An operational risk communications program was launched in July 2012 to reemphasize the importance of a strong risk control culture and individual responsibility across all levels of the firm to generate sustainable financial performance.

Reporting of significant risk issues and operational effectiveness was extended and strengthened through 2012. Where a particular operational risk issue is considered of strategic concern to the firm it is categorized as a 'Group Significant Operational Risk Issue'. Remediation programs related to these issues are led by members of the Group Executive Board and is subject to independent quality assurance. Completion is assessed against clearly defined success criteria to confirm that an adequate and sustainable standard of control has been achieved. The Group Executive Board members have confirmed their personal and collective commitment to the timely and sustainable remediation of Group Significant Operational Risk Issues.

Remediation of known issues and control deficiencies is a focus of the operational risk framework. In 2012 material progress was made in relation to a number of key remediation activities.

The Investment Bank's unauthorized trading incident (UTI) remediation programme is running to plan and the key issues have been remediated, with all remaining items on plan for implementation by the second quarter 2013. A series of immediate remediation steps were taken, including senior management changes and the remediation of the SOX material weakness.

On 19 December 2012, UBS entered into regulatory settlements concerning LIBOR and other benchmark interest rates. On the same day FINMA issued an order concluding proceedings against UBS concerning the same issues. These settlements and the FINMA order required UBS to pay a total of approximately CHF 1.4 billion in fines and disgorgement. The conduct encompassed by the regulatory settlements and order includes certain UBS personnel engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions, colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions, and giving inappropriate directions to UBS submitters. We have undertaken remedial steps that are designed to guard against a recurrence of this conduct, such as strengthening our benchmark submission process, making organizational changes that include transferring responsibility for that process principally to Group Treasury within the Corporate Center, and enhancing applicable policies and procedures.

Operational risk quantification

The enhanced operational risk framework is aligned to the calculation of capital, representing a major step forward in our approach to quantifying operational risk and setting effective management incentives. The processes detailed above are integral to the quantification of operational risk reinforcing integration and alignment of the operational risk framework and the calculation of capital.

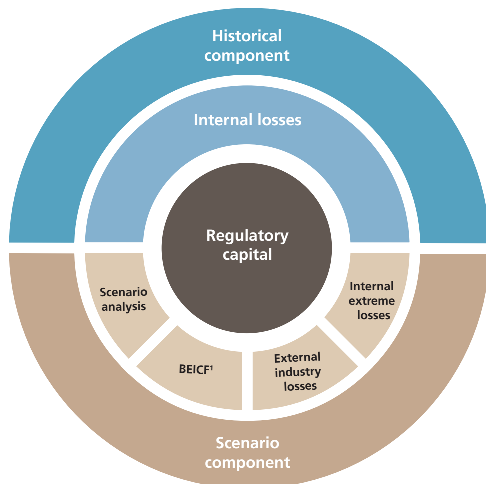
We measure operational risk exposure and calculate operational risk regulatory capital by utilizing the advanced measurement approach (AMA) in accordance with FINMA requirements. For regulated subsidiaries, the basic indicator or standardized approaches are adopted as agreed with local regulators.

Advanced measurement approach model

The AMA model is a hybrid consisting of two main components. The historical component is a retrospective view based on our history of operational risk losses since January 2002, excluding extreme internal losses, which are assigned to the scenario component to avoid duplication. The key assumption within this component is that past events form a reasonable proxy for future events. A distribution of aggregated losses over one year is derived by modeling severities and frequencies separately and then combining them. This is referred to as a loss distribution approach and is used to project future total losses based on historical experience and determine the expected loss portion of our capital requirement.

The scenario component is a forward-looking view of potential operational losses that may occur based on the operational risk issues facing the bank. The aim is to reach a reasonable estimate of unexpected or tail loss exposure (corresponding to a low frequency/high severity event). We use twenty AMA taxonomy categories which are closely aligned to the operational risk taxonomy. For each of these categories three frequency/severity pairs are defined, representing the base, stress and worst case. Calibration is based on internal extreme losses, loss data from peer banks, business environment and internal control factors, as well as extensive annual verification by internal subject matter experts based on their view of our particular exposure to these risk taxonomies. The following chart provides a high-level overview of the model components and their respective inputs into the calculation:

AMA model components and inputs



1 Business environment and internal control factors.

The AMA model adds the sampled losses from the historical and the scenario component to derive the regulatory capital figure which equals the 99.9% quantile of the overall loss distribution. Currently, we do not reflect mitigation through insurance or any other risk transfer mechanism in our AMA model.

Following qualitative and quantitative model-related enhancements, in 2012 we focused on further strengthening the integration of the output of the operational risk framework into the AMA model to ensure efficient leverage of operational risk management and control processes. The AMA taxonomy categories used in the scenario component have been aligned with the operational risk taxonomy. Qualitative adjustments to the parameters of the scenario component utilize the assessments of operational risk exposure resulting from the operational risk assessment process as well as control deficiencies, scenarios and core controls.

Operational risk regulatory capital is allocated to the business divisions based on historical operational risk-related losses. In 2013 we will focus on enhancing the allocation approach to strengthen the linkage between the quality of operational risk management and the resulting capital allocation with the aim of promoting and incentivizing excellence in risk management behavior. Increased leverage of available qualitative indicators and elements will play an integral role for capital allocation purposes and increase the risk sensitivity of the capital allocation approach overall.

➔ **Refer to the "Capital management" section of this report for more information on the development of risk-weighted assets for operational risk**

Treasury management

Group Treasury oversees the balance sheet and the usage of our critical financial resources. Included in Group Treasury's mandate is responsibility for managing the capital, liquidity, and funding position of the firm. Additionally, Group Treasury manages interest rate, currency and counterparty risks that arise from franchise, balance sheet and capital management activities.

Treasury management

The responsibility for performing treasury activities was evaluated and then reorganized in 2012. Previously, Group Treasury primarily performed a governance role that included forecasting capital, liquidity and funding requirements and establishing and monitoring group and divisional limits and targets. Divisional treasury functions performed intra divisional governance. Within the Investment Bank, the Asset Liability Management unit managed the short-term asset/liability position as well as the firm's counterparty risk exposure.

In conjunction with the accelerated implementation of our strategy announced in October 2012, the Asset Liability Management unit was transferred from the Investment Bank to Group Treasury within the Corporate Center in the fourth quarter of 2012. Group Treasury now performs complete front-to-back governance and planning activities and executes funding and risk management transactions as a service to the Group and the business divisions. The new organization and mandate of Group Treasury enables greater control over financial resources and enhanced efficiency in sourcing and distributing resources to the operating businesses. Responsibility for implementation of the control framework for Treasury activities, besides liquidity and funding risk which are under the responsibility of Treasury, is with Risk Control.

Financial resource governance

The Group Asset and Liability Management Committee (Group ALCO) ensures that our assets and liabilities are managed in line with our overall Group strategy as defined by the Board of Directors (BoD) and the Group Executive Board (GEB), as well as our regulatory commitments, and the interests of shareholders and other stakeholders.

Group Treasury provides the Group ALCO with monthly reporting on our financial resources (e.g. balance sheet, capital, liquidity and funding) needed to monitor our asset and liability management policies and processes, and to ensure they are effective under prevailing and prospective conditions.

Liquidity and funding management

Audited

We define liquidity risk as the risk of being unable to generate sufficient funds from assets to meet payment obligations when they fall due. Funding risk is the risk of being unable to borrow funds in the market on an ongoing basis at an acceptable price to fund actual or proposed commitments, thereby supporting our current business and strategic direction.

Liquidity and funding are critical for a financial institution. They must be managed continuously to ensure they can be adjusted to sudden changes in market conditions or the operating environment, whether widespread or relatively small. An institution that is unable to meet its liabilities when they fall due may fail even if its assets exceed its liabilities, because it is unable to borrow sufficient funds on an unsecured basis, has insufficient high-quality assets to borrow against or has insufficient liquid assets it can sell to raise the cash it needs immediately.

➔ Refer to "Current market climate and industry drivers" in the "Operating environment and strategy" section for more information

Liquidity and funding management

Audited

Our liquidity and funding strategy is proposed by Group Treasury, approved by the Group Asset and Liability Management Committee (Group ALCO) and overseen by the Board of Directors Risk Committee. Liquidity and funding limits are set at Group and business division levels, and are reviewed and approved at least once a year by the BoD, the Group ALCO, the Group Chief Financial Officer (Group CFO) and the Group Treasurer. Group Treasury monitors and oversees the implementation and execution of our liquidity and funding strategy, and ensures adherence to our liquidity and funding policies including limits, and reports the bank's overall liquidity and funding position at least monthly to the Group ALCO and the Board of Directors Risk Committee.

We aim to maintain a sound liquidity position to meet all our liabilities when due, whether under normal or stressed conditions, without incurring unacceptable losses or risking sustained damage to our various businesses. We employ an integrated liquidity and funding framework to govern the liquidity management of all our branches and subsidiaries.

We perform stress analysis to determine the asset/liability structure that allows us to maintain an appropriately balanced liquidity and funding position under various scenarios. Furthermore, we manage our liquidity and funding risk with the overall objective of optimizing the value of our business franchise across a broad range of temporal market conditions.

Audited

We monitor both the contractual and behavioral maturity profile of the balance sheet (as described under "Liquidity modeling"). In the behavioral maturity profile, we model the liquidity exposures of the firm under a variety of potential scenarios that encompass normal and stressed market conditions.

Our major sources of liquidity are channeled through entities that are fully consolidated. We consider the possible impact on our access to markets from stress events affecting some or all parts of our business. The results of this analysis are factored into our overall contingency plans for a liquidity crisis, which are then incorporated into our wider crisis management process.

We continuously refine the assumptions used in our crisis scenario and maintain a robust, actionable and tested contingency plan. A key component of this framework is an assessment and regular testing of all material, known and expected cash flows as well as the level and availability of high-grade collateral that could be used to raise additional funding if required.

➔ Refer to "Transfer of capital and funding within UBS Group" in the "Capital management" section for more information

Liquidity management

Audited

We manage our liquidity position to provide adequate time and financial flexibility to respond to a UBS-specific liquidity crisis in a generally stressed market environment. Complementing this, our funding risk management aims for the optimal liability structure to finance our businesses reliably and cost-efficiently.

Our business activities generate asset and liability portfolios that are highly diversified with respect to market, product, tenor and currency. This reduces our exposure to individual funding sources and provides a broad range of investment opportunities, reducing liquidity risk.

Our funding diversification and global scope help protect our liquidity position in the event of a crisis. The liquidity and funding process is undertaken by Group Treasury by managing operational cash and collateral within a control framework set by Treasury Risk Control. This permits close control of both our cash position and our portfolio of high-quality liquid securities.

Liquidity modeling

Audited

For the purpose of monitoring our liquidity situation, we employ the following main measures:

– An operational cash ladder which is used to monitor our funding requirements on a daily basis within limits set by the Group ALCO, the Group CFO and the Group Treasurer. This cumulative cash ladder shows the projected daily funding position – the net cumulative funding requirement for a specific day – from the current day to three months forward.
– A stressed version of the *operational cash ladder* which uses behavioral assumptions that model a severe liquidity crisis scenario in a generally stressed market environment. This stress scenario is run daily and used to project potential outflows over a one-month time horizon.

Audited

- A maturity gap analysis which is comprised of a *contractual maturity* gap analysis of our assets and liabilities over a one-year time horizon, and a behavioral maturity gap analysis under an assumed UBS-specific liquidity crisis in combination with a generally stressed market environment over a one-year time horizon.
- A cash capital model which measures the amount of long-term funding or stable customer deposits, long-term debt (over one year) and equity available to fund illiquid assets. Cash capital consumption reflects the illiquid portion of the assets which could not be transformed into cash by secured funding. For a given asset, the illiquid portion is the difference (the haircut) between the carrying value of an asset on the balance sheet and its effective cash value when used as collateral in a secured funding transaction. Our cash capital supply consists of long-term sources of funds: unsecured funding with remaining time to maturity of at least one year; shareholders' equity; and core deposits – the portion of our customer deposits that are deemed to have a behavioral maturity of at least one year.

A breakdown of the contractual maturities of our assets and liabilities serves as the starting point for stress testing analyses. This contractual view is adjusted to include behavioral components as well as a more detailed breakdown of asset and liability types.

The liquidity crisis scenario combines a UBS-specific crisis with market disruption and focuses on a time horizon of up to one year. This scenario assumes large drawdowns on otherwise stable client deposits mainly due on demand; inability to renew or replace maturing unsecured wholesale funding; unusually large drawdowns on loan commitments; reduced capacity to generate liquidity from trading assets; liquidity outflows corresponding to a three-notch downgrade triggering contractual obligations to unwind derivative positions or to deliver additional collateral; and additional collateral needs due to adverse movements in the market values of derivatives. All these models and their assumptions are reviewed regularly to incorporate the latest business and market developments.

Based on UBS's credit ratings as of 31 December 2012, contractual liquidity outflows of approximately CHF 5.2 billion, CHF 8.2 billion and CHF 8.4 billion would have been required in the event of a one-notch, two-notch and three-notch reduction, respectively. In evaluating UBS's liquidity requirements, UBS considers the potential impact of a reduction in UBS's long-term credit ratings, and a corresponding reduction in short-term ratings. Of these outflows, the portion related to derivative instruments is approximately CHF 2.9 billion, CHF 5.8 billion and CHF 6.0 billion in the event of a one-notch, two-notch and three-notch reduction, respectively.

Contingency planning

Audited

Liquidity crisis scenario analysis and contingency planning support the liquidity management process, which ensures that immediate corrective measures to absorb potential sudden liquidity shortfalls can be put into effect. Since a liquidity crisis could have a myriad of causes, we focus on a scenario that encompasses potential stress effects across all markets, currencies and products. The liquidity status indicators combine internal metrics from the liquidity stress models with market data to provide a dashboard of early warning indicators reflecting the current liquidity situation. The liquidity status indicators are used on a Group level to assess both the overall global and regional situations.

Our Group contingency funding plan is an integral part of our global crisis management concept, which covers various types of crisis events. The contingency funding plan contains an assessment of the contingent funding sources in a stressed environment, liquidity status indicators and metrics and contingency procedures. Should a crisis require contingency funding measures to be invoked, Group Treasury is responsible for coordinating liquidity generation with representatives of the relevant business areas.

Our contingent funding sources include a large multi-currency portfolio of high-quality, short-term unencumbered assets managed centrally by Group Treasury, available and unutilized liquidity facilities at several major central banks, and contingent reductions of liquid trading portfolio assets.

Liquidity limits and controls

Audited

Liquidity and funding limits and targets are set by the BoD, the Group ALCO, the Group CFO, the Group Treasurer and the business divisions, taking into consideration current and projected business strategy and risk tolerance. The principles underlying our limit and target framework aim to maximize and sustain the value of our business franchise and maintain an appropriate balance in the asset/liability structure. Structural limits and targets focus on the structure and composition of the balance sheet, while supplementary limits and targets are designed to drive the utilization, diversification and allocation of funding resources. Together the limits and targets focus on liquidity and funding risk for periods out to one year, including stress testing. Group Treasury is responsible for the oversight of the liquidity and funding limits and targets. Performance is monitored against limits and targets and regularly communicated to senior management. These limits and targets are, at least annually, reviewed and reconfirmed by the respective authorities.

To complement and support the limit framework, Group Treasury monitors the markets in which we operate for potential threats.

Funds transfer pricing

Funding costs and benefits are allocated to our business divisions according to our liquidity and funding risk management framework. Our internal funds transfer pricing system is designed to provide the proper liability structure to support the assets and planned activities of each business division while minimizing cross-divisional subsidies. The funds transfer pricing mechanism aims to allocate funding and liquidity costs to the activities generating the liquidity and funding risks and deals with the movement of funds from those businesses in surplus to those that

have a shortfall. Funding is internally transferred or allocated among businesses at rates and tenors that reflect each business' asset composition, liquidity and reliable external funding. We continue to review and enhance our internal funds transfer pricing system.

Liquidity regulation

At the end of 2012, we continued to maintain a sound liquidity position with a liquid asset buffer as per regulatory guidance for Basel III liquidity coverage ratio (LCR) of CHF 153 billion and additional contingent funding sources of CHF 64 billion. In aggregate, these sources of available liquidity represented 26% of our funded balance sheet assets.

Throughout 2012, UBS was in compliance with Swiss Financial Market Supervisory Authority (FINMA) liquidity requirements.

In December 2010, the Basel Committee on Banking Supervision published the "International framework for liquidity risk measurement, standards and monitoring" (Basel III Liquidity). The framework comprises two liquidity ratios: the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

Currently, banks employ a wide range of interpretations to calculate the Basel III LCR and NSFR. LCR ensures that banks hold enough highly liquid assets to survive short-term (30-day) severe general market and firm-specific stress. NSFR assigns a required stable funding factor to assets (representing the illiquid part of the assets) and assigns all liabilities an available stable funding factor (representing the stickiness of a liability) in order to ensure that banks are not overly reliant on short-term funding and have sufficient long-term funding for illiquid assets. The future minimum regulatory requirement is 100% for both LCR (as of 2019) and NSFR (as of 2018). On 6 January 2013, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, endorsed amendments to the LCR to allow, among others, a phasing-in of the minimum LCR requirement from 60% in 2015 to 100% by 2019.

On 31 December 2012, our estimated pro-forma regulatory Basel III LCR was 113%, based on current supervisory guidance from FINMA. We also calculate a management LCR that includes additional high-quality and unencumbered contingent funding sources not eligible in the regulatory Basel III liquidity framework such as dedicated local liquidity reserves and additional unutilized borrowing capacity. At the end of 2012, the management LCR stood at 159%. On 31 December 2012, our estimated pro-forma NSFR was 108%, based on current regulatory guidance. The calculation of our pro-forma Basel III liquidity ratios includes estimates of the impact of the rules and interpretation and will be refined as regulatory interpretations evolve and as new models and the associated systems are enhanced.

➔ Refer to the "Regulatory developments" section of this report for more information

Funding management

With the implementation of the revised Treasury Operating model, funding processes that had previously been undertaken by the treasury trading and the short term interest rate units in the Investment Bank's fixed income, currencies and commodities (FICC) business were transferred and consolidated in Group Treasury.

Group Treasury manages operational cash and collateral within established limits and controls defined by Treasury Risk. This permits close control of both our cash position and our stock of high-quality liquid securities and ensures that the firm's general access to whole-

Audited

UBS asset funding

CHF billion, except where indicated

As of 31.12.12

Assets

88	Cash, balances with central banks and due from banks
66	Financial investments available-for-sale
168	Cash collateral on securities borrowed and reverse repurchase agreements
161	Trading portfolio assets
280	Loans
101	Other (including net replacement values)

CHF 121 billion collateral surplus

133% coverage CHF 92 billion surplus

Liabilities and equity

Due to banks		23	
Short-term debt issued[1]		32	
Cash collateral on securities lent and repurchase agreements		47	
Trading portfolio liabilities		34	
Due to customers	Demand deposits	161	372
	Time deposits	51	
	Fiduciary deposits	25	
	Retail savings/deposits	134	
Long-term debt issued[2]	Financial liabilities designated at fair value[3]	93	165
	Held at amortized cost	72	
Other		140	
Total equity		50	

1 Short-term debt issued is comprised of certificates of deposit, commercial paper, acceptances and promisory notes, and other money market paper. 2 Long-term debt issued also includes remaining maturities of less than 1 year. 3 Including Structured debt instruments – OTC.

sale cash markets is centralized in Group Treasury. Group Treasury in turn meets internal demands for funding by channeling funds from units generating surplus cash to those in need of financing.

Our funding activities are planned by analyzing the overall liquidity and funding profile of our balance sheet, taking into account the amount of stable funding that would be needed to support ongoing business activities through periods of difficult market conditions.

Our liability portfolio is broadly diversified by market, product and currency. Our wealth management businesses and Retail & Corporate represent significant, cost-efficient and reliable sources of funding. In addition, we have numerous short-, medium- and long-term funding programs under which we issue senior unsecured and structured notes. These programs allow institutional and private investors in Europe, the US and Asia Pacific to customize their investments in UBS's debt. We also generate long-term funding by pledging a portion of our portfolio of Swiss residential mortgages as collateral for the Swiss Pfandbriefe and our own covered bond program. A short-term secured funding program sources funding globally, generally for the highest-quality assets. Collectively, these broad product offerings and the global scope of our business activities underpin our funding stability. We expect to have lower funding needs in the future as we continue to implement our strategy. Accordingly, we intend to repurchase debt selectively, as illustrated by our announcement in February 2013 of cash tender offers for various issues of outstanding notes. Group Treasury regularly monitors our funding status including concentration risks to ensure we maintain a well-balanced and diversified liability structure and reports its findings on a monthly basis to the Group ALCO.

Funding position and diversification

The composition of our funding sources shifted in 2012 from secured to unsecured funding and within our unsecured funding sources from short-term wholesale products into client deposits from our wealth management and Retail & Corporate businesses and long-term debt issued.

Overall our customer deposits increased by CHF 29 billion to CHF 372 billion, or 50% of our total funding sources compared with 42% at year-end 2011. Deposits from our wealth management businesses and from Retail & Corporate contributed 98%, or CHF 363 billion, of the total customer deposits (shown in the "UBS asset funding" graph) compared with 95% at year-end 2011. Our outstanding long-term debt, including financial liabilities at fair value, increased by CHF 7 billion during the year to CHF 165 billion. Long-term debt represented 22% of our funding sources as shown in the "UBS: funding by product and currency" table, up from 19% at prior year-end. During the year, we raised CHF 2.7 billion equivalent of public benchmark bonds with an average maturity of 3.3 years while CHF 6.4 billion matured. In addition, we issued CHF 5.0 billion equivalent of covered bonds with an average maturity of 4.4 years and Swiss Pfandbriefe of CHF 1.7 billion. Furthermore, we continued to raise medium- and long-term funds through medium-term notes and private placements throughout the year. In 2012, we executed two issuances of loss-absorbing notes which qualify as tier 2 capital under Basel III rules, and count as progressive buffer capital in compliance with the "too-big-to-fail" law under Swiss regulations for systemically important banks, as well as contributing to our targeted loss-absorbing capital. On 22 February 2012, we issued USD 2.0 billion of tier 2 notes, and on 17 August 2012 we issued a further USD 2.0 billion of tier 2 loss-absorbing notes. Both issuances have a maturity of 10 years.

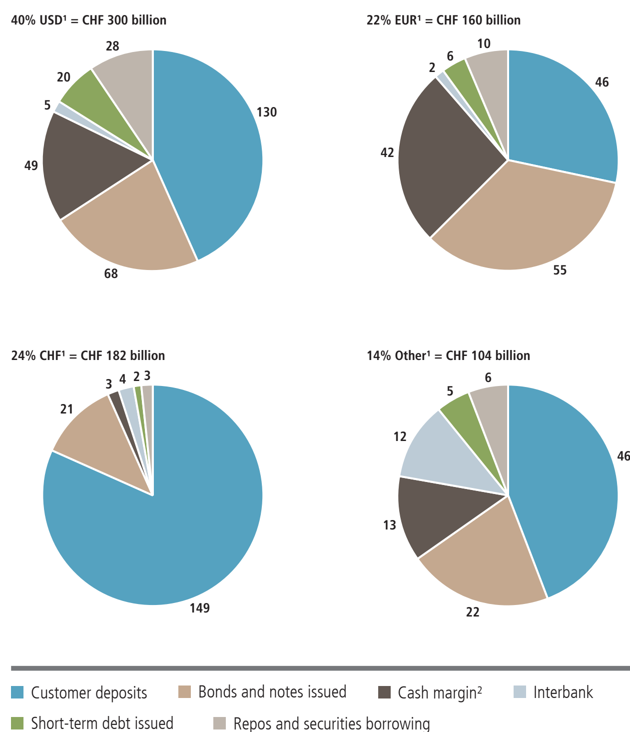
Our short-term interbank deposits (due to banks) and outstanding short-term debt, as a percentage of total funding sources, decreased from 12.4% to 7.5%, mainly reflecting reduced funding requirements as a result of the continued deleveraging of our balance sheet, but also due to the effects of the negative interest charge imposed on financial institutions for Swiss franc clearing accounts effective 21 December 2012.

The secured financing (repurchase agreements and securities lent against cash collateral received) percentage of our funding sources decreased to 6.2% from 13.5%, as shown in the "UBS: funding by product and currency" table. At the end of the year, we borrowed CHF 121 billion less cash on a collateralized basis than we lent, lower than the previous year-end net balance of

Funding by currency

CHF billion

As of 31.12.12



1 Stated as a percent of the total funding sources of CHF 746 billion as of 31 December 2012, comprising repurchase agreements, cash collateral on securities lent, due to banks, short-term debt issued, due to customers, long-term debt (including financial liabilities at fair value), cash collateral payables on derivative transactions and prime brokerage payables. 2 Consists of cash collateral payables on derivative instruments and prime brokerage payables.

UBS: funding by product and currency

In %[1]	All currencies 31.12.12	All currencies 31.12.11	CHF 31.12.12	CHF 31.12.11	EUR 31.12.12	EUR 31.12.11	USD 31.12.12	USD 31.12.11	Others 31.12.12	Others 31.12.11
Securities lending	**1.2**	1.0	**0.4**	0.0	**0.2**	0.2	**0.5**	0.6	**0.2**	0.2
Repurchase agreements	**5.0**	12.5	**0.0**	0.0	**1.1**	1.7	**3.3**	10.0	**0.6**	0.9
Due to banks	**3.1**	3.7	**0.5**	0.7	**0.2**	0.5	**0.7**	0.9	**1.6**	1.7
Short-term debt issued	**4.4**	8.7	**0.3**	0.2	**0.8**	1.4	**2.7**	6.0	**0.6**	1.0
Retail savings / deposits	**18.0**	14.0	**11.8**	9.7	**0.8**	0.7	**5.4**	3.5	**0.0**	0.0
Demand deposits	**21.6**	16.7	**7.8**	6.2	**4.2**	2.9	**6.4**	5.0	**3.2**	2.6
Fiduciary deposits	**3.3**	3.5	**0.1**	0.1	**0.8**	1.0	**2.0**	1.9	**0.5**	0.5
Time deposits	**6.9**	7.8	**0.2**	0.3	**0.5**	1.4	**3.7**	3.5	**2.5**	2.7
Long-term debt issued	**22.1**	19.4	**2.8**	2.4	**7.3**	7.1	**9.1**	7.1	**2.9**	2.7
Cash collateral payables on derivative instruments	**9.5**	8.2	**0.3**	0.3	**5.0**	3.7	**3.2**	3.4	**0.9**	0.9
Prime brokerage payables	**4.8**	4.5	**0.1**	0.1	**0.5**	0.5	**3.3**	3.0	**0.8**	0.9
Total	**100.0**	100.0	**24.4**	20.1	**21.5**	21.1	**40.2**	44.8	**13.9**	14.0

1 As a percent of total funding sources defined as the CHF 746 billion and the CHF 817 billion respectively on the balance sheet as of 31 December 2012 and 31 December 2011, comprising repurchase agreements, cash collateral on securities lent, due to banks, short-term debt issued, due to customers, long-term debt (including financial liabilities at fair value), cash collateral payables on derivative transactions and prime brokerage payables.

CHF 162 billion. The decrease in secured funding and lending was mainly related to the ongoing deleveraging of our balance sheet. As of 31 December 2012, our coverage ratio of customer deposits to our outstanding loan balance was 133%, compared with 128% at the prior year-end.

Due to our progress in reducing balance sheet assets, we have generated capacity within our liquidity and funding position to be able to execute tender offers which will lower our interest expense in the future and will allow for liability structure optimization. We executed the 5 February 2013 announced cash tender offers with respect to 14 senior unsecured note issuances, denominated in US dollar, euro and Italian lira, with tenors between June 2013 and January 2027 and set a total repurchase value of CHF 5.1 billion.

Maturity breakdown of long-term straight debt portfolio

The "Long-term straight debt – contractual maturities" graph shows a contractual maturity breakdown of our long-term straight debt portfolio, and therefore excludes all structured debt, which is predominantly booked as financial liabilities designated at fair value. The long-term straight debt portfolio amounted to CHF 71.6 billion on 31 December 2012. It is composed of CHF 61.0 billion of senior debt including both publicly and privately placed notes and bonds, as well as Swiss cash bonds, and CHF 10.6 billion of subordinated debt. Of the positions shown in the graph, CHF 13.9 billion, or 19%, will mature within one year. In addition, there are CHF 0.9 billion equivalent subordinated debt positions with an early-call date during 2013.

The long-term straight debt forms part of the CHF 105 billion shown on the Debt issued line on the balance sheet.

➔ **Refer to "Note 20 Financial liabilities designated at fair value and debt issued" and "Note 21 Debt issued held at amortized cost" in the "Financial information" section of this report for more information**

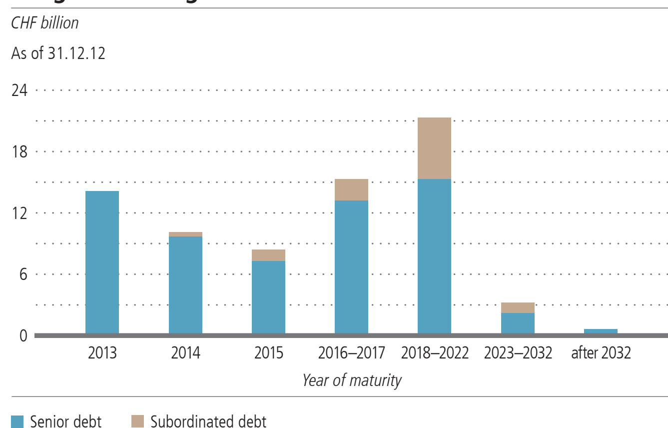
Audited

Maturity analysis of financial liabilities

Contractual maturity information about our assets and liabilities serves as a starting point for the stress testing analyses described earlier. Our liquidity risk management framework includes a behavioral stress analysis, which involves a more detailed assessment of asset and liability cash flows as well as outflows from off-balance sheet exposures.

The contractual maturities of our non-derivative and non-trading financial liabilities as of 31 December 2012 are based on the earliest date on which we could be required to pay. The total amounts that contractually mature in each time-band are also shown for 31 December 2011. Derivative positions and trading liabilities, predominantly made up of short sale transactions, are assigned to the column "On demand", as this provides a conservative reflection of the nature of these trading activities. The contractual maturities may extend over significantly longer periods.

Long-term straight debt – contractual maturities



Audited

Maturity analysis of financial liabilities[1]

CHF billion	On demand	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Financial liabilities recognized on balance sheet[2]							
Due to banks	15.6	3.6	1.2	1.6	1.1	0.0	23.1
Cash collateral on securities lent	7.6	0.5	0.5	0.6			9.2
Repurchase agreements	4.5	23.8	6.8	2.3	0.1	0.1	37.7
Trading portfolio liabilities[3, 4]	34.2						34.2
Negative replacement values[3]	395.1						395.1
Cash collateral payables on derivative instruments	71.1	0.0					71.1
Financial liabilities designated at fair value[5]		3.8	5.0	22.7	41.4	23.5	96.4
Due to customers	297.2	60.3	6.0	7.9	0.5	0.1	372.1
Accrued expenses	0.3	2.5					2.8
Debt issued[5]		14.7	8.6	26.1	41.3	27.9	118.5
Other liabilities	51.0	4.9					55.8
Total 31.12.12	**876.5**	**114.1**	**28.0**	**61.2**	**84.4**	**51.7**	**1,215.9**
Total 31.12.11	902.4	236.1	52.4	44.7	80.7	57.5	1,374.1
Financial liabilities not recognized on balance sheet[6]							
Commitments							
Loan commitments	57.5	1.9	0.1	0.2			59.8
Underwriting commitments		0.2					0.2
Total commitments	57.5	2.1	0.1	0.2	0.0	0.0	60.0
Guarantees	19.4	0.0	0.1	0.1	0.3	0.1	20.1
Forward starting transactions							
Reverse repurchase agreements		18.6					18.6
Securities borrowing agreements		0.2					0.2
Total 31.12.12	**77.0**	**21.0**	**0.2**	**0.3**	**0.3**	**0.1**	**98.8**
Total 31.12.11	75.3	29.2	1.1	0.2	0.1	0.0	105.9

1 Non-financial liabilities such as deferred income, deferred tax liabilities, provisions and liabilities on employee compensation plans are not included in this analysis. 2 Except for trading portfolio liabilities and negative replacement values (see footnote 3), the amounts presented generally represent undiscounted cash flows of future interest and principal payments. 3 Carrying value is fair value. Management believes that this best represents the cash flows that would have to be paid if these positions had to be settled or closed out. Refer to "Note 25 Derivative instruments and hedge accounting" in the "Financial information" section of this report for undiscounted cash flows of derivatives designated in hedge accounting relationships. 4 Contractual maturities of trading portfolio liabilities are: CHF 32.3 billion due within one month (2011: CHF 36.7 billion), CHF 0.5 billion due between one month and one year (2011: CHF 2.8 billion), and CHF 1.3 billion due between 1 and 5 years (2011: CHF 0 billion). 5 Future interest payments on variable rate liabilities are determined by reference to the applicable interest rate prevailing as of the reporting date. Future principal payments which are variable are determined by reference to the conditions existing at the reporting date. 6 Comprises the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

Credit ratings

Credit ratings can affect the cost and availability of funding, especially funding from wholesale unsecured sources. Our credit ratings can also influence the performance of some of our businesses and levels of client and counterparty confidence. Rating agencies take into account a range of factors when assessing creditworthiness and setting credit ratings. These include the company's strategy, its business position and franchise value, stability and quality of earnings, capital adequacy, risk profile and management, liquidity management, diversification of funding sources, asset quality and corporate governance. Credit ratings reflect the opinions of the rating agencies and can change at any time.

On 15 February 2012, as part of an announcement of ratings reviews affecting 114 financial institutions in Europe, Moody's placed UBS's short-term ratings under review for a possible downgrade.

On 21 June 2012, Moody's announced its decision to lower the ratings of 15 global financial institutions with large capital markets activities. UBS AG's deposit and senior debt ratings were downgraded by two notches from "Aa3" to "A2" and the firm's "Prime-1" short-term rating was confirmed. As a result of this review, the outlook on our Moody's ratings is stable.

On 16 August 2012, Standard & Poor's affirmed UBS's "A"/"A-1" long- and short-term counterparty credit ratings and revised the outlook to stable from negative. On 20 December 2012, Standard & Poor's affirmed UBS's long-term rating of "A" and stable outlook.

On 1 November 2012, Fitch affirmed UBS's long-term rating of "A" (stable outlook) and put UBS's "Viability Rating" of "a-" on "Rating Watch Positive".

The abovementioned ratings actions had no discernible impact on our overall liquidity and funding position. If our credit ratings were to be downgraded, "rating trigger" clauses, especially in derivative transactions, could result in an immediate cash outflow due to the unwinding of derivative positions, the need to deliver additional collateral or other ratings-based requirements.

➔ Refer to the "Liquidity modeling" section and "Note 25 Derivative instruments and hedge accounting" in the "Financial information" section of this report for more information relating to one or two notch downgrades

Interest rate and currency management

Management of non-trading interest rate risk

Audited Our largest non-trading interest rate exposures arise within both our wealth management businesses and Retail & Corporate. With the exception of Wealth Management Americas, the inherent interest rate risk exposures are transferred from the originating business into Group Treasury, which manages the risks on an integrated basis allowing for netting across different sources.

➔ **Refer to "Market risk" section of this report for more information on non-trading interest rate risk exposures**

Audited Group Treasury is responsible for the interest rate risk management of Wealth Management and Retail & Corporate transactions executed in the majority of locations. The fixed-rate products do not contain embedded options, such as early prepayment, which would allow clients to prepay at par. All prepayments are therefore subject to market-based unwinding costs.

Current and savings accounts as well as many other retail products of Wealth Management and Retail & Corporate have no contractual maturity date or direct market-linked rate, and therefore their interest rate risk cannot be transferred by simple back-to-back transactions. Instead, they are managed on a pooled basis by replicating portfolios which seek to immunize originating business units as much as possible against market interest rate movements, while allowing the business units to retain and manage their own product margin.

A replicating portfolio is a series of loans or deposits at market rates and fixed terms between the originating business unit and Group Treasury, and is structured to approximate the implied behavioral interest rate cash flow and repricing characteristics through simple back-to-back transactions. The portfolios are rebalanced monthly. Their structure and parameters are based on long-term market observations and client behavior, and are regularly reviewed and adjusted as necessary.

A significant amount of interest rate risk also arises from the financing of non-monetary-related balance sheet items, such as the financing of bank property and equity investments in associated companies. These risks are generally transferred to Group Treasury through replicating portfolios, which in this case are aligned with the tenor mandated by senior management.

Group Treasury manages its residual open interest rate exposures, taking advantage of any offsets that arise between positions from different sources within its approved market risk limits, which include value-at-risk (VaR) and liquidity-adjusted stress (LAS). The preferred risk management instruments are interest rate swaps, for which there is a liquid and flexible market. All transactions are executed through the Investment Bank. Group Treasury does not directly access the external market for swap transactions.

Audited In addition to its regular risk management activities, Group Treasury may execute transactions that aim to economically hedge negative effects on our net interest income stemming from the prolonged period of extraordinarily low yields, mainly through income-generating fixed receiver swaps.

In the third quarter of 2012, we decided to offset certain positions following further declining interest rate levels which limited the potential for additional hedging benefits. We expect the net interest income impact from these actions to be limited. While we recognize that this would increase our exposure to future interest rate margin compression, our assessment concluded that maintaining these hedges was no longer economical on a risk-return basis.

➔ **Refer to the "Market risk" section of this report for more information on our market risk measures and controls**

Market risk arising from management of consolidated capital

Audited Key ratios on capital and risk-weighted assets (RWA) are monitored by regulators and analysts and are key indicators of our financial strength.

The majority of our capital and many of our assets are denominated in Swiss francs, but we also hold RWA and some eligible capital in other currencies, primarily US dollars, euros and British pounds. Significant depreciation of the Swiss franc against these currencies can adversely affect our key ratios and Group Treasury is mandated with the task of minimizing such effects. Consolidated RWA increase or decrease relative to our capital as the Swiss franc depreciates or appreciates against these currencies. These currency fluctuations also lead to foreign currency translation gains or losses on consolidation, which impact IFRS equity. Thus, our consolidated equity rises or falls in line with the fluctuations in the RWA. The capital of UBS AG (Parent Bank) itself is held predominantly in Swiss francs in order to avoid any significant effects of currency fluctuations on its standalone financial results. The Group Asset and Liability Management Committee (Group ALCO) can adjust the currency mix in capital within limits set by the Board of Directors, to balance the impact of foreign exchange movements on both the Basel III common equity tier 1 (CET1) capital ratio and the Basel III CET1 capital (fully applied). Limits are in place, both for the sensitivity of the Basel III CET1 capital ratio and the Basel III CET1 capital, to a ±10% change in the Swiss franc against other currencies. As of 31 December 2012, the estimated sensitivities of the Basel III CET1 capital ratio and Basel III CET1 capital (fully applied) to a 10% appreciation or depreciation of the Swiss franc against other currencies were 30 basis points and CHF 764 million, respectively.

Audited

Furthermore, Group Treasury has the mandate to generate a stable interest income flow from capital. The capital of the Parent Bank and its subsidiaries is placed via interest-bearing cash deposits internally within our entity network. Group Treasury maintains a further portfolio of fixed receiver transactions to achieve a target tenor profile and return on invested equity.

To provide a benchmark for investments of equity, senior management defines a replicating portfolio of target tenors by currency. The effective investment positions created by both internal cash deposits and interest rate swaps are then measured against this benchmark tenor replication portfolio. Mismatches between the two are measured, together with other non-trading interest rate risk positions, against Group Treasury's market risk limits (VaR and stress loss).

On 31 December 2012, our consolidated equity was invested as follows: in Swiss francs (including most of the capital of the Parent Bank) with an average duration of approximately four years and fair value sensitivity of CHF 11.0 million per basis point; in US dollars with an average duration of approximately four and a half years and a sensitivity of CHF 7.5 million per basis point; in euros with an average duration of approximately three years and a sensitivity of CHF 0.5 million per basis point; and in British pounds with a duration of approximately three years and a sensitivity of CHF 0.2 million per basis point. The sensitivities directly relate to the chosen durations.

Corporate currency management

Audited

Our corporate currency management activities are designed to reduce adverse currency effects on our reported financial results in Swiss francs, within regulatory constraints. We focus on three principal areas of currency risk management: currency-matched funding of investments in non-Swiss franc assets and liabilities; sell-down of non-Swiss franc profits and losses; and selective hedging of anticipated non-Swiss franc profits and losses. Non-trading foreign exchange risks are managed under market risk limits, with the exception of Group Treasury management of consolidated capital activity.

Currency-matched funding and investment of non-Swiss franc assets and liabilities

For monetary balance sheet items and non-core investments, we follow the principle of matching the currency of our assets with the same currency of the liabilities from which they are funded, as far as it is practical and efficient to do so. A US dollar asset is thus typically funded in US dollars, while a euro liability is typically offset by an asset in euros. This avoids profits and losses arising from the retranslation of foreign currency assets and liabilities at the prevailing exchange rates to the Swiss franc at quarter-ends.

Net investment hedge accounting is applied to core investments in foreign currency to reduce exposures exceeding the level needed to provide the desired off-set to currency fluctuations in our key-capital ratios.

➔ Refer to "Note 1a Significant accounting policies" and "Note 25 Derivative instruments and hedge accounting" in the "Financial information" section of this report for more information

Sell-down of reported profits and losses

Audited

Reported profit and losses are translated each month from their original transaction currencies into Swiss francs at exchange rates fixed at the prevailing month-end. Monthly income statement items of foreign subsidiaries and branches with a functional currency other than the Swiss franc are translated with month-end rates into Swiss franc. Weighted average rates for a year represent an average of twelve month-end rates, weighted according to the income and expense volumes of all foreign subsidiaries and branches with the same functional currency for each month. To eliminate earnings volatility on the retranslation of previously recognized earnings in foreign currencies, Group Treasury centralizes the profits and losses arising in the Parent Bank and sells or buys them for Swiss francs. Our other operating entities follow a similar monthly sell-down process into their own reporting currencies. Retained earnings in operating entities with a reporting currency other than the Swiss franc are integrated and managed as part of our consolidated equity.

Hedging of anticipated future reported profits and losses

At any time, the Group ALCO may instruct Group Treasury to execute hedges to protect anticipated future profit and losses in foreign currencies against possible adverse trends of foreign exchange rates from one reporting period to the next. Although intended to hedge future earnings, these transactions are accounted for as open currency positions and are subject to internal market risk VaR and stress loss limits.

Capital management

Eligible capital must be available to support business activities, in accordance with both our own internal assessment and the requirements of our regulators, in particular our lead regulator FINMA.

We aim to maintain sound capital ratios at all times and therefore consider not only the current situation but also projected business and regulatory developments. The main tools we employ to manage our capital ratios are the active management of own shares, capital instruments, dividends and risk-weighted assets (RWA).

Capital adequacy management

Ongoing compliance with regulatory capital requirements and target capital ratios is central to our capital adequacy management. During 2012, we managed our capital according to various Basel 2.5 capital ratio targets, while also considering the changes that came into effect under Basel III on 1 January 2013. These include the establishment of new Basel III capital ratio targets and the issuance of Basel III-compliant loss-absorbing capital. In the target-setting process, we take into account the current and future minimum requirements set by regulators as well as their buffer expectations. Furthermore, we consider our own internal assessment of aggregate risk exposure in terms of capital-at-risk, the views of rating agencies and comparisons with peer institutions, as well as the impact of expected accounting policy changes.

In addition, we have set as an objective that the Basel III CET1 phase-in capital ratio remains at 10% or above if a severe stress event were to occur.

➔ Refer to the "Group risk appetite framework" section of this report for more information

➔ Refer to the "Our strategy" section of this report for more information about Basel III / TBTF implications for UBS

➔ Refer to "Note 1c International Financial Reporting Standards and Interpretations to be adopted in 2013 and later" in the "Financial information" section of this report for more information

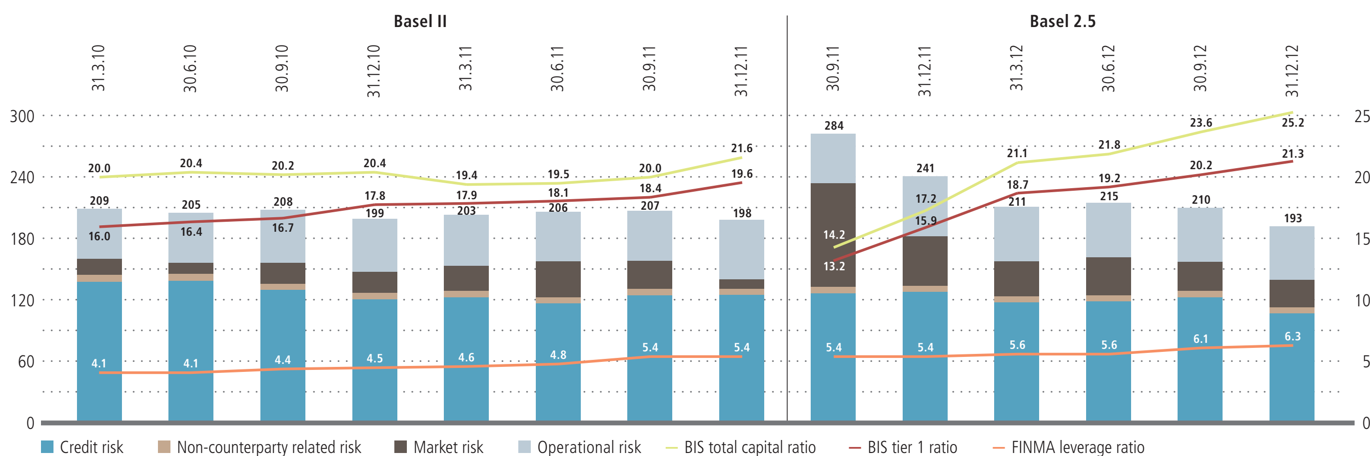
Regulatory requirements

We have published our 31 December 2012 capital and RWA in accordance with the Basel 2.5 framework. However, for supervisory purposes our RWA are based on FINMA regulations.

FINMA regulatory capital requirements result in higher RWA than under the Bank for International Settlements (BIS) guidelines. There were no differences in eligible capital between BIS guidelines and FINMA regulations as of 31 December 2012. During 2012, we complied with all externally imposed capital requirements.

The Basel III framework which came into effect on 1 January 2013 will have an impact on capital. The main deferred effects are

Capital ratios and RWA



the deduction of deferred tax assets on net operating losses and the inclusion of the effects of IAS19R relating to pension liabilities. These impacts are phased in between 2014 and 2018 for the calculation of common equity. Furthermore, hybrid tier 1 capital instruments will be phased out from 2013 to 2022. The Basel III framework will also result in significantly higher RWA as the calculation of our pro-forma Basel III RWA combines existing Basel 2.5 RWA, the revised treatment for low-rated securitization exposures, meaning such exposures are no longer deducted from capital but are risk-weighted at 1250%, and new model-based capital charges. Some of these new models still require regulatory approval and therefore our pro-forma calculations include estimates (discussed with our primary regulator) of the effect of these new capital charges which will be refined as models and the associated systems are enhanced. Consequently, our 31 December 2012 Basel III common equity tier 1 (CET1) capital ratio would have been materially lower than our Basel 2.5 tier 1 capital ratio, if those requirements had been effective on that date.

We continue to manage toward the 19% Swiss total capital requirement applicable in 2019 (although we currently expect this requirement to decline to 17.5%), with a target capital structure consisting of 13% Basel III CET1 capital and the remainder in loss-absorbing debt.

As of 31 December 2012, our estimated Basel III CET1 capital ratio was 9.8% on a fully applied basis and 15.3% on a phase-in basis compared with 6.7% and 10.7%, respectively, on 31 December 2011. We are committed to continuing to improve these ratios through a combination of earnings retention and efforts to reduce our RWA.

Audited

In 2012, we made two issuances of low-trigger loss-absorbing notes which qualify as tier 2 capital under Basel III rules, and count as progressive buffer capital in compliance with the "too-big-to-fail" law under Swiss regulations for systemically important banks, as well as contributing to our targeted loss-absorbing capital. On 22 February 2012, we issued USD 2.0 billion of tier 2 notes, and on 17 August 2012 we issued a further USD 2.0 billion of tier 2 loss-absorbing notes. Both issuances have a maturity of 10 years.

In addition to the low-trigger loss-absorbing notes issued, we are issuing deferred compensation awards with a high-trigger writedown feature. These awards are treated by our regulator as loss-absorbing tier 2 capital.

A further significant development in Switzerland was FINMA's requirement to apply a bank-specific multiplier for banks using the internal ratings-based (IRB) approach when calculating RWA for Swiss residential mortgages starting from 1 January 2013.

Also, in February 2013, the Swiss Federal Council decided to activate the countercyclical capital buffer with respect to mortgage loans financing residential property located in Switzerland, effective 30 September 2013.

➔ Refer to the "Regulatory developments" section of this report for more information

Basel 2.5 Capital ratios

BIS capital ratios compare eligible capital with total RWA. On 31 December 2012, our Basel 2.5 tier 1 capital ratio was 21.3% compared with 15.9% a year earlier. Our core tier 1 capital ratio increased to 19.0% from 14.1% over the same period. Our tier 1 capital rose by CHF 2.6 billion to CHF 41.0 billion and RWA decreased by CHF 48.5 billion to CHF 192.5 billion. Our total capital ratio increased to 25.2% from 17.2%.

➔ Refer to the discussions on "Capital adequacy management" and "Eligible capital" in this section for more information

Capital requirements

Audited

Our capital requirements are based on our consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), adjusted for regulatory differences. Under IFRS, subsidiaries and special purpose entities that are directly or indirectly controlled by UBS must be consolidated, whereas for regulatory capital purposes, different consolidation principles apply. For example, subsidiaries that are not active in the banking and finance business are not consolidated.

➔ Refer to the additional capital management disclosure in the "Basel 2.5 Pillar 3" section of this report for more information

On 31 December 2012, our Basel 2.5 RWA were CHF 192.5 billion compared with CHF 241.0 billion at the end of 2011, a decrease in RWA of CHF 48.5 billion. This decrease was predominantly due to the decline in market risk RWA of CHF 22.1 billion, in credit risk RWA of CHF 21.0 billion and, to a lesser extent, operational risk RWA of CHF 5.6 billion.

Credit risk

The Basel 2.5 RWA for credit risk amounted to CHF 105.8 billion on 31 December 2012 compared with Basel 2.5 RWA of CHF 126.8 billion on 31 December 2011. This decrease occurred predominately in the fourth quarter of 2012 and was mainly attributable to the accelerated implementation of our strategy, hedging activity and sales of certain student loan auction rate securities in the Legacy Portfolio. These activities impacted derivative, repo-style and drawn and undrawn loan exposures. This was partly offset in the third quarter by increased residential mortgage exposures due to the recalibration of risk parameters on residential mortgages.

➔ Refer to the "Credit risk" section of this report for more information

Non-counterparty related assets

The Basel 2.5 RWA for non-counterparty related assets remained stable and amounted to CHF 6.2 billion on 31 December 2012 compared with CHF 6.1 billion on 31 December 2011.

Basel 2.5 capital information

CHF million, except where indicated	31.12.12	31.12.11
BIS core tier 1 capital	36,666	34,014
BIS tier 1 capital	40,982	38,370
BIS total capital	48,498	41,564
BIS core tier 1 capital ratio (%)	19.0	14.1
BIS tier 1 capital ratio (%)	21.3	15.9
BIS total capital ratio (%)	25.2	17.2
BIS risk-weighted assets	192,505	240,962
of which: credit risk[1]	*105,807*	*126,804*
of which: non-counterparty related risk	*6,248*	*6,050*
of which: market risk	*27,173*	*49,241*
of which: operational risk	*53,277*	*58,867*

1 Includes securitization exposures and equity exposures not part of the trading book and capital requirements for settlement risk (failed trades).

Market risk

The Basel 2.5 market risk RWA decreased by CHF 22.1 billion to CHF 27.2 billion on 31 December 2012. The decrease was mainly due to the reduction in incremental risk charge RWA on reduced exposures, a model update for sovereign debt in the first quarter and hedging activity. VaR and stressed VaR declined due to reduced risk positions and reduced credit spread risk.

➔ **Refer to the "Market risk" section of this report for more information**

Operational risk

Basel 2.5 RWA for operational risk was CHF 53.3 billion on 31 December 2012 compared with CHF 58.9 billion on 31 December 2011. This decrease was due to the annual model parameter review whereby all advanced measurement approach parameter updates that were approved by FINMA at the end of March 2012 were subsequently implemented.

➔ **Refer to the "Operational risk" section of this report for more information**

Basel 2.5 Eligible capital

Audited

Eligible capital, the capital available to support RWA, consists of tier 1 and tier 2 capital. To determine eligible capital, specific adjustments must be made to equity attributable to our shareholders as defined by IFRS. The most notable adjustments are the deductions for goodwill, intangible assets, investments in unconsolidated entities engaged in banking and financial activities and own credit effects on liabilities designated at fair value (see further details in the "Reconciliation of IFRS equity to Basel 2.5 BIS capital" table).

Basel 2.5 tier 1 capital

Audited

Our tier 1 capital amounted to CHF 41.0 billion on 31 December 2012, compared with CHF 38.4 billion on 31 December 2011, an increase of CHF 2.6 billion. The positive contributors to this increase were lower capital deductions of CHF 5.1 billion, driven mainly by the goodwill impairment in the Investment Bank and Legacy Portfolio asset sales, reversal of own credit losses for the purpose of the capital calculation and own-share-related components. These positive capital effects were partially offset by the 2012 net loss of CHF 2.5 billion and other deduction items, including negative foreign currency effects and a dividend accrual.

The adoption of IAS 19R had no effect on tier 1 capital. The regulatory capital effect of the adoption will be phased in annually from 1 January 2014 under Basel III.

Basel 2.5 hybrid tier 1 capital

Audited

Hybrid tier 1 instruments represent innovative and non-innovative perpetual instruments. Hybrid tier 1 instruments are perpetual instruments which can only be redeemed if they are called by the issuer after having received regulatory approval. If such a call is not exercised at the call date, the terms might include a change from fixed to floating coupon payments and, in the case of innovative instruments only, a limited step-up of the interest rate. Non-innovative instruments do not have a step-up of the interest rate and are therefore viewed as having a higher equity characteristic for regulatory capital purposes. The instruments are issued either through trusts or our subsidiaries and rank senior to our equity in dissolution. Payments under the instruments are subject to adherence to our minimum capital ratios and other requirements. Any missed payment is non-cumulative.

As of 31 December 2012, our hybrid tier 1 instruments amounted to CHF 4.3 billion, slightly down from CHF 4.4 billion as of 31 December 2011, mainly due to negative foreign currency effects.

We intend to call the EUR 995 million hybrid tier 1 instrument with a first call date on 11 April 2013. Hybrid tier 1 instruments outstanding will continue to count towards regulatory capital (i.e. ,Basel III phase-in capital), but the eligibility is reduced over time in line with the Basel III transition rules.

Basel 2.5 tier 2 capital

Audited

The major element in tier 2 capital is subordinated long-term debt. Tier 2 instruments have been issued in various currencies

Reconciliation of IFRS equity to Basel 2.5 BIS capital

CHF million	31.12.12	31.12.11
IFRS Equity attributable to UBS Shareholders	**45,895**	48,530
of which: effect of the adoption of IAS 19R[1]	*(3,948)*	*(4,917)*
Reversal of the effect of the adoption of IAS 19R[1]	3,948	4,917
Treasury shares at cost / Equity classified as obligation to purchase own shares	1,108	1,198
Own credit, net of tax[2]	292	(1,842)
Unrealized gains from Financial investments available-for-sale, net of tax[2]	(232)	(228)
Unrealized (gains) / losses from Cash flow hedges, net of tax[2]	(2,983)	(2,600)
Other[3]	(1,286)	(798)
BIS core tier 1 capital prior to deductions	**46,742**	49,177
of which: paid-in share capital	*384*	*383*
of which: share premium, retained earnings, currency translation differences and other elements	*46,358*	*48,794*
Less: treasury shares / deduction for own shares[4]	(1,460)	(2,131)
Less: goodwill & intangible assets	(6,461)	(9,695)
Less: securitization exposures[5]	(1,469)	(2,627)
Less: other deduction items[6]	(685)	(711)
BIS core tier 1 capital	**36,666**	34,014
Hybrid tier 1 capital	4,316	4,356
of which: non-innovative capital instruments	*1,476*	*1,490*
of which: innovative capital instruments	*2,839*	*2,866*
BIS tier 1 capital	**40,982**	38,370
Upper tier 2 capital	127	388
Lower tier 2 capital	9,544	6,145
Less: securitization exposures[5]	(1,469)	(2,627)
Less: other deduction items[6]	(685)	(711)
BIS total capital	**48,498**	41,564

1 Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report for more information on the adoption of IAS 19R. 2 IFRS equity components which are not recognized for capital purposes, adjusted for changes in foreign exchange. 3 Consists of: i) qualifying non-controlling interests; ii) the netted impact of the change in scope of consolidation; iii) other adjustments due to reclassifications and revaluations of participations, prudential valuation, accrued dividend payment and the charge for compensation related increase in Basel III-compliant loss-absorbing tier 2 capital. 4 Consists of: i) net long position in own shares held for trading purposes; ii) own shares bought for unvested or upcoming share awards and iii) accruals built for upcoming share awards. 5 Includes a 50% deduction of the fair value of our option to acquire the SNB StabFund's equity (CHF 2,103 million on 31 December 2012 and CHF 1,629 million on 31 December 2011). 6 Positions to be deducted at 50% from tier 1 and 50% from total capital mainly consist of: i) net long position of non-consolidated participations in the finance sector; ii) expected loss on advanced internal ratings-based portfolio less general provisions (if difference is positive); iii) expected losses on non-trading equity exposures (simple risk weight method).

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and with a range of maturities across capital markets globally. Tier 2 instruments rank senior to both our shares and to hybrid tier 1 instruments but are subordinated to all our senior obligations.

In order to improve the quality of capital, regulators have proposed new requirements for capital instruments and created a new category of contingent capital instruments. The changes proposed are designed to increase resilience against a financial crisis, and are expected to provide a buffer to maintain the banks as going concerns or allow for an orderly liquidation. Regulators view these instruments as additional protection against the systemic risks of large banks.

In 2012, we had two issuances of USD 2 billion of loss-absorbing notes which qualify as tier 2 capital under Basel III rules, and count as progressive buffer capital in compliance with the "too-big-to-fail" law under Swiss regulations for systemically important banks as well as contribute to our targeted loss-absorbing capital.

Our tier 2 capital, net of tier 2 deductions, amounted to CHF 7.5 billion on 31 December 2012 compared with CHF 3.2 billion on 31 December 2011, an increase of CHF 4.3 billion. This increase was mainly due to the issuances of the aforementioned tier 2 loss-absorbing notes and lower capital deductions of CHF 1.2 billion resulting mainly from Legacy Portfolio asset sales. These positive effects of lower tier 2 deductions were mainly offset by a reduction in the eligibility of existing tier 2 notes.

➔ **Refer to the "Regulatory developments" section of this report for more information with regard to regulation on systemically important banks**

Pro-forma Basel III common equity and risk-weighted assets

The following pro-forma Basel III information is a voluntary disclosure as Basel III requirements were not in effect on 31 December 2012. Such measures are non-GAAP financial measures as defined by SEC regulations. We nevertheless include information on the basis of Basel III requirements because they became effective on 1 January 2013 and significantly impact our RWA and eligible capital.

Pro-forma BIS Basel III capital information

CHF billion	31.12.12	31.12.11[1]
Basel 2.5 tier 1 capital	**41.0**	38.4
Hybrid tier 1 capital	**(4.3)**	(4.4)
Deferred tax assets related to net operating losses	**(5.9)**	(8.0)
Deferred pension expenses		(3.3)
Effect of the implementation of IAS 19R	**(4.6)**	
SNB StabFund option	**(1.1)**	0.8
Low-rated securitization exposures	**0.4**	1.8
Other adjustments[2]	**(0.3)**	0.1
Basel III common equity tier 1 capital (fully applied)	**25.2**	25.3
Basel III loss-absorbing capital	**4.2**	0.0
Basel III total capital (fully applied)	**29.3**	25.3
Basel III common equity tier 1 capital (phase-in)[3]	**40.0**	41.0
Basel III loss-absorbing capital	**4.2**	0.0
Basel III tier 2 capital (phase-in)	**5.4**	6.1
Basel III total capital (phase-in)	**49.6**	47.1
Basel 2.5 risk-weighted assets	**193**	241
Basel III uplift[4]	**66**	139
Basel III risk-weighted assets (fully applied)	**258**	380
Basel III risk-weighted assets (phase-in)[5]	**262**	383
Basel III common equity tier 1 capital ratio % (fully applied)	**9.8**	6.7
Basel III common equity tier 1 capital ratio % (phase-in)	**15.3**	10.7
Basel III total capital ratio % (fully applied)	**11.4**	6.7
Basel III total capital ratio % (phase-in)	**18.9**	12.3

1 Does not include the effect of the implementation of IAS 19R and calculation refinements affecting 31 December 2012 figures. 2 Includes the following deductions: qualifying non-controlling interests, own shares held by the Investment Bank, own credit on replacement values (DVA), expected losses on non-trading equity exposures, goodwill related to investments in associates and shortfall of general provisions vs. expected losses. Also includes the following additions: investments in non-consolidated entities, failed trades, goodwill-related deferred tax liabilities and unrealized gains on financial investments available-for-sale (only relevant for 31 December 2011). 3 Basel III phase-in rules applied on goodwill covered by hybrid tier 1 capital, deferred tax assets on net operating losses and effects of pension accounting related components. 4 The Basel III RWA uplift consists mainly of revised treatment of low rated securitization exposures, credit valuation adjustments and other changes. 5 Includes the RWA effect of pension accounting related components, which are phased in.

We provide information on pro-forma Basel III RWA and capital, both on a phase-in and on a fully applied basis. The information provided on a fully applied basis does not consider the effects of the transition period, during which new capital deductions are phased in and ineligible Basel 2.5 capital instruments are phased out.

On 31 December 2012, our Basel III CET1 capital on a fully applied basis was CHF 25.2 billion, remaining relatively stable compared with the CHF 25.3 billion on 31 December 2011. The 2012 net loss, the impact of adopting IAS 19R and other negative effects including the deduction of the fair value of the option to purchase the SNB StabFund's equity which was previously risk-weighted at 1250%, were almost offset by the reversal of own credit losses for the purpose of capital calculation and a lower deduction for deferred tax assets.

Pro-forma Basel III RWA were estimated to be CHF 258 billion on a fully applied basis on 31 December 2012, CHF 122 billion lower than a year earlier. CHF 48 billion of the decline in Basel III RWA was due to the same factors that caused a decrease in Basel 2.5 RWA, and CHF 20 billion was associated with a change in the treatment of UBS's option to purchase the SNB StabFund's equity (now fully deducted from CET1 capital). The remainder of the decline was mostly attributable to RWA reductions in the Investment Bank and the Legacy Portfolio, resulting from sales and other reductions of exposures and from the net effect of changes in models and methodologies. The vast majority of the overall reductions achieved in the Investment Bank and in the Legacy Portfolio resulted from sales and other reductions of exposures. We are targeting Group RWA on a fully applied Basel III basis of less than CHF 200 billion by the end of 2017.

The resulting Basel III CET1 capital ratio stood at 9.8% on 31 December 2012 on a fully applied basis, an increase of 3.1 percentage points from 6.7% on 31 December 2011. We are targeting a CET1 fully applied ratio of 11.5% by the end of 2013 and 13% by the end of 2014. On a phase-in basis, our estimated Basel III CET1 capital ratio was 15.3% on 31 December 2012 compared with 10.7% on 31 December 2011. The regulatory capital effect of the adoption of IAS 19R, together with related changes in future periods, will be phased in annually from 1 January 2014 on an after-tax basis, such that regulatory capital becomes fully adjusted on 1 January 2018.

➔ **Refer to the "Our strategy" section of this report for more information about Basel III / TBTF implications for UBS and to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information**

FINMA leverage ratio

CHF billion, except where indicated	Average 4Q12	Average 4Q11
Total balance sheet assets (IFRS)[1]	**1,287.0**	1,390.7
Less: netting of replacement values[2]	**(395.4)**	(436.6)
Less: loans to Swiss clients (excluding banks)[3]	**(166.2)**	(163.6)
Less: cash and balances with central banks	**(68.3)**	(65.8)
Less: other[4]	**(8.7)**	(12.8)
Total adjusted assets	**648.4**	711.9
FINMA tier 1 capital (at year-end)[5]	**41.0**	38.4
FINMA leverage ratio (%)	**6.3**	5.4

1 Total assets are calculated as the average of the month-end values for the three months in the calculation period. 2 Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking law, based on the IFRS scope of consolidation. 3 Includes mortgage loans to international clients for properties located in Switzerland. 4 Refer to the "Reconciliation IFRS equity to Basel 2.5 BIS capital" table for more information on deductions of assets from FINMA tier 1 capital. 5 FINMA tier 1 capital corresponds to Basel 2.5 tier 1 capital.

Transfer of capital and funding within UBS Group

Under Swiss company law, UBS is organized as an "Aktiengesellschaft", a corporation that has issued shares of common stock to investors. UBS AG is the parent company of the Group. The legal entity structure of the Group is designed to support our businesses within an efficient legal, tax, regulatory and funding framework. We enter into intragroup transactions to provide funding and capital to individual UBS entities. As of 31 December 2012, UBS has not been subject to any material restrictions or other major impediments concerning the transfer of funds or regulatory capital within the Group apart from those which apply to these entities by way of local laws and regulations.

FINMA leverage ratio

FINMA requires a minimum leverage ratio of 3% at Group level, with the expectation that the ratio will exceed this level during normal times. On 31 December 2012, our leverage ratio was 6.3%, an increase of 0.9 percentage points compared with the prior year-end.

In the first quarter of 2013, the existing FINMA leverage ratio will be replaced by a FINMA Basel III minimum leverage ratio for systemically important banks (FINMA Basel III leverage ratio). The leverage ratio requirement is set at a level of 24% of the minimum capital ratio requirement for the capital base, the buffer capital and the progressive component. Our pro-forma FINMA Basel III leverage ratio on a phase-in total capital requirement basis was 3.6% on 31 December 2012 compared with an estimated target requirement of 4.2% on 1 January 2019.

Equity attribution framework

The equity attribution framework reflects our objectives of maintaining a strong capital base and guiding businesses toward activities that appropriately balance profit potential, risk and capital usage.

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Within this framework, the Board of Directors (BoD) attributes equity to the business divisions (including the Corporate Center) after considering their risk exposure, Basel III RWA usage, Basel III leverage ratio denominator size, goodwill and intangible assets.

The design of the equity attribution framework enables us to do the following:
– calculate and assess return on attributed equity (RoAE) in each of our business divisions; RoAE is disclosed for all business divisions
– integrate Group-wide capital management activities with those at business division and business unit levels
– measure current period and historical performance in a consistent manner across business divisions and business units
– make better comparisons between our businesses and those of our competitors

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In our capital allocation methodology, we use three drivers to allocate tangible equity to our business divisions in order to provide a comprehensive view of the resource usage and risk profile of our businesses. We use capital ratio and leverage ratio targets as well as risk-based capital, which is an internal measure of risk similar to economic capital.

In addition to tangible equity, we allocate equity to support goodwill and intangibles.

After reviewing the results of this formulaic approach, the Group Asset and Liability Management Committee may recommend and the BoD may make discretionary adjustments to the final equity attribution to reflect our views of the likely future risk profile and resource usage of the businesses. The BoD currently makes equity attribution decisions on a quarterly basis.

The amount of equity attributed to all businesses corresponds to the amount we believe is required to maintain a strong capital base and support our businesses adequately. If the total equity attributed to the business divisions differs from the Group's actual equity during a given period, the difference (positive or negative) is reflected as a separate line item.

The amount of equity attributed to each business division is an important input into the calculation of economic profit for that business division. Broadly speaking, economic profit equals profit minus the product of attributed equity and the cost of equity.

Our equity allocation methodology is intended to measure the RoAE of each business in a way which is comparable to the business segments of international competitors and reflects the returns generated by businesses on resources under their direct control.

In the second quarter of 2012, we refined our methodology for risk-based capital, which is one of the drivers in our equity attribution framework, by expanding the risk capture and refining the parameters used for risk-based capital. Potential losses are now calculated across a broader set of risks at a very high confidence level of 99.97%.

As outlined in the table "Average attributed equity", the amount of average equity attributed to the business divisions decreased by CHF 11 billion during 2012, including a decrease of CHF 9 billion in the Investment Bank. The decline in the Investment Bank was mainly due to decreases in Basel III RWA, the Basel III leverage ratio denominator, and risk-based capital following the accelerated implementation of our strategy announced in October 2012, as well as the goodwill impairment recorded at the end of the third quarter of 2012.

From 1 January 2013, attributed equity required to underpin remaining goodwill and intangible assets that arose from the PaineWebber acquisition has been transferred to the Corporate Center.

Starting with reporting for the first quarter of 2013, the Corporate Center also includes attributed equity related to non-core businesses transferred from the Investment Bank following the accelerated implementation of our strategy announced in October 2012.

On a pro-forma basis (as if these non-core businesses had been fully transferred from the Investment Bank to the Corporate Center), the average equity attributed to these non-core businesses would have amounted to CHF 10.5 billion during the fourth quarter of 2012. On the same pro-forma basis, the Investment Bank's attributed equity would have amounted to CHF 8.0 billion.

UBS shares

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The majority of our tier 1 capital comprises share premium and retained earnings attributed to UBS shareholders. As of 31 December 2012, total IFRS equity attributable to our shareholders amounted to CHF 45,895 million, and was represented by a total of 3,835,250,233 shares issued, of which 2.3% were held by UBS.

In 2012, shares issued were increased by a total of 3,128,334 shares due to exercises of employee options. Each share has a par value of CHF 0.10 and generally entitles the holder to one vote at

Average attributed equity

CHF billion	4Q12	4Q11
Wealth Management	4.3	5.0
Wealth Management Americas	5.9	8.0
Investment Bank[1]	18.5	27.5
Global Asset Management	2.1	2.5
Retail & Corporate	4.4	5.0
Corporate Center	10.3	8.5
of which: Core Functions	2.9	4.0
of which: Legacy Portfolio	5.4	4.5
of which: Central items[2]	2.0	
Average equity attributed to the business divisions and Corporate Center	45.5	56.5
Difference	1.5	(8.5)[3]
Average equity attributable to UBS shareholders	47.0	48.0

1 Starting with reporting for the first quarter of 2013, the Corporate Center also includes attributed equity related to non-core businesses transferred from the Investment Bank following the accelerated implementation of our strategy announced in October 2012. On a pro-forma basis, the average equity attributed to these non-core businesses would have amounted to CHF 10.5 billion during the fourth quarter of 2012. Therefore, on the same pro-forma basis, the fourth quarter 2012 attributed equity for the Investment Bank amounts to CHF 8.0 billion of the 18.5 billion of attributed equity shown in the table above. 2 Central items within the Corporate Center carries common equity not allocated to the business divisions, reflecting, with respect to the risk-weighted assets driver, excess equity that we have targeted above a 10% Basel III common equity tier 1 ratio. 3 During the fourth quarter of 2012, UBS adopted IAS 19R retrospectively in accordance with the transitional provisions set out in the standard and prior periods have been restated. Refer to "Note 1 Significant accounting policies" in the "Financial information" section of this report for more information.

Shareholder-approved issuance of shares

	Maximum number of shares to be issued	Year approved by shareholder general meeting	% of shares issued 31.12.12
Conditional capital			
SNB warrants	100,000,000	2009	2.61%
Employee equity participation plans of UBS AG	145,510,992	2006	3.79%
Conversion rights/ warrants granted in connection with bonds	380,000,000	2010	9.91%
Total	625,510,992		16.31%

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the shareholders' meeting as well as a proportionate share of distributed dividends. As per the articles of association of UBS, there are no other classes of shares and no preferential rights for shareholders.

➔ **Refer to the "Shareholders' participation rights" section of this report for more information**

Under Swiss company law, shareholders must approve in a shareholders' meeting any increase in the total number of issued shares, which may arise from an ordinary share capital increase or the creation of conditional or authorized capital. The table below lists all shareholder-approved issuances of shares at year-end 2012.

Holding of UBS shares

We hold our own shares primarily to hedge employee share and option participation plans. A smaller number are held by the Investment Bank for hedging related derivatives and for market making in UBS shares.

The holding of treasury shares on 31 December 2012 increased to 87,879,601, or 2.3% of shares issued, from 84,955,551, or 2.2%, on the same date one year prior.

As of 31 December 2012, employee options and stock appreciation rights to receive 17.8 million shares were exercisable. Shares held in treasury or newly issued shares are delivered to the

UBS shares

	31.12.12	31.12.11
Shares outstanding		
Shares issued	3,835,250,233	3,832,121,899
of which: issuance of shares related to employee option plans for the year ended	*3,128,334*	*1,281,386*
Treasury shares	87,879,601	84,955,551
Shares outstanding	3,747,370,632	3,747,166,348
Shareholders' equity (CHF million)		
Equity attributable to UBS shareholders	45,895	48,530
Less: goodwill and intangible assets	6,461	9,695
Tangible shareholders' equity	39,434	38,835
Book value per share (CHF)		
Total book value per share	12.25	12.95
Tangible book value per share	10.52	10.36

Treasury share activities

	Treasury shares purchased for employee share and option participation plans and acquisitions[1]		Total number of shares	
Month of purchase	Number of shares	Average price in CHF	Number of shares (Cumulative)	Average price in CHF
January 2012	0	0.00	0	0.00
February 2012	0	0.00	0	0.00
March 2012	20,371,525	12.56	20,371,525	12.56
April 2012	5,628,475	12.64	26,000,000	12.58
May 2012	46,450,000	11.18	72,450,000	11.68
June 2012	0	0.00	72,450,000	11.68
July 2012	1,250,000	10.76	73,700,000	11.66
August 2012	0	0.00	73,700,000	11.66
September 2012	0	0.00	73,700,000	11.66
October 2012	0	0.00	73,700,000	11.66
November 2012	0	0.00	73,700,000	11.66
December 2012	0	0.00	73,700,000	11.66

1 This table excludes market-making and related hedging purchases by the Investment Bank and reallocated UBS shares from the employee share-based compensation awards. The table also excludes UBS shares purchased by investment funds managed by UBS for clients in accordance with specified investment strategies that are established by each fund manager acting independently of UBS; and UBS shares purchased by pension and retirement benefit plans for UBS employees, which are managed by a board of UBS management and employee representatives in accordance with Swiss law guidelines. UBS's pension and retirement benefit plans purchased 635,500 UBS shares during the year and held 2,234,500 UBS shares as of 31 December 2012.

Trading volumes

	For the year ended		
1000 shares	**31.12.12**	31.12.11	31.12.10
SIX Swiss Exchange total	**3,046,539**	3,974,639	4,166,417
SIX Swiss Exchange daily average	**12,186**	15,648	16,403
NYSE total	**156,152**	239,713	296,517
NYSE daily average	**625**	951	1,177

Source: Reuters

employee at exercise. On 31 December 2012, 74.1 million treasury shares were available for this purpose, and an additional 145.5 million unissued shares in conditional share capital were assigned to cover future employee option exercises. At the end of 2012, the shares available covered all exercisable employee obligations.

The presentation in the table "Treasury share activities" shows the purchase of our shares by Group Treasury and does not include the activities of the Investment Bank.

Treasury shares held by the Investment Bank

The Investment Bank, acting as a liquidity provider to the equity index futures market and as a market-maker in our shares and derivatives, has issued derivatives linked to UBS stock. Most of these instruments are classified as cash-settled derivatives and are primarily issued to meet client demand and for trading purposes. To hedge the economic exposure, a limited number of our shares are held by the Investment Bank.

➔ Refer to Note 8 "Earnings per share (EPS) and shares outstanding" for more information

Distributions to shareholders

The decision whether to pay a dividend, and the level of the dividend, are dependent on our progress to reach our targeted capital ratios and cash flow generation. The decision on dividend payments is proposed by the BoD to the shareholders and is subject to their approval at the Annual General Meeting in May 2013. We intend to propose a distribution of CHF 0.15 per share against reserves from capital contribution to the shareholders in 2012. This is a 50% increase from last year.

Share liquidity

During 2012, the average daily volume traded in UBS shares on the SIX Swiss Exchange (SIX) was 12.2 million shares. On the New York Stock Exchange (NYSE), it was 0.6 million shares. As the SIX trades a higher volume of UBS shares, it is expected to remain the main factor determining the movement in our share price.

During the hours in which both the SIX and NYSE are simultaneously open for trading (currently 3:30 p.m. to 5:30 p.m. Central European Time), price differences are likely to be arbitraged away by professional market-makers. The NYSE price will therefore typically be expected to depend on both the SIX price and the prevailing US dollar/Swiss franc exchange rate. When the SIX is closed for trading, traded volumes will typically be lower. However, the specialist firm making a market in UBS shares on the NYSE is required to facilitate sufficient liquidity and maintain an orderly market in UBS shares.

Stock exchange prices[1]

	SIX Swiss Exchange			New York Stock Exchange		
	High (CHF)	Low (CHF)	Period end (CHF)	High (USD)	Low (USD)	Period end (USD)
2012	**15.62**	**9.69**	**14.27**	**16.99**	**9.78**	**15.74**
Fourth quarter 2012	**15.62**	**11.39**	**14.27**	**16.99**	**12.32**	**15.74**
December	15.62	14.27	14.27	16.99	15.46	15.74
November	14.94	13.89	14.50	15.89	14.63	15.71
October	14.04	11.39	13.96	15.05	12.32	15.02
Third quarter 2012	**12.60**	**9.69**	**11.45**	**13.57**	**9.78**	**12.18**
September	12.60	10.55	11.45	13.57	11.01	12.18
August	11.19	10.08	10.68	11.52	10.15	11.15
July	11.35	9.69	10.29	11.88	9.78	10.60
Second quarter 2012	**12.79**	**10.55**	**11.05**	**14.15**	**10.96**	**11.71**
June	11.56	10.59	11.05	12.18	10.96	11.71
May	12.09	10.55	10.95	12.97	11.19	11.38
April	12.79	11.10	11.33	14.15	12.11	12.37
First quarter 2012	**13.60**	**10.64**	**12.65**	**14.77**	**11.17**	**14.02**
March	13.35	12.05	12.65	14.65	13.05	14.02
February	13.60	12.52	12.65	14.77	13.83	14.03
January	13.00	10.64	12.53	14.19	11.17	13.59
2011	**19.13**	**9.34**	**11.18**	**20.08**	**10.42**	**11.83**
Fourth quarter 2011	12.23	9.80	11.18	14.21	10.47	11.83
Third quarter 2011	15.75	9.34	10.54	18.63	10.42	11.43
Second quarter 2011	17.60	14.37	15.33	20.03	17.20	18.26
First quarter 2011	19.13	15.43	16.48	20.08	16.11	18.05
2010	**18.60**	**13.31**	**15.35**	**18.48**	**12.26**	**16.47**
Fourth quarter 2010	17.83	14.92	15.35	18.48	14.99	16.47
Third quarter 2010	18.53	13.94	16.68	18.47	13.04	17.03
Second quarter 2010	18.60	14.15	14.46	17.75	12.26	13.22
First quarter 2010	17.50	13.31	17.14	16.84	12.40	16.28
2009	**19.65**	**8.20**	**16.05**	**19.31**	**7.06**	**15.51**
Fourth quarter 2009	19.34	14.76	16.05	19.18	15.03	15.51
Third quarter 2009	19.65	12.50	18.97	19.31	11.25	18.31
Second quarter 2009	17.51	10.56	13.29	15.82	9.40	12.21
First quarter 2009	17.00	8.20	10.70	15.31	7.06	9.43
2008	**45.98**	**10.67**	**14.84**	**46.40**	**8.33**	**14.30**
Fourth quarter 2008	24.00	10.67	14.84	21.30	8.33	14.30
Third quarter 2008	25.76	15.18	18.46	23.07	12.22	17.54
Second quarter 2008	35.11	20.96	21.44	36.02	20.41	20.66
First quarter 2008	45.98	21.52	25.67	46.40	22.33	28.80

1 Historical share price adjusted for the rights issue and stock dividend 2008.

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Introduction

The capital adequacy framework consists of three pillars, each of which focuses on a different aspect of capital adequacy. Pillar 1 provides a framework for measuring minimum capital requirements for the credit, market and operational risks faced by banks. Pillar 2 addresses the principles of the supervisory review process, emphasizing the need for a qualitative approach to supervising banks. Pillar 3 aims to encourage market discipline by requiring banks to publish a range of disclosures on risk and capital.

The Swiss Financial Market Supervisory Authority (FINMA) requires us to publish comprehensive quantitative and qualitative Pillar 3 disclosures at least annually, as well as an update of quantitative disclosures and any significant changes to qualitative information at least semi-annually.

In certain cases, our Pillar 3 disclosures may differ from the way we manage our risks and to how these risks are disclosed in our quarterly reports and other sections of this annual report.

Risk exposure measures and derivation of risk-weighted assets

Measures of risk exposure may differ depending on whether the exposures are calculated for financial accounting under International Financial Reporting Standards (IFRS), for determining our regulatory capital or for internal management of the firm. Our Basel 2.5 Pillar 3 disclosures are generally based on the measures of risk exposure used to calculate the regulatory capital required to underpin those risks.

The table on the next page provides a more detailed summary of the approaches we use for the main risk categories for determining regulatory capital.

The naming conventions for the exposure segments used in the following tables are based on Bank for International Settlements (BIS) rules and differ from those under Swiss and EU regulations. For example, "sovereigns" under the BIS naming convention equate to what are termed "central governments and central banks" under the Swiss and EU regulations. Similarly, "banks" equate to "institutions" and "residential mortgages" to "claims secured on residential real estate".

Although we use BIS guidelines to determine risk-weighted assets (RWA) in this report, our calculation of the regulatory capital requirement is based on FINMA regulations, which are more conservative and result in higher RWA.

Table 1: Overview of disclosures

The following table provides an overview of our Basel 2.5 Pillar 3 disclosures in our Annual Report 2012.

Basel 2.5 Pillar 3 requirement	Disclosure in the Annual Report 2012
Scope of consolidation	"Note 1", "Note 34" in the "Financial information" section and Basel 2.5 Pillar 3 section
Capital structure	"Capital management" section
Capital adequacy	"Capital management" and "Basel 2.5 Pillar 3" sections
Risk management objectives, policies and methodologies (qualitative disclosures)	"Risk management and control" section
Credit risk	"Risk management and control" and "Basel 2.5 Pillar 3" sections
Investment positions	"Basel 2.5 Pillar 3" section
Market risk	"Risk management and control" and "Basel 2.5 Pillar 3" sections
Operational risk	"Risk management and control" section
Interest rate risk in the banking book	"Risk management and control" section
Securitization	"Basel 2.5 Pillar 3" section
Remuneration	"Compensation" section and "Note 31" in the "Financial information" section

Scope of regulatory consolidation

Generally, the scope for consolidation when calculating regulatory capital requirements follows the IFRS consolidation rules for subsidiaries directly or indirectly controlled by UBS AG that are active in the banking and finance business, but excludes subsidiaries in other sectors. The significant operating subsidiaries in the UBS Group (Group) consolidated for IFRS purposes and significant changes to the scope are listed in "Note 34 Significant subsidiaries and associates" in the "Financial information" section of this report.

➔ **Refer to "Note 1" in the "Financial information" section of this report for more information**

The main differences in the basis of consolidation for IFRS and regulatory capital purposes relate to the following entity types, and apply regardless of our level of control. As of 31 December 2012:

- 175 real estate and commercial companies and investment schemes are not consolidated for regulatory capital purposes, but are risk-weighted.
- 10 insurance companies are not consolidated for regulatory capital purposes, but are deducted from capital.
- 2 joint ventures controlled by two ventures are fully consolidated for regulatory capital purposes, and are accounted for under the equity method for IFRS.
- Securitization vehicles are not consolidated for regulatory capital purposes but are treated under the securitization framework.

Subsidiaries which are not included in the regulatory consolidation did not report any capital deficiencies in 2012. 109 entities are neither consolidated under IFRS nor consolidated under the regulatory scope of consolidation. These entities are deducted from eligible capital. This category mainly covers infrastructure holdings and joint operations (e.g. settlement and clearing institutions, stock and financial futures exchanges).

Category	UBS approach
Credit risk	Under the advanced internal ratings-based approach applied for the majority of our businesses, credit risk weights are determined by reference to internal counterparty ratings and loss given default estimates. We use internal models, approved by FINMA, to measure the credit risk exposures to third parties on over-the-counter derivatives and repurchase-style transactions. For a subset of our credit portfolio, we apply the standardized approach, based on external ratings.
Non-counterparty related risk	Non-counterparty-related assets such as our premises, other properties and equipment require capital underpinning according to prescribed regulatory risk weights.
Settlement risk	Capital requirements for failed transactions are determined according to the rules for failed trades and non-delivery-versus-payment transactions under the Basel framework.
Equity exposures outside trading book	Simple risk-weight method under the advanced internal ratings-based approach.
Market risk	Regulatory capital requirement is derived from our value-at-risk (VaR), which is approved by FINMA. It includes regulatory VaR, stressed VaR, an incremental risk charge and the comprehensive risk measure.
Operational risk	We have developed a model to quantify operational risk, which meets the regulatory capital standard under the advanced measurement approach and is approved by FINMA.
Securitization exposures	Securitization exposures in the banking book are assessed using the advanced internal ratings-based approach, applying risk weights based on external ratings. Securitization exposures in the trading book are assessed for their general market risk as well as for their specific risk. The capital charged for general market risk is determined by the VaR method, whereas the capital charge for specific risk is determined using the "comprehensive risk measure" method or the internal ratings-based approach applying risk weights based on external ratings.

Risk-weighted assets

The "Detailed segmentation of BIS Basel 2.5 risk-weighted assets" table provides a granular breakdown of our risk-weighted assets. The table also shows the net exposure at default (EaD) per category for the current disclosure period, which forms the basis for the calculation of the risk-weighted assets.

➔ **Refer to the "Capital management" section of this report for more information**
➔ **Refer to the table "Derivation of regulatory net credit exposure" for BIS exposure segment definitions**

Table 2: Detailed segmentation of BIS Basel 2.5 risk-weighted assets

	31.12.12				31.12.11
	Net EAD	RWA			RWA
CHF million		Advanced IRB approach	Standardized approach	Total	Total
Credit risk	566,505	73,847	21,733	95,580	116,129
Sovereigns	*142,150*	*3,205*	*222*	*3,427*	*9,290*
Banks	*54,580*	*8,654*	*2,083*	*10,737*	*14,006*
Corporates	*154,433*	*43,250*	*16,312*	*59,562*	*75,385*
Retail	*215,342*	*18,737*	*3,116*	*21,854*	*17,447*
Residential mortgages	128,676	13,888	1,362	15,250	11,164
Lombard lending	82,271	4,111		4,111	3,345
Other retail	4,396	739	1,754	2,493	2,937
Securitization / Re-securitization exposures[1]	21,448	7,136		7,136	7,287
Banking book exposures	*14,995*	*5,497*		*5,497*	*4,147*
Trading book exposures	*6,453*	*1,639*		*1,639*	*3,139*
Non-counterparty related risk	26,610		6,248	6,248	6,050
Settlement risk (failed trades)	141	28	91	118	79
Equity exposures outside trading book[2]	798	2,972		2,972	3,310
Market risk		27,173		27,173	49,241
Value-at-risk (VaR)		*5,686*		*5,686*	*7,935*
Stressed value-at-risk (sVaR)		*7,367*		*7,367*	*13,117*
Incremental risk charge (IRC)		*5,192*		*5,192*	*19,564*
Comprehensive risk measure (CRM)		*8,928*		*8,928*	*8,625*
Operational risk[3]		53,277		53,277	58,867
Total BIS	615,501	164,434	28,071	192,505	240,962
Additional RWA according to FINMA regulations[4]				15,190	15,475
Total FINMA RWA[5]				207,695	256,437

1 On 31 December 2012, CHF 2.9 billion of the securitization exposures, including CHF 2.1 billion for the option to acquire the SNB StabFund's equity, were deducted from capital and therefore did not generate RWA (on 31 December 2011, a total of CHF 5.3 billion of securitization exposures were deducted from capital, which included CHF 1.6 billion for the option to acquire the equity of the SNB StabFund). 2 Simple risk weight method. 3 Advanced measurement approach. 4 Reflects an additional charge of 10% on credit risk RWA for exposures treated under the standardized approach, a surcharge of 200% for RWA of non-counterparty related assets and additional requirements for market risk. 5 As of 31 December 2012, the FINMA tier 1 ratio amounts to 19.7% (15.0% for 31 December 2011) and the FINMA total capital ratio to 23.4% (16.2% for 31 December 2011).

Credit risk

The tables in this section provide details on the exposures used to determine the firm's credit risk regulatory capital. The parameters applied under the advanced internal ratings-based approach are generally based on the same methodologies, data and systems we use for internal credit risk quantification, except where certain treatments are specified by regulatory requirements. These include, for example, the application of regulatory prescribed floors and multipliers, and differences with respect to eligibility criteria and exposure definitions. The exposure information presented in this section therefore differs from that disclosed in the "Risk management and control" section of this report. Similarly, the regulatory capital prescribed measure of credit risk exposure also differs from that required under IFRS.

➔ **Refer to "Note 29c Maximum exposure to credit risk and credit quality information" in the "Financial information" section of this report for more information**

For the majority of our derivative exposures we determine our required regulatory capital by applying the effective expected positive exposure as defined in Annex 4 of the Basel framework. For a small portion of the derivatives portfolio we instead apply the current exposure method based on the replacement value of derivatives in combination with a regulatory prescribed add-on.

The regulatory net credit exposure detailed in the tables in this section is shown as the regulatory exposure at default after applying collateral, netting and other eligible risk mitigants permitted by the relevant regulations. This section also presents information on impaired and defaulted assets by segmentation which is consistent with the regulatory capital calculation.

Table 3: Credit risk exposures and RWA

This table shows the derivation of RWA from the regulatory gross credit exposure, broken down by major types of credit exposure according to classes of financial instruments.

	Exposure				Average regulatory risk-weighting	RWA[1]
CHF million	Average regulatory gross credit exposure	Regulatory gross credit exposure	Less: regulatory credit risk offsets and adjustments	Regulatory net credit exposure		
Cash and balances with central banks	81,614	64,102		64,102	0%	226
Due from banks	26,874	19,668	(6,833)	12,835	21%	2,758
Loans	267,708	273,988	(4,257)	269,731	15%	40,644
Financial assets designated at fair value	5,737	3,786	(1,852)	1,934	38%	742
Off-balance sheet	40,625	36,866	(371)	36,496	26%	9,493
Banking products	**422,558**	**398,411**	**(13,312)**	**385,098**	**14%**	**53,862**
Derivatives	59,733	53,576		53,576	42%	22,383
Cash collateral receivables on derivative instruments	5,794	2,922		2,922	29%	836
Securities financing	50,306	40,937		40,937	7%	3,049
Traded products	**115,833**	**97,436**		**97,436**	**27%**	**26,268**
Trading portfolio assets	7,027	6,341	(52)	6,290	63%	3,955
Financial investments available-for-sale[2]	62,320	65,324		65,324	1%	870
Accrued income and prepaid expenses	6,299	6,183	(58)	6,125	77%	4,741
Other assets	13,105	11,268	(5,036)	6,232	94%	5,885
Other products	**88,751**	**89,116**	**(5,145)**	**83,971**	**18%**	**15,450**
Total 31.12.12	**627,142**	**584,963**	**(18,458)**	**566,505**	**17%**	**95,580**
Total 31.12.11	601,644	585,364	(28,786)	556,577	21%	116,129

1 The derivation of RWA is based on the various credit risk parameters of the advanced IRB approach and the standardized approach, respectively. 2 Excludes equity positions.

Table 4: Regulatory gross credit exposure by geographical region

This table provides a breakdown of our portfolio by major types of credit exposure according to classes of financial instruments and also by geographical regions. The geographical distribution is based on the legal domicile of the counterparty or issuer.

CHF million	Switzerland	Rest of Europe	North America	Latin America	Asia Pacific	Middle East and Africa	**Total regulatory gross credit exposure**	Total regulatory net credit exposure
Cash and balances with central banks	24,142	4,891	30,166		4,903		**64,102**	64,102
Due from banks	529	10,484	4,071	78	4,305	200	**19,668**	12,835
Loans	163,590	23,106	62,004	5,263	15,969	4,056	**273,988**	269,731
Financial assets designated at fair value	94	1,216	2,099	52	36	288	**3,786**	1,934
Off-balance sheet	7,313	7,594	19,823	469	1,302	366	**36,866**	36,496
Banking products	**195,669**	**47,291**	**118,163**	**5,861**	**26,515**	**4,910**	**398,411**	**385,098**
Derivatives	5,406	23,861	17,282	519	5,802	706	**53,576**	53,576
Cash collateral receivables on derivative instruments	70	1,752	649	26	215	209	**2,922**	2,922
Securities financing	2,523	21,013	13,730	272	2,767	633	**40,937**	40,937
Traded products	**7,999**	**46,626**	**31,661**	**817**	**8,784**	**1,549**	**97,436**	**97,436**
Trading portfolio assets		2,592	2,452	72	1,184	40	**6,341**	6,290
Financial investments available-for-sale[1]	1,436	24,328	34,952	21	4,556	31	**65,324**	65,324
Accrued income and prepaid expenses	374	1,269	4,323	17	187	12	**6,183**	6,125
Other assets	4,634	3,136	3,006	9	462	22	**11,268**	6,232
Other products	**6,444**	**31,325**	**44,733**	**119**	**6,390**	**105**	**89,116**	**83,971**
Total 31.12.12	**210,112**	**125,242**	**194,557**	**6,798**	**41,690**	**6,564**	**584,963**	**566,505**
Total 31.12.11	210,181	120,612	189,198	7,582	51,312	6,479	585,364	556,577

1 Excludes equity positions.

Table 5: Regulatory gross credit exposure by counterparty type

This table provides a breakdown of our portfolio by major types of credit exposure according to classes of financial instruments and also by counterparty type. The classification of counterparty type applied here is also used for the grouping of the balance sheet. The counterparty type is different from the exposure segments defined under the Basel framework and used in certain other tables in this section.

CHF million	Private individuals	Corporates[1]	Public entities (including sovereigns and central banks)	Banks and multilateral institutions	**Total regulatory gross credit exposure**	Total regulatory net credit exposure
Cash and balances with central banks		3	63,812	288	**64,102**	64,102
Due from banks			633	19,035	**19,668**	12,835
Loans	173,982	95,485	4,521		**273,988**	269,731
Financial assets designated at fair value		2,872	67	847	**3,786**	1,934
Off-balance sheet	2,362	32,836	201	1,468	**36,866**	36,496
Banking products	**176,344**	**131,195**	**69,235**	**21,637**	**398,411**	**385,098**
Derivatives	1,041	25,240	9,831	17,464	**53,576**	53,576
Cash collateral receivables on derivative financial instruments	2	1,126	280	1,514	**2,922**	2,922
Securities financing	270	30,383	4,627	5,657	**40,937**	40,937
Traded products	**1,313**	**56,749**	**14,738**	**24,636**	**97,436**	**97,436**
Trading portfolio assets		4,810	1,194	337	**6,341**	6,290
Financial investments available-for-sale[2]		9,420	49,555	6,348	**65,324**	65,324
Accrued income and prepaid expenses	4,046	1,330	160	646	**6,183**	6,125
Other assets	1,164	9,532	346	226	**11,268**	6,232
Other products	**5,210**	**25,093**	**51,255**	**7,558**	**89,116**	**83,971**
Total 31.12.12	**182,867**	**213,037**	**135,228**	**53,830**	**584,963**	**566,505**
Total 31.12.11	175,361	240,229	105,319	64,454	585,364	556,577

1 Also includes non-bank financial institutions. 2 Excludes equity positions.

Table 6: Regulatory gross credit exposure by residual contractual maturity

This table provides a breakdown of our portfolio by major types of credit exposure according to classes of financial instruments and also by residual contractual maturity.

CHF million	Due in 1 year or less	Due between 1 year and 5 years	Due over 5 years	Other[1]	**Total regulatory gross credit exposure**	Total regulatory net credit exposure
Cash and balances with central banks				64,102	**64,102**	64,102
Due from banks	6,063	144	25	13,435	**19,668**	12,835
Loans	95,381	71,671	35,199	71,737	**273,988**	269,731
Financial assets designated at fair value	727	2,492	552	15	**3,786**	1,934
Off-balance sheet	7,730	26,451	2,566	119	**36,866**	36,496
Banking products	**109,901**	**100,758**	**38,343**	**149,409**	**398,411**	**385,098**
Derivatives	19,711	11,985	21,875	6	**53,576**	53,576
Cash collateral receivables on derivative financial instruments	1			2,921	**2,922**	2,922
Securities financing	8,327	610	23	31,978	**40,937**	40,937
Traded products	**28,039**	**12,595**	**21,898**	**34,905**	**97,436**	**97,436**
Trading portfolio assets	1,534	2,761	1,988	58	**6,341**	6,290
Financial investments available-for-sale[2]	36,651	20,511	8,162		**65,324**	65,324
Accrued income and prepaid expenses				6,183	**6,183**	6,125
Other assets				11,268	**11,268**	6,232
Other products	**38,185**	**23,272**	**10,150**	**17,509**	**89,116**	**83,971**
Total 31.12.12	**176,125**	**136,625**	**70,391**	**201,822**	**584,963**	**566,505**
Total 31.12.11	205,337	139,807	81,024	159,196	585,364	556,577

1 Includes positions without an agreed residual contractual maturity, for example loans without a fixed term and cash collateral receivables on derivative financial instruments, on which notice of termination has not been given. 2 Excludes equity positions.

Table 7: Derivation of regulatory net credit exposure

This table provides a derivation of the regulatory net credit exposure from the regulatory gross credit exposure according to the advanced internal ratings-based approach and the standardized approach. The table also provides a breakdown according to BIS-defined exposure segments as follows:

- *Corporates,* consisting of all exposures that do not fit into any of the other exposure segments listed below. This segment includes private commercial entities such as corporations, partnerships or proprietorships, insurance companies, funds, exchanges and clearing houses.
- *Sovereigns (central governments and central banks as defined under Swiss and EU regulations),* consisting of exposures relating to sovereign states and their central banks, the BIS, the International Monetary Fund, the EU (including the European Central Bank) and eligible multilateral development banks.
- *Banks (as defined under Swiss and EU regulations),* consisting of exposures to legal entities holding a banking license. This segment also includes securities firms subject to supervisory and regulatory arrangements, including risk-based capital requirements, which are comparable to those applied to banks according to the framework. The BIS regulation also includes exposures to public sector entities with tax-raising power or entities whose liabilities are fully guaranteed by a public entity in this segment.
- *Residential mortgages (claims secured on residential real estate as defined under Swiss and EU regulations),* consisting of residential mortgages, regardless of exposure size, if the obligor owns and occupies or rents out the mortgaged property.
- *Lombard lending,* consisting of loans made against the pledge of eligible marketable securities or cash.
- *Other retail,* consisting of exposures to small businesses, private clients and other retail customers without mortgage financing.

CHF million	Advanced IRB approach	Standardized approach	**Total 31.12.12**	Total 31.12.11
Total regulatory gross credit exposure	441,859	143,104	**584,963**	585,364
Less: regulatory credit risk offsets and adjustments[1]	(13,345)	(5,112)	**(18,458)**	(28,786)
Total regulatory net credit exposure	**428,513**	**137,992**	**566,505**	
Total 31.12.11	468,796	87,781		556,577
Breakdown of the regulatory net credit exposure by exposure segment				
Corporates	132,829	21,604	**154,433**	183,816
Sovereigns[1]	37,796	104,354	**142,150**	107,479
Banks	48,506	6,073	**54,580**	63,651
Retail				
Residential mortgages	*125,051*	*3,625*	***128,676***	*123,650*
Lombard lending	*82,271*		***82,271***	*73,681*
Other retail	*2,060*	*2,336*	***4,396***	*4,300*
Total regulatory net credit exposure	**428,513**	**137,992**	**566,505**	
Total 31.12.11	468,796	87,781		556,577

1 Includes high-quality liquid short-term securities issued by governments, government-controlled institutions, and central banks.

Table 8: Regulatory gross credit exposure covered by guarantees and credit derivatives

This table provides a breakdown of exposures covered by guarantees as well as those covered by credit derivatives, according to Basel-defined exposure segments.

The amounts in the table reflect the values used for determining regulatory capital to the extent collateral is eligible under the Basel framework.

CHF million	Exposure covered by guarantees[1]	Exposure covered by credit derivatives
Exposure segment		
Corporates	5,923	16,147
Sovereigns	59	87
Banks	363	97
Retail		
Residential mortgages	*7*	
Lombard lending	*408*	
Other retail	*52*	
Total 31.12.12	**6,813**	**16,331**
Total 31.12.11	7,003	17,297

1 Includes guarantees and stand-by letters of credit provided by third parties, mainly banks.

Advanced internal ratings-based approach

Table 9: Advanced internal ratings-based approach: Regulatory net credit exposure by internal UBS ratings

This table provides a breakdown of the regulatory net credit exposure of our credit portfolio (including loan commitments) using the advanced internal ratings-based approach according to our internal rating classes.

	Internal UBS rating									
CHF million, except where indicated	Investment grade			Sub-investment grade		Defaulted[1]	Total regulatory net credit exposure	of which: loan commitments	Total regulatory net credit exposure	of which: loan commitments
Internal UBS rating	0/1	2/3	4/5	6–8	9–13		**31.12.12**		31.12.11	
Regulatory net credit exposure-weighted average probability of default	0.005%	0.055%	0.301%	0.965%	5.385%		**0.470%**		0.471%	
Regulatory net credit exposure										
Corporates	7,780	54,790	27,488	31,238	10,412	1,120	**132,829**	13,069	159,853	16,005
Sovereigns	32,360	3,043	2,303	54	9	27	**37,796**	122	58,727	237
Banks	1,111	36,839	8,095	1,923	461	76	**48,506**	12,057	55,953	12,509
Retail										
Residential mortgages		*2,001*	*95,736*	*23,663*	*3,212*	*440*	***125,051***	*273*	*119,565*	*255*
Lombard lending		*70,868*	*6,718*	*3,382*	*1,289*	*14*	***82,271***	*300*	*73,681*	*262*
Other retail		*130*	*80*	*491*	*1,349*	*9*	***2,060***	*2*	*1,018*	*1*
Total 31.12.12	**41,251**	**167,672**	**140,420**	**60,752**	**16,732**	**1,686**	**428,513**			
of which: loan commitments	*104*	*17,370*	*3,304*	*2,356*	*2,674*	*15*		*25,824*		
Total 31.12.11	41,555	196,225	146,031	64,353	18,151	2,482			468,796	
of which: loan commitments	*201*	*17,982*	*5,517*	*2,244*	*3,268*	*56*				*29,269*

1 Values of defaulted derivative contracts (CHF 716 million) are based on replacement values including "add-ons" used in the calculation of regulatory capital.

Table 10: Advanced internal ratings-based approach: Regulatory net exposure-weighted average loss given default by internal UBS ratings

This table provides a breakdown of the net exposure-weighted average loss given default (LGD) for our credit portfolio exposures calculated using the advanced internal ratings-based approach, according to our internal rating classes.

	Internal UBS rating						
in %	Investment grade			Sub-investment grade		Regulatory net credit exposure-weighted average LGD	
Internal UBS rating	0/1	2/3	4/5	6–8	9–13	**31.12.12**	31.12.11
Regulatory net credit exposure-weighted average LGD							
Corporates	23	24	31	25	24	**26**	28
Sovereigns	26	41	67	26	27	**30**	34
Banks	32	29	29	25	32	**29**	31
Retail							
Residential mortgages		*22*	*13*	*17*	*15*	***14***	*10*
Lombard lending		*20*	*20*	*20*	*20*	***20***	*20*
Other retail		*20*	*7*	*38*	*40*	***37***	*38*
Average 31.12.12	**26**	**24**	**19**	**21**	**23**	**22**	
Average 31.12.11	21	26	19	22	25		23

Table 11: Advanced internal ratings-based approach: Regulatory net exposure-weighted average risk weight by internal UBS ratings

This table provides a breakdown of the net exposure-weighted average risk weight for our credit portfolio exposures calculated using the advanced internal ratings-based approach according to our internal rating classes.

	Internal UBS rating						
in %		Investment grade		Sub-investment grade		Regulatory net credit exposure-weighted average risk weight	
Internal UBS rating	0/1	2/3	4/5	6–8	9–13	**31.12.12**	31.12.11
Regulatory net credit exposure-weighted average risk weight							
Corporates	6	10	46	43	72	**31**	35
Sovereigns	1	20	94	49	103	**8**	14
Banks	11	12	26	42	159	**17**	20
Retail							
Residential mortgages		*3*	*7*	*17*	*48*	***10***	*7*
Lombard lending		*3*	*10*	*18*	*30*	***5***	*4*
Other retail		*3*	*4*	*48*	*33*	***34***	*42*
Average 31.12.12	**2**	**8**	**17**	**32**	**64**	**16**	
Average 31.12.11	2	9	20	37	77		19

Standardized approach

The standardized approach is generally applied where it is not possible to use the advanced internal ratings-based approach and/or where an exemption from the advanced internal ratings-based approach has been granted by FINMA. The standardized approach requires banks to use risk assessments prepared by external credit assessment institutions (ECAI) or export credit agencies to determine the risk weightings applied to rated counterparties. We use FINMA-recognized ECAI risk assessments to determine the risk weightings for certain counterparties in the following classes of exposure:

- central governments and central banks
- regional governments and local authorities
- multilateral development banks
- institutions
- corporates

We use three FINMA-recognized ECAI for this purpose: Standard & Poor's Ratings Group, Moody's Investors Service and Fitch Group. The mapping of external ratings to the standardized approach risk weights is determined by FINMA and published on its website.

Table 12: Regulatory gross and net credit exposure by risk weight under the standardized approach

This table provides a breakdown of the regulatory gross and net credit exposure by risk weight for our credit portfolio exposures treated under the standardized approach, according to Basel-defined exposure segments.

CHF million	Total exposure					Total exposure	
Risk weight	0%	>0–35%	36–75%	76–100%	150%	**31.12.12**	31.12.11
Regulatory gross credit exposure							
Corporates	24	6,260	776	18,431	240	**25,730**	28,241
Sovereigns[1]	104,080	4	97	172		**104,354**	48,761
Banks		3,271	2,779	3	25	**6,078**	7,749
Retail							
Residential mortgages		*3,023*	*613*	*970*		***4,606***	*5,240*
Lombard lending							
Other retail			*2,337*			***2,337***	*3,285*
Total 31.12.12	**104,104**	**12,558**	**6,601**	**19,576**	**265**	**143,104**	
Total 31.12.11	48,315	15,838	9,015	19,877	229		93,275
Regulatory net credit exposure[2]							
Corporates	24	6,260	776	14,320	224	**21,604**	23,963
Sovereigns[1]	104,080	4	97	172		**104,354**	48,752
Banks		3,266	2,779	3	25	**6,073**	7,698
Retail							
Residential mortgages		*3,009*	*613*	*3*		***3,625***	*4,085*
Lombard lending							
Other retail			*2,336*			***2,336***	*3,283*
Total 31.12.12	**104,104**	**12,540**	**6,601**	**14,498**	**249**	**137,992**	
Total 31.12.11	48,315	15,838	8,935	14,479	215		87,781

1 Includes high-quality liquid short-term securities issued by governments, government-controlled institutions and central banks. 2 For traded products, the regulatory gross credit exposure is equal to the regulatory net credit exposure.

Table 13: Eligible financial collateral recognized under the standardized approach

This table provides a breakdown of the financial collateral eligible for recognition in the regulatory capital calculation under the standardized approach, according to Basel-defined exposure segments.

CHF million	Regulatory net credit exposure under standardized approach		Eligible financial collateral recognized in capital calculation[1]	
	31.12.12	31.12.11	**31.12.12**	31.12.11
Exposure segment				
Corporates	**21,604**	23,963	**6,223**	5,211
Sovereigns[2]	**104,354**	48,752	**26**	40
Banks	**6,073**	7,698	**1,412**	1,188
Retail				
Residential mortgages	***3,625***	*4,085*	***981***	*1,155*
Lombard lending				
Other retail	***2,336***	*3,283*		*3*
Total	**137,992**	87,781	**8,643**	7,596

1 Reflects the impact of the application of regulatory haircuts. For traded products, it is the difference between the IFRS reported values and the regulatory net credit exposure. 2 Includes high-quality liquid short-term securities issued by governments, government-controlled institutions and central banks.

Impairment, default and credit loss

As illustrated in the tables below, our impaired assets were 45% lower on 31 December 2012 compared with 31 December 2011, mainly due to a reduction in defaulted derivatives contracts with monolines as a result of trade commutations.

Table 14: Impaired assets by region

This table shows a breakdown of credit exposures arising from impaired assets, as well as allowances and provisions by region. Impaired asset exposures include loans, off-balance sheet claims, securities financing transactions and derivative transactions.

CHF million	Regulatory gross credit exposure	Impaired assets[1]	Specific allowances, provisions and credit valuation adjustments	Impaired assets net of specific allowances, provisions and credit valuation adjustments	Collective loan loss allowances[2]	**Total allowances, provisions and specific credit valuation adjustments[2]**	Total allowances, provisions and specific credit valuation adjustments 31.12.11
Asia Pacific	41,690	58	(58)			**(58)**	(45)
Latin America	6,798	49	(43)	6		**(43)**	(27)
Middle East and Africa	6,564	65	(35)	30		**(35)**	(34)
North America	194,557	721	(346)	374	(2)	**(348)**	(1,465)
Switzerland	210,112	837	(426)	411	(113)	**(539)**	(604)
Rest of Europe	125,242	737	(209)	528		**(209)**	(220)
Total 31.12.12	**584,963**	**2,467**	**(1,117)**	**1,349**	**(114)**	**(1,232)**	
Total 31.12.11	585,364	4,465	(2,263)	2,201	(131)		(2,395)

1 Values of defaulted derivative contracts (CHF 716 million; 31 December 2011: CHF 2,143 million) are based on replacement values and do not include "add-ons" used in the calculation of regulatory capital. 2 Collective credit valuation adjustments of CHF 736 million (31 December 2011: CHF 1,073 million) are partially included in the upper tier 2 capital and therefore not included in this table.

Table 15: Impaired assets by exposure segment

This table provides a breakdown of credit exposures arising from impaired assets as well as allowances and provisions in accordance with Basel-defined exposure segments.

CHF million	Regulatory gross credit exposure	Impaired assets[1]	Specific allowances, provisions and credit valuation adjustments	Collective loan loss allowances[2]	**Total allowances, provisions and specific credit valuation adjustments[2]**	Writeoffs for the year ended 31.12.12	Total allowances, provisions and specific credit valuation adjustments 31.12.11
Corporates	162,925	2,077	(937)		**(937)**	(134)	(2,081)
Sovereigns	142,271	14	(10)		**(10)**	(1)	(10)
Banks	63,443	64	(26)		**(26)**		(15)
Retail	0						
Residential mortgages	*129,657*	*186*	*(51)*		***(51)***		*(66)*
Lombard lending	*82,271*	*66*	*(49)*		***(49)***	*0*	*(37)*
Other retail	*4,396*	*60*	*(43)*		***(45)***	*(26)*	*(54)*
Not allocated segment[3]				(114)	**(113)**		(131)
Total 31.12.12	**584,963**	**2,467**	**(1,117)**	**(114)**	**(1,232)**	**(162)**	
Total 31.12.11	585,364	4,465	(2,263)	(131)		(299)[4]	(2,395)

1 Values of defaulted derivative contracts (CHF 716 million; 31 December 2011: CHF 2,143 million) are based on replacement values and do not include "add-ons" used in the calculation of regulatory capital. 2 Collective credit valuation adjustments of CHF 736 million (31 December 2011: CHF 1,073 million) are partially included in the upper tier 2 capital and therefore not included in this table. 3 Collective loan loss allowances are not allocated to individual counterparties and thus also not to exposure segments. 4 Does not include CHF 152 million securitization-related writeoffs (31 December 2011: CHF 202 million).

Table 16: Changes in allowances, provisions and specific credit valuation adjustments

This table provides a breakdown of movements in the specific and collective allowances and provisions for impaired assets, including changes in the credit valuation adjustments for defaulted derivatives.

CHF million	Specific allowances and provisions for banking products and securities financing	Specific credit valuation adjustments for derivatives	Total specific allowances, provisions and credit valuation adjustments	Collective loan loss allowances[1]	For the year ended 31.12.12		For the year ended 31.12.11
Opening balance as of 1.1.12	807	1,457	2,263	131	**2,395**	Opening balance as of 1.1.11	2,418
Write-offs/usage of provisions	(312)		(312)	(2)	**(313)**		(501)
Recoveries (on written-off positions)	63		63		**63**		51
Increase / (decrease) in allowances, provisions and specific credit valuation adjustments[2]	133	(1,018)	(885)	(15)	**(899)**		387
Foreign currency translations and other adjustments	(11)		(11)	-0	**(12)**		73
Transfers							(32)
Closing balance as of 31.12.12	**680[3]**	**439**	**1,119**	**114**	**1,233**	Closing balance as of 31.12.11	2,395

1 Collective credit valuation adjustments of CHF 736 million (31 December 2011: CHF 2,143 million) are partially included in the upper tier 2 capital and therefore not included in this table. 2 Total actual credit loss (credit loss expense and changes in specific credit valuation adjustments recognized in net trading income). 3 Includes CHF 2 million allowances for securities financing.

Table 17: Total expected loss and actual credit loss

This table provides a breakdown of the one-year expected loss estimate on our credit portfolios (including lending, derivative and securities financing portfolios) calculated as of 31 December 2011, and the actual IFRS credit loss amount (including credit valuation adjustments on derivatives) charged against our income statement in 2012, according to Basel-defined exposure segments of the advanced internal ratings-based approach. Comparison between our expected and actual losses has certain limitations as the two measures are not directly comparable. In particular our expected loss estimate is an annualized average expected loss measure which takes into account our historical loss experience, whereas actual loss represents our credit loss expense charged to the income statement in the financial year. The difference in our expected and actual loss amounts resulted from credit recoveries and from lower-than-expected actual losses in 2012.

	Expected loss	Actual credit (loss) / recovery and credit valuation adjustments			
CHF million	31.12.11	**For the year ended 31.12.12**			For the year ended 31.12.11
	Total expected loss	**Actual credit (loss) / recovery**	**Specific credit valuation adjustments for defaulted derivatives**	**Total actual credit (loss) / recovery and specific credit valuation adjustments**	Total actual credit (loss) / recovery and specific credit valuation adjustments
Corporates[1]	(322)	**(133)**	**1,018**	**884**	(321)
Sovereigns	(19)	**0**		**0**	
Banks	(35)	**(1)**		**(1)**	(1)
Retail					
Residential mortgages	*(59)*	***15***		***15***	*3*
Lombard lending	*(24)*	***(12)***		***(12)***	*12*
Other retail	*(5)*	***(11)***		***(11)***	*(5)*
Not allocated segment[2]		**24**		**24**	(75)
Total	(463)	**(118)**	**1,018**	**899**	(387)

1 Includes actual credit loss from Legacy Portfolio, which amounted to CHF 112 million. 2 Includes changes in collective loan loss allowances and provisions.

Other credit risk information

Our credit derivatives trading is predominantly on a collateralized basis. This means that our credit exposures arising from our derivatives activities with collateralized counterparties are typically closed out in full or reduced to nominal levels on a regular basis by the use of collateral.

Derivatives trading with counterparties with high credit ratings (for example a large bank or broker-dealer) is typically under an International Swaps and Derivatives Association (ISDA) master netting agreement. Credit exposures to those counterparties from credit default swaps (CDS), together with exposures from other over-the-counter (OTC) derivatives, are netted and included in the calculation of the collateral that is required to be posted. Trading with lower-rated counterparties such as hedge funds would generally require an initial margin to be posted by the counterparty.

We receive collateral from or post collateral to our counterparties based on our open net receivable or net payable from OTC derivative activities. Under the terms of the ISDA master netting agreement and similar agreements, this collateral, which generally takes the form of cash or highly liquid debt securities, is available to cover any amounts due under those derivative transactions.

Settlement risk, including payment risk of CDS, has been mitigated to some extent by the development of a market-wide credit event auction process. This has resulted in a widespread shift to the cash settlement of CDS following a credit event on a reference entity. We had no experience of any significant losses from failed settlements of CDS contracts in 2012.

The vast majority of our CDS trading activity is conducted by the Investment Bank. The "Credit derivatives by counterparty category" table on the next page provides further analysis of the Investment Bank's CDS counterparties based on the notional amount of CDS protection purchased and sold. The analysis shows that the vast majority of the Investment Bank's CDS counterparties were market professionals. Based on the same notional measure, approximately 98% of these counterparties were rated investment grade and approximately 99% of the CDS activity was traded on a collateralized basis.

Table 18: Credit exposure of derivative instruments

This table provides an overview of our credit exposures arising from derivatives. Exposures are provided based on the balance sheet carrying values of derivatives as well as regulatory net credit exposures. The net balance sheet credit exposure differs from the regulatory net credit exposures because of differences in valuation methods and the netting and collateral deductions used for accounting and regulatory capital purposes. Net current credit exposure is derived from gross positive replacement values, whereas regulatory net credit exposure is calculated using our internal credit valuation models.

CHF million	**31.12.12**	31.12.11
Gross positive replacement values	**418,029**	486,584
Netting benefits recognized	**(327,320)**	(383,338)
Collateral held	**(55,890)**	(50,955)
Net current credit exposure	**34,818**	52,291
Regulatory net credit exposure (total counterparty credit risk)	**53,576**	72,558
of which: treated with internal models (effective expected positive exposure [EPE])	***44,135***	*57,874*
of which: treated with supervisory approaches (current exposure method)	***9,441***	*14,684*
Breakdown of the collateral held		
Cash collateral	**49,382**	45,572
Securities collateral and debt instruments collateral (excluding equity)	**6,236**	5,055
Equity instruments collateral	**101**	109
Other collateral	**171**	218
Total collateral held	**55,890**	50,955

Table 19: Credit derivatives[1, 2]

This table provides an overview of our credit derivative portfolio by product group using notional amounts. The table also provides a breakdown of credit derivative positions used to manage our own credit portfolio risks (banking book for regulatory purposes) and those arising through intermediation activities (trading book for regulatory capital purposes).

	Regulatory banking book			Regulatory trading book			Total	
Notional amounts, CHF million	Protection bought	Protection sold	Total	Protection bought	Protection sold	Total	**31.12.12**	31.12.11
Credit default swaps	13,711	119	13,831	1,068,447	1,059,970	2,128,417	**2,142,248**	2,541,632
Total return swaps				4,212	1,524	5,736	**5,736**	4,403
Total 31.12.12	**13,711**	**119**	**13,831**	**1,072,659**	**1,061,494**	**2,134,153**	**2,147,984[3]**	
Total 31.12.11	22,348	3,719	26,067	1,283,606	1,236,362	2,519,968		2,546,035

1 Notional amounts of credit derivatives are based on accounting definitions and do not include any netting benefits. For capital underpinning of the counterparty credit risk of derivative positions, the effective expected positive exposure (or exposure according to current exposure method) is taken. 2 Notional amounts are reported based on regulatory scope of consolidation and do not include options and warrants. 3 Does not include notionals for credit derivatives traded via a central clearing counterparty of CHF 236.4 billion on December 2012 and CHF 172.4 billion on December 2011.

Table 20: Credit derivatives by counterparty[1]

	% of total notional		% of buy notional		% of sell notional	
	31.12.12	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Developed markets commercial banks	**60**	60	**60**	59	**61**	61
Broker-dealers, investment and merchant banks	**24**	23	**23**	23	**24**	23
Hedge funds	**3**	1	**2**	1	**4**	2
All other	**13**	16	**15**	18	**11**	14

1 Counterparty analysis based on notional CDS exposures of the Investment Bank sourced from credit risk systems.

Investment positions

The regulatory capital view for investment positions differs from the IFRS view primarily due to the following:
(i) Differences in the basis of valuation, e.g. financial investments available for sale are subject to fair value accounting under IFRS but have to be treated under the "lower-of-cost-or-market" concept for regulatory capital purposes.
(ii) The use of different frameworks to determine regulatory capital. Tradable assets, for example, are treated under market risk value-at-risk (VaR).
(iii) Differences in the scope of consolidation. Certain special purpose entities, for example, are consolidated for IFRS but not for regulatory capital.

Table 21: Equity instruments for banking book positions

The table below shows the three different equity instrument categories held in the banking book with their amounts as disclosed for IFRS, followed by the regulatory capital-adjustment amount. This adjustment considers the above mentioned differences to IFRS resulting in the total equity instruments exposure under BIS framework, the corresponding RWA and capital charge.

The table also shows net realized gains and losses and unrealized revaluation gains relating to the equity investments.

	Book value	
CHF million	**31.12.12**	31.12.11
Equity instruments		
Financial investments available-for-sale	**725**	699
Financial assets designated at fair value[1]	**25**	730
Investments in associates	**858**	795
Total equity instruments under IFRS	**1,608**	2,223
Regulatory capital adjustment	**1,071**	778
Total equity instruments under BIS	**2,678**	3,001
of which: to be risk-weighted		
publicly traded	***184***	*173*
privately held[2]	***1,198***	*1,427*
of which: deducted from equity	***1,297***	*1,402*
RWA according to simple risk weight method	**2,972**	3,310
Capital requirement according to simple risk weight method	**238**	265
Total capital charge	**1,535**	1,667
Net realized gains / (losses) and unrealized gains from equity instruments		
Net realized gains / (losses) from disposals	**122**	(9)
Unrealized revaluation gains	**41**	49
of which: included in tier 2 capital	***18***	*22*

1 Decrease was mainly due to a reclassification of investment fund units from equity to debt investments. For regulatory purposes, these investments are classified as equity and were included in the line "Regulatory capital adjustments". 2 Includes CHF 584 million exposure booked in trust entities that did not generate risk-weighted assets (CHF 717 million on 31 December 2011).

Market risk

Risk-weighted assets (RWA) attributable to market risk decreased to CHF 27.2 billion as of 31 December 2012 compared with CHF 49.2 billion as of 31 December 2011. The decrease was mainly due to the reduction in incremental risk charge RWA on reduced exposures and a model update for sovereign debt in the first quarter and hedging activity. VaR and stressed VaR declined due to reduced risk positions and reduced credit spread risk. The market risk regulatory capital requirement is 8% of the respective RWA. Market risk regulatory capital and risk-weighted assets are based on our VaR model and subject to regulatory determined multipliers.

The population of the portfolio within management and regulatory VaR is slightly different. Management VaR includes all positions subject to internal management VaR limits. The population within regulatory VaR is a subset of this total population that meets minimum regulatory requirements for inclusion in regulatory VaR.

The following VaR tables include the market risks arising from the incident related to the Facebook initial public offering in the second quarter 2012. This affected the maximum and average VaR of Equities and the Investment Bank as a whole.

➔ **Refer to the "Risk management and control" sections of this report for more information on market risk**

Table 22: Group: regulatory value-at-risk (10-day, 99% confidence, 5 years of historical data) by business division and Corporate Center

This table provides a breakdown of the Group's minimum, maximum, average and period-end regulatory VaR by business division.

	For the year ended 31.12.12				For the year ended
CHF million, except where indicated	Min.	Max.	Average	31.12.12	31.12.11[1]
Wealth Management	0	0	0	0	0
Wealth Management Americas	14	25	18	17	24
Investment Bank[2]	58	769	131	61	132
Global Asset Management	0	1	0	0	0
Retail & Corporate	0	1	0	0	0
Corporate Center[2]	8	117	37	43	9
Diversification effect	–[3]	–[3]	(54)	(58)	(24)
Total regulatory VaR, Group	**56**	**776**	**133**	**63**	**142**
Diversification effect (%)			(29)	(48)	(14)

1 The Basel 2.5 enhancements became effective as of 31 December 2011, therefore the minimum, maximum and average valued for the year ended 31 December 2011 are not shown. 2 Prior periods have not been restated for the transfer of legacy positions from the Investment Bank to the Corporate Center. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Table 23: Group: regulatory value-at-risk (10-day, 99% confidence, 5 years of historical data) by risk type

This table provides a breakdown of the Group's minimum, maximum, average and period-end regulatory VaR by risk type.

	For the year ended 31.12.12				For the year ended
CHF million, except where indicated	**Min.**	**Max.**	**Average**	**31.12.12**	31.12.11[1]
Equities	**24**	**713**	**52**	**27**	52
Interest rates	**40**	**162**	**79**	**40**	61
Credit spreads	**99**	**296**	**186**	**104**	220
Foreign exchange	**21**	**149**	**51**	**38**	60
Energy, metals and commodities	**6**	**75**	**17**	**21**	17
Diversification effect	**–**[2]	**–**[2]	**(252)**	**(166)**	(269)
Total regulatory VaR, Group	**56**	**776**	**133**	**63**	142
Diversification effect (%)			**(65)**	**(72)**	(65)

1 The Basel 2.5 enhancements became effective as of 31 December 2011, therefore the minimum, maximum and average values for the year ended 31 December 2011 are not shown. 2 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Table 24: Group: regulatory value-at-risk (1-day, 99% confidence, 5 years of historical data)[1]

This table provides a breakdown of the Group and Investment Bank's minimum, maximum, average and period-end regulatory back-testing VaR.

	For the year ended 31.12.12				For the year ended
CHF million	**Min.**	**Max.**	**Average**	**31.12.12**	31.12.11[2]
Investment Bank[3]	**24**	**239**	**47**	**24**	55
Group[3]	**23**	**239**	**47**	**25**	58

1 10-day 99% regulatory VaR and 1-day 99% regulatory VaR results are calculated separately from underlying positions and historical market moves. They cannot be inferred from each other. 2 The Basel 2.5 enhancements became effective as of 31 December 2011, therefore the minimum, maximum and average values for the year ended 31 December 2011 are not shown. 3 Backtesting is based on 1-day 99% regulatory VaR.

Stressed value-at-risk

Stressed VaR is a 10-day 99% measure calibrated to a one-year period of significant financial stress relevant to the current portfolio of the Group. Stressed VaR adopts broadly the same methodology as VaR with modifications as required to calibrate the model to a historical stress period.

Table 25: Group: stressed value-at-risk (10-day, 99% confidence, 5 years of historical data) by business division and Corporate Center

This table provides a breakdown of the Group's period-end regulatory stressed VaR by business division.

	For the year ended 31.12.12				For the year ended
CHF million, except where indicated	**Min.**	**Max.**	**Average**	**31.12.12**	31.12.11[1]
Wealth Management	**0**	**1**	**0**	**0**	0
Wealth Management Americas	**18**	**31**	**24**	**23**	31
Investment Bank[2]	**100**	**1,111**	**184**	**118**	173
Global Asset Management	**0**	**1**	**1**	**1**	0
Retail & Corporate	**0**	**0**	**0**	**0**	0
Corporate Center[2]	**12**	**200**	**58**	**77**	14
Diversification effect	**–**[3]	**–**[3]	**(78)**	**(94)**	(39)
Total stressed VaR, Group	**105**	**1,127**	**189**	**125**	181
Diversification effect (%)			**(29)**	**(43)**	(18)

1 The Basel 2.5 enhancements became effective as of 31 December 2011, therefore the minimum, maximum and average values for the year ended 31 December 2011 are not shown. 2 Prior periods have not been restated for the transfer of legacy positions from the Investment Bank to the Corporate Center. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Table 26: Group: stressed value-at-risk (10-day, 99% confidence, 5 years of historical data) by risk type

This table provides a breakdown of the Group's period-end regulatory stressed VaR by risk type.

	For the year ended 31.12.12				For the year ended
CHF million, except where indicated	**Min.**	**Max.**	**Average**	**31.12.12**	31.12.11[1]
Equities	**20**	**1,015**	**76**	**38**	65
Interest rates	**43**	**285**	**93**	**43**	54
Credit spreads	**159**	**528**	**326**	**163**	399
Foreign exchange	**28**	**222**	**83**	**61**	88
Energy, metals and commodities	**7**	**110**	**23**	**40**	22
Diversification effect	**–**[2]	**–**[2]	**(413)**	**(220)**	(446)
Total stressed VaR, Group	**105**	**1,127**	**189**	**125**	181
Diversification effect (%)			**(69)**	**(64)**	(71)

1 The Basel 2.5 enhancements became effective as of 31 December 2011, therefore the minimum, maximum and average values for the year ended 31 December 2011 are not shown. 2 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Incremental risk charge

The incremental risk charge (IRC) represents an estimate of the default and migration risk of unsecuritized credit products held in the trading book, measured over a one-year time horizon at a 99.9% confidence level. To capture the risk over a one-year period, the calculation of the measure assumes all positions in the IRC portfolio have a one-year liquidity horizon and are kept unchanged over this period.

The portfolio default and credit migrations loss distribution is estimated using a Monte Carlo simulation of correlated credit migration events (defaults and credit rating changes) for all issuers in the IRC portfolio, based on a Merton-type model. For each position, default losses are calculated based on the maximum default exposure measure (loss on a current position in case of an immediate default event and assuming zero recovery) and a random recovery concept. To account for the default basis risk, different recovery values may be generated for different instruments even if they belong to the same issuer. To calculate credit migration losses a linear (delta) approximation is used: a loss due to a migration event is calculated as the credit spread change multiplied by the corresponding sensitivity of a position to the credit spread changes.

Our IRC methodology and implementation is approved by FINMA, with ongoing methodology improvements also subject to regulatory approval.

Table 27: Group: incremental risk charge by business division and Corporate Center

This table provides a breakdown of the Group's period-end regulatory incremental risk charge by business division.

	For the year ended 31.12.12				For the year ended
CHF million, except where indicated	**Min.**	**Max.**	**Average**	**31.12.12**	31.12.11[1]
Wealth Management	**0**	**2**	**0**	**0**	0
Wealth Management Americas	**5**	**32**	**13**	**10**	82
Investment Bank[2]	**109**	**1,074**	**706**	**109**	1,349
Global Asset Management	**0**	**0**	**0**	**0**	
Retail & Corporate	**0**	**0**	**0**	**0**	0
Corporate Center[2]	**143**	**258**	**196**	**183**	306
Diversification effect	**–**[3]	**–**[3]	**(212)**	**(168)**	(303)
Total incremental risk charge, Group	**131**	**1,045**	**703**	**135**	1,435
Diversification effect (%)			**(23)**	**(56)**	(17)

1 The Basel 2.5 enhancements became effective as of 31 December 2011, therefore the minimum, maximum and average values for the year ended 31 December 2011 are not shown. 2 Prior periods have not been restated for the transfer of legacy positions from the Investment Bank to the Corporate Center. 3 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Comprehensive risk charge

Comprehensive risk measure (CRM) represents an estimate of the default and complex price risk including the convexity and cross convexity of the correlation trading portfolio across spread, correlation and recovery, measured over a one-year time horizon at a 99.9% confidence level. To capture the risk over a one-year period, the calculation of the measure assumes that all positions in the CRM portfolio have a one-year liquidity horizon and are kept unchanged over this time period.

The CRM loss distribution is estimated using Monte Carlo simulation of real-world defaults between the spot and the end of the one-year horizon date, and calculates resulting cash flows in the CRM portfolio. The portfolio is then revalued on the one-year horizon date, with inputs such as credit spreads and index basis being migrated from spot to horizon date. The 99.9% worst percentile is then taken from the resulting profit or loss distribution, to give the CRM model result.

Our CRM methodology and implementation is approved by FINMA, with ongoing methodology improvements also subject to regulatory approval. It is subject to qualitative minimum standards as well as stress testing requirements. The calculated CRM measure for regulatory capital purposes is subject to a floor calculation equal to 8% of the equivalent capital charge under a the securitization framework.

Table 28: Group: comprehensive risk charge

This table provides a breakdown of the Group's period-end regulatory comprehensive risk charge for the Investment Bank.

	For the year ended 31.12.12				For the year ended
CHF million	**Min.**	**Max.**	**Average**	**31.12.12**	31.12.11[1]
Investment Bank	**594**	**770**	**675**	**604**	636
Group	**594**	**770**	**675**	**604**	636

1 The Basel 2.5 enhancements became effective as of 31 December 2011, therefore the minimum, maximum and average values for the year ended 31 December 2011 are not shown.

Securitization

This section provides details of traditional and synthetic securitization exposures in the banking and trading book. It also provides details of the regulatory capital associated with these exposures, based on the enhancements made to the Basel II framework as well as the revised Basel II market risk framework, commonly referred to as Basel 2.5. In a traditional securitization, a pool of loans (or other debt obligations) is typically transferred to a special purpose entity that has been established to own the loan pool and to issue tranched securities to third-party investors referencing this pool of loans. In a synthetic securitization, legal ownership of securitized pools of assets is typically retained, but associated credit risk is transferred to a special purpose entity typically through guarantees, credit derivatives or credit-linked notes. Hybrid structures with a mix of traditional and synthetic features are disclosed as synthetic securitizations.

We act in different roles in securitization transactions. As originator, we create or purchase financial assets, which are then securitized in traditional or synthetic securitization transactions, enabling us to transfer significant risk to third-party investors. As sponsor, we manage or advise securitization programs. In line with the Basel framework, this sponsoring includes underwriting, that is, placing securities into the market. In all other cases, we act in the role of investor by taking securitization positions.

Risk-weighted assets attributable to securitization positions decreased to CHF 7.1 billion as of 31 December 2012 from CHF 7.3 billion a year earlier. Ratings downgrades and new synthetic securitization transactions in the banking book contributed to increased risk-weighted assets of CHF 1.6 billion. This increase was more than offset by a CHF 1.8 billion reduction in risk-weighted assets related to the sale of student loan auction rate securities and commercial mortgage-backed securities mainly during the second half of the year.

Objectives, roles and involvement

Securitization in the banking book

The majority of our securitization positions held in the banking book are legacy risk positions, a significant amount of which were a) reclassified under IFRS from Held for trading to Loans and receivables in the fourth quarter of 2008 and the first quarter of 2009, or b) classified as Loans and receivables when acquiring student loan auction rate securities from clients. As of 31 December 2012, this portfolio included mainly student loan auction rate securities, and to a lesser extent collateralized debt obligations and collateralized loan obligations some of which have credit default swap protection purchased from monoline insurers, as well as commercial mortgage-backed securities, residential mortgage-backed securities and reference-linked note programs. New credit-risk hedging transactions in 2012 increased our position in synthetic securitizations of portfolios of counterparty credit risk in over-the-counter derivatives and loan exposures. These transactions are primarily used to reduce our credit risk by synthetically transferring counterparty risk.

In 2012, we acted in the roles of both originator and sponsor. As originator, we sold originated commercial mortgage loans into securitization programs. Furthermore, we synthetically securitized portfolios of counterparty credit risk inherent in over-the-counter derivatives and loan exposures. As sponsor, we managed or advised securitization programs and helped to place the securities into the market. The table "Table 29: Securitization activity of the year in the banking book" provides an overview of our originating and sponsoring activities in 2012 and 2011 respectively. With returning liquidity in the markets for commercial mortgage-backed securities, residential mortgage-backed securities as well as collateralized debt obligations, and in line with our market risk policies, certain legacy risk positions were moved from the banking book to the trading book during 2012.

Securitization and re-securitization positions in the banking book are measured either at fair value or at amortized cost less impairment. The impairment assessment is generally based on the net present value of future cash flows expected from a certain instrument that are derived from the underlying pool of assets.

Securitization in the trading book

Securitizations (including correlation products) held in the trading book are part of the trading activities, which typically include market-making and client facilitation. During 2012, certain legacy risk positions were moved from the banking book to the trading book, as liquidity returned to the markets. We were also involved in the placement of securitizations of assets originated by other institutions in the market, that is, we acted in the role of a sponsor. In certain cases we provided warehouse financing to collateralized loan obligation (CLO) managers. The table "Table 30: Securitization activity of the year in the trading book" provides an overview of our originating and sponsoring activities in 2012 and 2011 respectively. Included in the trading book are positions in our correlation book and legacy positions in leveraged super senior tranches. In the trading book, securitization and re-securitization positions are measured at fair value reflecting market prices where available or are based on our internal pricing models.

Type of special purpose entities and affiliated entities involved in the securitization transactions

For the securitization of third-party exposures, the type of special purpose entity employed is selected as appropriate based on the type of transaction undertaken. Examples of this include limited liability corporations, common law trusts and depositor entities.

We manage or advise significant groups of affiliated entities that invest in exposures we have securitized or in special purpose entities we sponsor. Significant groups of affiliated entities include

North Street, Brooklands/ELM, and East Street, which are involved in the US, European and Asia Pacific reference-linked note programs, respectively.

➔ **Refer to the "Market risk" section of this report for more information on reference-linked notes and to "Note 1 a) 3) Special purpose entities" in the "Financial information" section of this report**

Managing and monitoring of the credit and market risk of securitization positions

The banking book securitization portfolio is subject to specific risk monitoring, which may include interest rate and credit spread sensitivity analysis, as well as inclusion in firm-wide earnings-at-risk, capital-at-risk and combined stress test metrics.

The trading book securitization positions are also subject to multiple risk limits, in the Investment Bank, such as management VaR and stress limits as well as market value limits. As part of managing risks within the pre-defined risk limits, traders may utilize hedging and risk mitigation strategies. Hedging may however expose the firm to basis risks as the hedging instrument and the position being hedged may not always move in parallel. Such basis risks are managed within the overall limits. Any retained securitization from origination activities and any purchased securitization positions are governed by risk limits together with any other trading positions.

Regulatory capital treatment of securitization structures

Except in the cases described below, in both the banking and trading book we generally apply the ratings-based approach to securitization positions using ratings, if available, from Standard & Poor's, Moody's and Fitch for all securitization and re-securitization exposures. If two of these rating agencies have issued a rating for a particular position, we would apply the worst credit rating of the two. If all three rating agencies have issued a rating for a particular position, we would apply the second worst credit rating of the three. Under the ratings-based approach, the amount of capital required for securitization and re-securitization exposures in the banking book is capped at the level of the capital requirement that would have been assessed against the underlying assets had they not been securitized. This treatment has been applied in particular to the US and European reference-linked note programs. For the purposes of determining regulatory capital and the Pillar 3 disclosure for these positions, the underlying exposures are reported under the standardized approach, the advanced internal ratings-based approach or the securitization approach, depending on the category of the underlying security. If the underlying security is reported under the standardized approach or the advanced internal ratings-based approach, the related positions are excluded from the tables on the following pages.

The supervisory formula approach is applied to synthetic securitizations of portfolios of counterparty credit risk inherent in over-the-counter derivatives and loan exposures for which an external rating was not sought. The supervisory formula approach is also applied to leveraged super senior tranches.

In the trading book, the comprehensive risk measure is used for the correlation portfolio as defined by Basel 2.5 requirements. This measure broadly covers securitizations of liquid corporate underlying assets as well as associated hedges that are not necessarily securitizations, for example, single name credit default swaps and credit default swaps on indices.

We do not apply the concentration ratio approach or the internal assessment approach to securitization positions.

The counterparty risk of interest rate or foreign currency derivatives with securitization vehicles is treated under the advanced internal ratings-based approach, and is therefore not part of this disclosure.

Accounting policies

Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of our 2012 Annual Report for information on our accounting policies that relate to our securitization activities, primarily "Note 1 a) 3) Special purpose entities" and "Note 1a) 12) Securitization structures set up by UBS". We disclose our intention to securitize exposures as an originator if assets are designated for securitization and a tentative pricing date for a transaction is known as of the balance sheet date or if a pricing of a transaction has been fixed. In 2012, for the first time we included assets intended to be securitized for which a tentative transaction pricing date was set at the balance sheet date. This scope change did not affect disclosed 2011 numbers. Exposures intended to be securitized continue to be valued in the same way until such time as the securitization transaction takes place.

Presentation principles

It is our policy to present Pillar 3 disclosures for securitization transactions and balances in line with the capital adequacy treatments which were applied under Pillar 1 in the respective period presented.

We do not amend comparative prior period numbers for presentational changes triggered by new and revised information from third-party data providers, as long as the updated information does not impact the Pillar 1 treatments of prior periods.

Good practice guidelines

On 18 December 2008, the European Banking Federation, the Association for Financial Markets in Europe, the European Savings Banks Group and the European Association of Public Banks and Funding Agencies published the "Industry good practice guidelines on Pillar 3 disclosure requirement for securitization". These guidelines were slightly revised in 2009/2010, and this report complies with that publication in all material respects.

Securitization in the banking and trading book

These tables outline the exposures, that is, the transaction size at inception we securitized in the banking and trading book in the years 2012 and 2011. The activity is further broken down by our role (originator/sponsor) and by type (traditional/synthetic).

Amounts disclosed under the "Traditional" column of these tables reflect the total outstanding notes at par value issued by the securitization vehicle at issuance. For synthetic securitization transactions, the amounts disclosed generally reflect the balance sheet carrying values of the securitized exposures at issuance.

For securitization transactions where we acted as originator, exposures are split into two parts, those in which we have retained securitization positions and/or continue to be involved on an ongoing basis (e.g. credit enhancement, implicit support), and those in which we have no retained securitization positions and/or have no further involvement.

Where we acted as both originator and sponsor to a securitization, originated assets are reported under "Originator", and the total amount of the underlying assets securitized is reported under "Sponsor". As a result, as of 31 December 2012 and 31 December 2011, amounts of CHF 3.8 billion and CHF 2.8 billion, respectively, were included in the banking book table under both, "Originator" and "Sponsor".

Table 29: Securitization activity of the year in the banking book

	Originator					Sponsor	
	Traditional		Synthetic		Realized gains / (losses) on traditional securitizations	Traditional	Synthetic
CHF million	Securitization positions retained	No securitization positions retained	Securitization positions retained	No securitization positions retained			
Residential mortgages							
Commercial mortgages	3,768				166	7,189	
Credit card receivables							
Leasing							
Loans to corporates or small and medium-sized enterprises							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other[1]			6,735				
Total 31.12.12	**3,768**	**0**	**6,735**	**0**	**166**	**7,189**	**0**
Residential mortgages							
Commercial mortgages	2,789				80	6,232	
Credit card receivables							
Leasing							
Loans to corporates or small and medium-sized enterprises							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other							
Total 31.12.11	**2,789**	**0**	**0**	**0**	**80**	**6,232**	**0**

1 New credit risk hedging transactions increased our position in synthetic securitizations in over-the-counter derivatives and loan exposures. These transactions are primarily used to reduce our credit risk by synthetically transferring counterparty risk.

Table 30: Securitization activity of the year in the trading book

	Originator					Sponsor[1]	
	Traditional		Synthetic		Realized gains / (losses) on traditional securitizations	Traditional	Synthetic
CHF million	Securitization positions retained	No securitization positions retained	Securitization positions retained	No securitization positions retained			
Residential mortgages							
Commercial mortgages							
Credit card receivables							
Leasing							
Loans to corporates or small and medium-sized enterprises							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations						1,033	
Other							
Total 31.12.12	**0**	**0**	**0**	**0**	**0**	**1,033**	**0**
Residential mortgages							
Commercial mortgages							
Credit card receivables							
Leasing						495	
Loans to corporates or small and medium-sized enterprises						422	
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other							
Total 31.12.11	**0**	**0**	**0**	**0**	**0**	**917**	**0**

1 In 2012, we adjusted the scope of this disclosure such that we do not include sponsor-only activity where we do not retain a position. In these cases we advised the originator or placed securities in the market for a fee, and did not otherwise impact our capital. 31 December 2011 comparatives are presented on this adjusted basis. This better reflects the objective of the disclosure to provide transparency on the use of securitization transactions for risk management or funding purposes.

Table 31: Outstanding securitized exposures

This table outlines exposures (i.e. outstanding transaction size) in which we have originated and/or retained securitization positions at the balance sheet date in the banking or trading book and/or are otherwise involved on an ongoing basis (e.g. credit enhancement, implicit support).

Amounts disclosed under the "Traditional" column in this table reflect the total outstanding notes at par value issued by the securitization vehicle. For synthetic securitization transactions, we generally disclose the balance sheet carrying values of the exposures securitized or, for hybrid structures, the outstanding notes at par value issued by the securitization vehicle.

The table also includes securitization activities conducted in 2012 and 2011 in which we retained/purchased positions. These can also be found in the tables "Banking book/trading book – securitization activity of the year". Where no positions were retained, the outstanding transaction size is only disclosed in the year of inception for originator transactions.

All values in this table are as of the balance sheet date.

	Banking Book				Trading Book[1]			
	Originator		Sponsor		Originator		Sponsor	
CHF million	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic	Traditional[2]	Synthetic
Residential mortgages	1,288		2,474		554		7,578	
Commercial mortgages	3,768		14,772				17,989	
Credit card receivables			0					
Leasing			306					
Loans to corporates or small and medium-sized enterprises			394					
Consumer loans			0					
Student loans			13,296				908	
Trade receivables			0					
Re-securitizations	840	782	3,489		1,779	976	2,604	
Other		8,590	2,801				1,236	
Total 31.12.12	**5,896**	**9,372**	**37,532**	**0**	**2,333**	**976**	**30,315**	**0**
Residential mortgages	2,589		6,071		897		14,223	
Commercial mortgages	2,767	150	22,210				14,955	
Credit card receivables								
Leasing			341				282	
Loans to corporates or small and medium-sized enterprises			872				920	
Consumer loans								
Student loans			20,295					
Trade receivables								
Re-securitizations	5,034	3,594	3,210					
Other	597	1,861	1,760				4,595	
Total 31.12.11	**10,987**	**5,605**	**54,759**	**0**	**897**	**0**	**34,975**	**0**

1 Until 31 December 2013 the higher of the net long or the net short securitization positions in the trading book are to be underpinned for the regulatory capital purposes. In line with our disclosure principles we disclose the UBS originated and sponsored deals only where the positions result in RWA or a capital deduction under Pillar 1. 2 In 2012, we have adjusted the scope of this disclosure such that we do not include sponsor-only activity where we do not retain a position. In these cases we advised the originator or placed securities in the market for a fee, and did not otherwise impact our capital. 31 December 2011 comparatives are presented on this adjusted basis. This better reflects the objective of the disclosure to provide transparency on the use of securitization transactions for risk management or funding purposes.

Table 32: Impaired or past due securitized exposures and losses related to securitized exposures in the banking book

This table provides a breakdown of the outstanding impaired or past due exposures at the balance sheet date and 2012 losses recognized in our income statement for transactions in which we acted as originator or sponsor in the banking book. Losses are reported after taking into account the offsetting effects of any credit protection that is an eligible risk mitigation instrument under the Basel 2.5 framework for the retained or purchased positions.

Where we did not retain positions, impaired or past due information is only reported in the year of inception of a transaction. Where available, past due information was derived from investor reports. Past due is generally defined as delinquency above 60 days. Where investor reports do not provide this information, alternative methods have been applied, which may include an assessment of the fair value of the retained position or reference assets, or identification of any credit events.

	31.12.12				31.12.11			
	Originator		**Sponsor**		Originator		Sponsor	
CHF million	**Impaired or past due in securitized exposures**	**Recognized losses in income statement**	**Impaired or past due in securitized exposures**	**Recognized losses in income statement**	Impaired or past due in securitized exposures	Recognized losses in income statement	Impaired or past due in securitized exposures	Recognized losses in income statement
Residential mortgages	**791**	**0**	**468**	**0**	1,531	2	1,486	1
Commercial mortgages		**1**	**761**	**0**	43	4	975	11
Credit card receivables								
Leasing			**0**					1
Loans to corporates or small and medium-sized enterprises								
Consumer loans								
Student loans			**787**	**8**			1,122	4
Trade receivables								
Re-securitizations	**373**	**1**		**0**	5,547	1		5
Other	**67**	**67**		**1**	1,010		30	4
Total[1]	**1,232**	**68**	**2,016**	**9**	8,131	7	3,613	26

1 Year-on-year reduction is mainly due to principal repayment / losses from underlying loans in retained positions, sales and the move of certain re-securitization positions to the trading book.

Table 33: Exposures intended to be securitized in the banking and trading book

This table provides the amount of exposures by exposure type we intend to securitize in the banking and trading book. We disclose our intention to securitize exposures as an originator if assets are designated for securitization and a tentative pricing date for a transaction is known at the balance sheet date or if a pricing of a transaction has been fixed.

	31.12.12		31.12.11	
CHF million	**Banking Book**	**Trading Book**	Banking Book	Trading Book
Residential mortgages				
Commercial mortgages	**447**			
Credit card receivables				
Leasing				
Loans to corporates or small and medium-sized enterprises				
Consumer loans				
Student loans				
Trade receivables				
Re-securitizations				
Other				
Total	**447**	**0**	0	0

Table 34: Securitization positions retained or purchased in the banking book

This table provides a breakdown of securitization positions we retained or purchased in the banking book, irrespective of our role in the securitization transaction. The increase in the "Other" line is mainly due to new synthetic hedging transactions entered into in 2012. The value disclosed is either the net exposure amount at default subject to risk-weighting or the carrying value subject to capital deduction according to the Basel 2.5 framework at the balance sheet date.

	31.12.12		31.12.11	
CHF million	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
Residential mortgages	600		810	1,000
Commercial mortgages	553		584	
Credit card receivables				
Leasing	47		62	
Loans to corporates or small and medium-sized enterprises	240		331	
Consumer loans	1		1	
Student loans	3,892		5,468	
Trade receivables				
Re-securitizations	800	147	1,632	
Other	9,334	33	3,303	
Total[1]	**15,466**	**180**	**12,189**	**1,000**

1 Amounts presented for 31 December 2012 include CHF 0.7 billion which were deducted from capital – refer to "Table 37: Positions deducted from BIS tier 1 and BIS tier 2 capital". The exposure excluding items deducted from capital (approximately CHF 15 billion) is also disclosed in the "Securitization / Re-securitization exposures" line of "Table 2: Detailed segmentation of BIS Basel 2.5 risk-weighted assets".

Table 35: Securitization positions retained or purchased in the trading book

This table provides a breakdown of securitization positions we purchased or retained in the trading book subject to the securitization framework for specific market risk, irrespective of our role in the securitization transaction. Gross long and gross short amounts reflect the positions prior to the eligible offsetting of cash and derivative positions. Net long and net short amounts are the result of offsetting cash and derivative positions to the extent eligible under Basel 2.5. The amounts disclosed are either the fair value or, in the case of derivative positions, the aggregate of the notional amount and the associated replacement value at the balance sheet date.

	Cash positions		Derivative positions		Total	
CHF million	Gross long	Gross short	Gross long	Gross short	Net long[2]	Net short
Residential mortgages	49		1,066	1,175	141	125
Commercial mortgages	869	25	5,871	6,704	923	926
Credit card receivables	3				3	
Leasing	7				7	
Loans to corporates or small and medium-sized enterprises	1				1	
Consumer loans						
Student loans						
Trade receivables						
Re-securitizations	411	3	235	551	168	81
Other	15	1			14	1
Total 31.12.12[1]	**1,355**	**29**	**7,172**	**8,430**	**1,257**	**1,134**
Residential mortgages	212	2	807	1,068[3]	526	549
Commercial mortgages	482	12	6,467	7,059[3]	1,317	2,125
Credit card receivables	3			939	3	469
Leasing	4				3	
Loans to corporates or small and medium-sized enterprises	6	4			5	4
Consumer loans	1				1	
Student loans	4				3	
Trade receivables	4				4	
Re-securitizations	395	14	84	150	480	163
Other	299	8	17	200	199	197
Total 31.12.11[1]	**1,410**	**40**	**7,376**	**9,416**	**2,542**	**3,506**

1 Leveraged super senior tranches and re-securitized corporate credit exposure (both subject to the securitization framework) are not included in this table, but disclosed in "Table 41: Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk" (re-securitized corporate credit exposure only for 2011). 2 31 December 2012 includes CHF 0.2 billion (CHF 0.6 billion as of 31 December 2011) which is deducted from capital and disclosed in "Table 37: Positions deducted from BIS tier 1 and BIS tier 2 capital". The net exposure at default of CHF 6.5 billion as of 31 December 2012 disclosed in "Table 2: Detailed segmentation of BIS Basel 2.5 risk-weighted assets" (line "Securitization / re-securitization exposures") comprises of the total net long position of CHF 1.3 billion (included in this table) and CHF 5.4 billion for leveraged super senior tranches less securitizations subject to capital deductions of CHF 0.2 billion ("Table 37: Positions deducted from BIS tier 1 and BIS tier 2 capital"). 3 In 2012, 31 December 2011 figures have been restated due to a reclassification of positions from Residential mortgages to Commercial mortgages. The reclassification did neither impact our risk-weighted assets nor our eligible capital.

Table 36: Capital requirement for securitization / re-securitization positions retained or purchased in the banking book

The table provides the capital requirements for securitization and re-securitization positions we purchased or retained in the banking book, irrespective of our role in the securitization transaction, split by risk weight bands and regulatory capital approach. The tables below exclude securitization and re-securitization positions deducted from capital.

	31.12.12				31.12.11			
	Ratings-based approach		Supervisory formula approach		Ratings-based approach		Supervisory formula approach	
CHF million	Securitization	Re-securitization	Securitization	Re-securitization	Securitization	Re-securitization	Securitization	Re-securitization
over 0–10%	4		49		2			
over 10–15%	40				45		15	
over 15–20%	10				27	1		
over 20–35%	7	5			7	1		
over 35–50%	4	9			4	38		
over 50–75%	17	1			7	2		
over 75–100%	23				10	1		
over 100–250%	44	23			47	4		
over 250–1,250%	114	65			87	14		
Total[1]	263	103	49	0	237	61	15	0

1 Refer to "Table 2: Detailed segmentation of BIS Basel 2.5 risk-weighted assets"; on 31 December 2012, CHF 5.5 billion (on 31 December 2011, CHF 4.1 billion) banking book securitization exposures translate to a capital requirement of overall CHF 0.4 billion (on 31 December 2011, CHF 0.3 billion) without applying a scaling factor of 1.06.

Table 37: Positions deducted from BIS tier 1 and BIS tier 2 capital

This table outlines the capital deductions related to securitization positions we retained or purchased in the banking- and trading book, irrespective of our role in the securitization transaction. The significant reduction at year end 2012 compared to 2011 year end is mainly due to sales of retained or purchased securitization positions which were subject to a capital deduction. As of 31 December 2012, we did not have securitization positions or credit-enhancing interest-only strips that were required to be deducted entirely from BIS tier 1 capital.

	31.12.12		31.12.11	
CHF million	Banking Book deductions	Trading Book deductions	Banking Book deductions	Trading Book deductions
Residential mortgages	147	19	672	87[1]
Commercial mortgages	201	71	242	264[1]
Credit card receivables				
Leasing	27		38	
Loans to corporates or small and medium-sized enterprises	14		27	4
Consumer loans	1		1	1
Student loans	43		496	
Trade receivables				
Re-securitizations	154	93	432	230
Other	65		1,116	6
Total	652	183	3,024	591

1 In 2012, December 2011 figures have been restated due to a reclassification of positions from Residential mortgages to Commercial mortgages. The reclassification did neither impact our risk-weighted assets nor our eligible capital.

Securitization exposures subject to early amortizations in the banking and trading book

In 2012 and 2011, we had no securitization structures in the banking and trading book that are subject to early amortization treatment.

Table 38: Re-securitization positions retained or purchased in the banking book

The upper part of this table shows the total of re-securitization positions (cash as well as synthetic) held in the banking book, broken down into positions for which credit risk mitigation has been recognized and those for which no credit risk mitigation has been recognized. Credit risk mitigation includes protection bought by entering into credit derivatives with third-party protection sellers, as well as financial collateral received. Both bought credit protection and financial collateral must be eligible under Basel 2.5 regulations.

The lower part of this table shows the re-securitization positions which have an integrated insurance wrapper, split into positions with investment grade, sub-investment grade and defaulted insurance. The values disclosed in both tables are the net exposure amount at default at the balance sheet date.

CHF million	With credit risk mitigation	Without credit risk mitigation	Total
Total 31.12.12	**0**	**947**	**947**
Total 31.12.11	0	1,632	1,632

Re-securitization positions with integrated insurance wrapper broken down according to guarantor credit worthiness categories[1]

CHF million		
0–5	Investment grade	
6–13	Sub-investment grade	22
14	Defaulted	
Total 31.12.12		**22**
0–5	Investment grade	6
6–13	Sub-investment grade	34
14	Defaulted	16
Total 31.12.11		57

1 Internal UBS rating.

Table 39: Re-securitization positions retained or purchased in the trading book

The upper part of the table below outlines re-securitization positions retained or purchased subject to the securitization framework for specific market risk held in the trading book on a gross long and gross short basis, including synthetic long and short positions resulting from derivative transactions. It also includes positions on a net long and net short basis, that is, gross long and short positions after offsetting to the extent it is eligible under Basel 2.5. The lower part of the table discloses the total re-securitization positions which have an integrated insurance wrapper, split by positions with investment grade, sub-investment grade and defaulted insurance.

CHF million		Gross long	Gross short	Net long	Net short
Total 31.12.12		**646**	**554**	**168**	**81**
Total 31.12.11		480	163	480	163

Re-securitization positions with integrated insurance wrapper broken down according to guarantor credit worthiness categories[1]

CHF million		Gross long	Gross short	Net long	Net short
0–5	Investment grade	42	46	3	7
6–13	Sub-investment grade	2	0	2	
14	Defaulted	25	18	10	3
Total 31.12.12		**69**	**64**	**15**	**10**

CHF million		Gross long	Gross short	Net long	Net short
0–5	Investment grade				
6–13	Sub-investment grade				
14	Defaulted	3	31	3	31
Total 31.12.11		3	31	3	31

1 Internal UBS rating.

Table 40: Aggregated amount of securitized exposures subject to the market risk approach

This table provides a split of the total outstanding exposures we have securitized in the trading book in the role of originator and/or sponsor. Disclosure is made only where we have retained positions in the trading book. The amount disclosed is the notional amount of the outstanding notes issued by the securitization vehicle at the balance sheet date.

	Originator		Sponsor	
CHF million	Traditional	Synthetic	Traditional	Synthetic
Residential mortgages	554		7,578	
Commercial mortgages			17,989	
Credit card receivables				
Leasing				
Loans to corporates or small and medium-sized enterprises				
Consumer loans				
Student loans			908	
Trade receivables				
Re-securitizations	1,779	976	2,604	
Other			1,236	
Total 31.12.12[1]	**2,333**	**976**	**30,315**	**0**
Residential mortgages	897		14,223	
Commercial mortgages			14,955	
Credit card receivables				
Leasing			282	
Loans to corporates or small and medium-sized enterprises			920	
Consumer loans				
Student loans				
Trade receivables				
Re-securitizations				
Other			4,595	
Total 31.12.11[1]	**897**	**0**	**34,975**	**0**

1 Until 31 December 2013, the higher of the net long or the net short securitization positions in the trading book are to be underpinned for the regulatory capital purposes. In line with our disclosure principles, we disclose the UBS originated and sponsored deals only where the positions result in RWA or a capital deduction under Pillar 1.

Table 41: Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk

This table outlines products in the correlation portfolio that we retained or purchased in the trading book, irrespective of our role in the securitization transaction. They are either subject to the comprehensive risk measure or the securitization framework for specific risk. Correlation products subject to the securitization framework are leveraged super senior positions. The values disclosed are market values for cash positions, replacement values and notional values for derivative positions. Derivatives are split by positive replacement value and negative replacement value which is a change from the "Basel 2.5 Pillar 3" section of the Annual Report 2011 where derivative positions were split by long and short positions. This aligns the format of the disclosure with the presentation of derivatives in the Financial statements. Comparatives as of 31 December 2011 are presented on this changed basis.

	Cash positions		Derivative positions			
	Assets	Liabilities	Assets		Liabilities	
CHF million	Market value	Market value	Positive replacement value	Positive replacement value notionals	Negative replacement value	Negative replacement value notionals
31.12.12						
Positions subject to comprehensive risk measure	**191**	**1,748**	**4,518**	**110,653**	**4,949**	**91,266**
Positions subject to securitization framework[1]			**152**	**12,316**	**52**	**20,810**
31.12.11						
Positions subject to comprehensive risk measure	167	1,067	8,742	113,842	9,377	98,182
Positions subject to securitization framework[1]	44		432	24,757	376	10,690

1 Includes leveraged super senior tranches and for 31 December 2011 additionally re-securitized corporate credit exposure.

Table 42: Securitization positions and capital requirement for trading book positions subject to the securitization framework

This table outlines securitization positions we purchased or retained and the capital charge in the trading book subject to the securitization framework for specific market risk, irrespective of our role in the securitization transaction, broken down by risk weight bands and regulatory capital approach. The amounts disclosed for securitization positions are market values at the balance sheet date after eligible netting under Basel 2.5. This table does not contain capital deductions.

	31.12.12						31.12.11					
	Ratings-based approach			**Supervisory formula approach**			Ratings-based approach			Supervisory formula approach		
CHF million	**Net long**	**Net short**	**Capital requirement**	**Net long**	**Net short**	**Capital requirement**	Net long	Net short	Capital requirement	Net long	Net short	Capital requirement
over 0–10%	**7**	**987**[1]	**0**				332	2,998[1]	2			
over 10–15%			**0**				80					
over 15–20%	**442**		**7**				348		6			
over 20–35%	**293**		**7**				372		9			
over 35–50%	**135**		**5**				118		4			
over 50–75%	**38**		**2**				139		8			
over 75–100%	**93**		**7**				297		13			
over 100–250%	**20**		**4**				78		12			
over 250–1,250%	**29**		**12**				185		75			
Total[2]	**1,057**	**987**	**45**	**0**	**0**	**0**	**1,950**	**2,998**	**130**	**0**	**0**	**0**

1 As per FINMA Circular "Market-risk Banks", only the higher of the net long or the net short securitization positions in the trading book are to be underpinned for the regulatory capital purposes. The interim relief is granted until 31 December 2013. After the transition period both net long and net short positions require a capital charge. The amount disclosed under net short is for information only, i.e. a 0% risk weight was applied. 2 Leveraged super senior tranches (subject to the securitization framework) are not included in this table, but disclosed in "Table 41: Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk".

Table 43: Capital requirement / Deductions for securitization positions related to correlation products

This table outlines the capital requirement for securitization positions in the trading book for correlation products, including positions subject to comprehensive risk measure and positions related to leveraged super senior positions and certain re-securitized corporate credit exposures positions subject to the securitization framework. Our model does not distinguish between "default risk", "migration risk" and "correlation risk".

CHF million	**31.12.12**		31.12.11	
	Capital requirement	**Capital deduction**	Capital requirement	Capital deduction
Positions subject to comprehensive risk measure	**714**		690	
Positions subject to securitization framework[1]	**86**		121	9

1 Leveraged super senior tranches and and for 31 December 2011 additionally re-securitized corporate credit exposure.

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Corporate governance, responsibility and compensation

Audited information according to the Swiss Code of Obligations and applicable regulatory requirements and guidance

Disclosures provided in line with the requirements of articles 663b^{bis} and 663c para. 3 of the Swiss Code of Obligations (supplementary disclosures for companies whose shares are listed on a stock exchange: compensations and participations) and applicable regulations and guidance are also included in the audited financial statements of UBS AG (Parent Bank) in the "Financial information" section of this report. Tables containing such information are marked by a bar "audited" throughout this section.

Information assured according to the Global Reporting Initiative (GRI)

Content of the sections "Corporate responsibility" and "Our employees" has been reviewed by Ernst & Young Ltd. against the GRI Sustainability Reporting Guidelines for application level A+, as evidenced in the Ernst & Young assurance report on *www.ubs.com/global/en/about_ubs/corporate_responsibility/commitment_strategy/reporting_assurance.html.* The assurance by Ernst & Young also covered other relevant text and data in the Annual Report 2012 and on the website of UBS which is referenced in the GRI Index *(www.ubs.com/gri)*

Corporate governance

Our corporate governance principles are designed to support our objective of sustainable profitability, as well as to create value and protect the interests of our shareholders and other stakeholders. We use the term "corporate governance" when referring to the organizational structure of UBS and operational practices of our management.

We are subject to, and act in compliance with, all relevant Swiss legal and regulatory requirements regarding corporate governance, including the SIX Swiss Exchange's (SIX) Directive on Information Relating to Corporate Governance, as well as the standards established in the Swiss Code of Best Practice for Corporate Governance, including the appendix on executive compensation.

In addition, as a foreign company with shares listed on the New York Stock Exchange (NYSE), we are in compliance with all relevant corporate governance standards applicable to foreign listed companies.

Based on article 716b of the Swiss Code of Obligations and articles 24 and 26 of the Articles of Association of UBS AG (Articles of Association), the Board of Directors (BoD) has adopted the Organization Regulations of UBS AG (Organization Regulations), which constitute our corporate governance guidelines. The currently applicable Organization Regulations date from 1 January 2013. The BoD has also adopted the currently applicable UBS Code of Business Conduct and Ethics (the Code) in September 2012.

➔ **Refer to www.ubs.com/governance for the Articles of Association, the Organization Regulations and the Code**

Differences from corporate governance standards relevant to US-listed companies

According to the NYSE listing standards on corporate governance, foreign private issuers are required to disclose any significant ways in which their corporate governance practices differ from those to be followed by domestic companies.

Responsibility of the Audit Committee for appointment, compensation, retention and oversight of the independent auditors

The Audit Committee has been assigned all the abovementioned responsibilities, except for appointment of the independent auditors, who are elected by the shareholders as per Swiss company law. The Audit Committee assesses the performance and qualification of the external auditors and submits its proposal for appointment, reappointment or removal to the full BoD, which brings its proposal to the shareholders for vote at the Annual General Meeting of Shareholders (AGM).

Discussion of risk assessment and risk management policies by the Risk Committee

In accordance with our Organization Regulations, the Risk Committee has the authority to define our risk principles and risk capacity. The Risk Committee is responsible for monitoring our adherence to those risk principles and for monitoring whether business divisions and control units run appropriate systems for risk management and control.

Supervision of the internal audit function

The Chairman of the BoD (Chairman), the Risk Committee and the Audit Committee share responsibility for and authority to supervise the internal audit function.

Responsibility of the Human Resources and Compensation Committee for oversight of management and evaluation by the Board of Directors

Performance evaluations of our senior management, comprising the Group Chief Executive Officer (Group CEO) and Group Executive Board members, are completed by the Chairman and the Human Resources and Compensation Committee, and are reported to the full BoD.

Responsibility of the Governance and Nominating Committee for the evaluation of the Board of Directors

The BoD has direct responsibility and authority to evaluate its own performance, with preparation by the Governance and Nominating Committee. All BoD committees perform a self-assessment of their activities and report back to the full BoD.

Proxy statement reports of the Audit Committee and Human Resources and Compensation Committee

Under Swiss company law, all reports addressed to shareholders are provided and signed by the full BoD, which has ultimate responsibility vis-à-vis shareholders. The committees submit their reports to the full BoD.

Shareholders' votes on equity compensation plans

Swiss company law authorizes the BoD to approve compensation plans. Though Swiss law does not allocate such authority to shareholders as part of the AGM, it requires that Swiss companies determine the nature and components of capital in their articles of association, and each increase in capital is required to be submitted for shareholder approval. This means that, if equity-based compensation plans result in a need for an increase in capital, AGM approval is mandatory. If, however, shares for such plans are purchased in the market, shareholders do not have approval authority.

➔ **Refer to the "Board of Directors" section for more information about the Board of Directors' committees**
➔ **Refer to the "Capital structure" section for more information on capital**

Group structure and shareholders

UBS Group legal entity structure

Under Swiss company law, UBS AG is organized as an *Aktiengesellschaft* (AG), a corporation that has issued shares of common stock to investors. UBS AG is the parent bank (Parent Bank or UBS) of the UBS Group (Group).

Our legal entity structure is designed to support our businesses with an efficient legal, tax and funding framework considering regulatory restrictions in the countries where we operate. Neither our business divisions nor the Corporate Center are separate legal entities; they primarily operate out of the Parent Bank, UBS AG, through its branches worldwide. This structure is designed to capitalize on the increased business opportunities and cost efficiencies offered by the use of a single legal platform, and to enable the flexible and efficient use of capital. Where it is neither possible nor efficient to operate out of the Parent Bank, businesses operate through local subsidiaries. This can be the case when required for legal, tax or regulatory purposes, or when legal entities join the Group through acquisition.

Operational Group structure

On 31 December 2012, the operational structure of the Group comprised five business divisions: Wealth Management, Wealth Management Americas, Investment Bank, Global Asset Management and Retail & Corporate, as well as the Corporate Center with its components, Core Functions and Legacy Portfolio.

➔ **Refer to the "Financial and operating performance" section and "Note 2a Segment Reporting" in the "Financial information" section of this report for more information**

Listed and non-listed companies belonging to the Group

The Group includes a number of consolidated entities, none of which, however, are listed companies on the stock exchange, other than UBS AG.

➔ **Refer to "Note 34 Significant subsidiaries and associates" in the "Financial information" section of this report for details of the significant subsidiaries of the Group**

Significant shareholders

Under the Federal Act on Stock Exchanges and Securities Trading of 24 March 1995, as amended (the Swiss Stock Exchange Act), anyone holding shares in a company listed in Switzerland, or holding derivative rights related to shares of such a company, must notify the company and the SIX Swiss Exchange (SIX), if the holding attains, falls below or exceeds one of the following threshold percentages: 3, 5, 10, 15, 20, 25, 33⅓, 50, or 66⅔% of the voting rights, whether they are exercisable or not. The detailed disclosure requirements and the methodology for calculating the thresholds are defined in the Swiss Financial Market Supervisory Authority (FINMA) Ordinance on Stock Exchanges and Securities Trading (SESTO-FINMA). In particular, the SESTO-FINMA sets forth that all future potential share obligations irrespective of their possible contingent nature must be taken into account, and prohibits the netting of acquisition positions (in particular shares, conversion rights and acquisition rights or obligations) with disposal positions (i.e. rights or obligations to sell). It also requires that each such position be calculated separately and reported as soon as it reaches one of the abovementioned

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Shareholders registered in the UBS share register with 3% or more of total share capital

% of share capital	31.12.12	31.12.11	31.12.10
Chase Nominees Ltd., London	11.94	10.95	10.70
Government of Singapore Investment Corp., Singapore	6.40	6.41	6.41
DTC (Cede & Co.), New York[1]	5.28	7.07	7.32
Nortrust Nominees Ltd., London	3.84	4.20	3.79

1 DTC (Cede & Co.), New York, "The Depository Trust Company", is a US securities clearing organization.

thresholds. Nominee companies which cannot autonomously decide how voting rights are exercised are not obligated to notify UBS and SIX if they reach, exceed or fall below the threshold percentages.

In addition, pursuant to the Swiss Code of Obligations, UBS must disclose in the notes to its financial statements the identity of any shareholder with a holding of more than 5% of the total share capital of UBS AG.

According to disclosure notifications filed with UBS AG and the SIX under the Swiss Stock Exchange Act, on 30 September 2011, Norges Bank (the Central Bank of Norway), Oslo, disclosed a holding of 3.04%. On 12 March 2010, the Government of Singapore Investment Corp., Singapore, as beneficial owner, disclosed a holding by the Government of Singapore Investment Corp. of 6.45%. On 17 December 2009, BlackRock Inc., New York, disclosed a holding of 3.45%. In accordance with the Swiss Stock Exchange Act, the percentages indicated above were calculated in relation to the total UBS share capital reflected in the Articles of Association at the time of the respective disclosure notification. Information on disclosures under the Swiss Stock Exchange Act can be found on the following website of the SIX: *www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.*

According to our share register, the shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) listed in the table on the previous page were registered with 3% or more of the total share capital on 31 December 2012, 2011 and 2010.

Cross-shareholdings

We have no cross-shareholdings in excess of a reciprocal 5% of capital or voting rights with any other company.

Capital structure

Capital

Under Swiss company law, shareholders must approve in a shareholders' meeting any increase in the total number of issued shares, which may arise from an ordinary share capital increase, or the creation of conditional or authorized capital. At year-end 2012, 3,835,250,233 shares were issued with a par value of CHF 0.10 each, leading to a share capital of CHF 383,525,023.30.

Conditional share capital

At year-end 2012, the following conditional share capital was available to the Board of Directors (BoD):

- At the Annual General Meeting of Shareholders (AGM) held in 2006, shareholders approved conditional capital in the maximum amount of 150,000,000 fully paid registered shares, with a nominal value of CHF 0.10 each, to be used for employee option grants. Options are exercisable at any time between their vesting and expiration dates. Shareholders have no pre-emptive rights. In 2012, options on 3,128,334 shares were exercised under the option plans with a total of 145,510,992 conditional capital shares being available to satisfy further exercises of options.
- At the AGM held in 2009, our shareholders approved the creation of conditional capital for the potential issuance of 100,000,000 fully paid registered shares, with a nominal value of CHF 0.10 each, in the event of the exercise of warrants granted to the Swiss National Bank (SNB) in connection with the loan granted by the SNB to the SNB StabFund. Shareholders have no pre-emptive rights. The SNB as owner of the warrants shall be entitled to subscribe for the new shares.
- At the AGM held in 2010, shareholders approved conditional capital in the amount of up to 380,000,000 fully paid registered shares, with a nominal value of CHF 0.10 each, for the exercise of conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments by UBS or one of its group companies. Shareholders have no pre-emptive rights. The owners of conversion rights and/or warrants would be entitled to subscribe to the new shares. At year-end 2012, the BoD had not made use of the allowance to issue bonds or warrants with conversion rights covered by conditional share capital.

➔ Refer to the discussion of "UBS shares" in the "Capital management" section of this report for more information on conditional share capital

Authorized share capital

The BoD has no authorized share capital available.

Changes of shareholders' equity and shares

According to International Financial Reporting Standards (IFRS), Group equity attributable to UBS shareholders amounted to CHF 45.9 billion on 31 December 2012 (2011: CHF 48.5 billion; 2010: CHF 43.7 billion). UBS Group shareholders' equity was represented by 3,835,250,233 issued shares on 31 December 2012 (2011: 3,832,121,899; 2010: 3,830,840,513).

➔ Refer to the "Statement of changes in equity" in the "Financial information" section of this report for more information on changes in shareholders' equity over the last three years

Shares and participation certificates

We have only one unified class of shares issued. Our shares are issued in registered form, and are traded and settled as global registered shares. Each registered share has a par value of CHF 0.10 and carries one vote subject to the restrictions set out under "Transferability, voting rights and nominee registration". Global registered shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange on which they are traded.

Ownership of UBS shares is widely spread. The tables on the following page provide information about the distribution of our shareholders by category and geographical location. This information relates only to registered shareholders and cannot be assumed to be representative of our entire investor base nor the actual beneficial ownership. Only shareholders registered in the share register as "shareholders with voting rights" are entitled to exercise voting rights.

➔ Refer to the "Shareholders' participation rights" section of this report for more information

On 31 December 2012, 2,093,113,878 shares carried voting rights, 425,566,918 shares were entered in the share register without voting rights, and 1,316,569,437 shares were not registered. All 3,835,250,233 shares were fully paid up and eligible for dividends. There are no preferential rights for shareholders, and no other classes of shares are issued by the Parent Bank.

At year-end 2012, we owned UBS registered shares corresponding to 2.3% of the total share capital of UBS AG. At the same time, we had disposal positions relating to 422,236,769

Audited

Distribution of UBS shares

On 31 December 2012	Shareholders registered		Shares registered	
Number of shares registered	Number	%	Number	% of shares issued
1–100	36,523	11.4	2,094,363	0.1
101–1,000	175,175	54.9	80,703,313	2.2
1,001–10,000	96,582	30.3	268,211,534	7.0
10,001–100,000	9,932	3.1	254,257,984	6.6
100,001–1,000,000	831	0.3	205,015,248	5.3
1,000,001–5,000,000	97	0.0	205,566,885	5.4
5,000,001–38,352,502 (1%)	25	0.0	253,469,711	6.6
1–2%	0	0.0	0	0.0
2–3%	2	0.0	196,546,584	5.1
3–4%	1	0.0	147,144,758	3.8
4–5%	0	0.0	0	0.0
Over 5%	3[1]	0.0	905,670,416	23.6
Total registered	319,171	100.0	2,518,680,796[2]	65.7
Unregistered[3]			1,316,569,437	34.3
Total shares issued			**3,835,250,233**	**100.0**

1 On 31 December 2012, Chase Nominees Ltd., London, entered as a trustee / nominee, was registered with 11.94% of all UBS shares issued. However, according to the provisions of UBS, voting rights of a trustee / nominee are limited to a maximum of 5% of all UBS shares issued. The US securities clearing organization DTC (Cede & Co), New York, was registered with 5.28% of all UBS shares issued and is not subject to this 5% voting limit as securities clearing organization. The same applies to the Government of Singapore Investment Corp., Singapore, which is registered as beneficial owner with 6.40% of all UBS shares issued. 2 Of the total shares registered, 425,566,918 shares did not carry voting rights. 3 Shares not entered in the share register on 31 December 2012.

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Shareholders: type and geographical distribution

	Shareholders registered		Shares registered	
On 31 December 2012	Number	%	Number	%
Individual shareholders	311,923	97.7	645,899,792	16.8
Legal entities	6,722	2.1	715,669,363	18.7
Nominees, fiduciaries	526	0.2	1,157,111,641	30.2
Unregistered			1,316,569,437	34.3
Total	**319,171**	**100.0**	**3,835,250,233**	**100.0**
Americas	**10,508**	**3.3**	**442,964,426**	**11.5**
of which: USA	*9,228*	*2.9*	*436,853,595*	*11.4*
Asia Pacific	**6,755**	**2.1**	**337,130,466**	**8.9**
Europe, Middle East and Africa	**17,734**	**5.6**	**948,286,653**	**24.7**
of which: Germany	*5,417*	*1.8*	*27,657,258*	*0.7*
of which: UK	*6,126*	*1.9*	*723,850,149*	*18.9*
of which: Rest of Europe	*5,855*	*1.8*	*195,478,601*	*5.1*
of which: Middle East and Africa	*336*	*0.1*	*1,300,645*	*0.0*
Switzerland	**284,174**	**89.0**	**790,299,251**	**20.6**
Unregistered			**1,316,569,437**	**34.3**
Total	**319,171**	**100.0**	**3,835,250,233**	**100.0**

Audited

Share capital

	Share capital in CHF	Number of shares	Par value in CHF
On 31 December 2010	**383,084,051**	**3,830,840,513**	0.10
Issue of shares out of conditional capital due to employee options exercised	128,139	1,281,386	0.10
On 31 December 2011	**383,212,190**	**3,832,121,899**	0.10
Issue of shares out of conditional capital due to employee options exercised	312,833	3,128,334	0.10
On 31 December 2012	**383,525,023**	**3,835,250,233**	**0.10**

voting rights of UBS AG, corresponding to 11.02% of the total voting rights of UBS AG. 8.20% of this consisted of voting rights on shares deliverable in respect of employee awards. The calculation methodology for the disposal position is based on the SESTO-FINMA, which sets forth that all future potential share delivery obligations irrespective of the contingent nature of the delivery must be taken into account.

We have no participation certificates outstanding.

Transferability, voting rights and nominee registration

We do not apply any restrictions or limitations on the transferability of shares. Voting rights may be exercised without any restrictions by shareholders entered into the share register, if they expressly render a declaration of beneficial ownership according to the provisions of the Articles of Association.

We have special provisions for the registration of fiduciaries and nominees. Fiduciaries and nominees are entered in the share register with voting rights up to a total of 5% of all issued UBS shares, if they agree to disclose upon our request, beneficial owners holding 0.3% or more of all issued UBS shares. An exception to the 5% voting limit rule exists for securities clearing organizations, such as The Depository Trust Company in New York.

➔ **Refer to the "Shareholders' participation rights" section of this report for more information**

Convertible bonds and options

On 31 December 2012, there were no contingent capital securities or convertible bonds outstanding requiring the issuance of new shares.

➔ **Refer to the "Capital management" section for information on our outstanding capital instruments**

In connection with the loan granted by the Swiss National Bank (SNB) to the SNB StabFund, we have issued warrants granted to the SNB sourced by conditional capital for which 100,000,000 shares were approved by our shareholders. The warrants are exercisable only if the SNB incurs a loss on its loan to the fund.

On 31 December 2012, there were 191,230,290 employee options outstanding, including stock appreciation rights. Delivery obligations equivalent to 17,831,904 shares were exercisable. We source our option-based compensation plans either by purchasing UBS shares in the market, or through the issuance of new shares out of conditional capital. On 31 December 2012, 74,085,342 treasury shares were available for this purpose, and an additional 145,510,992 unissued shares in conditional share capital were assigned to future employee option exercises. At year-end 2012, the shares available covered all exercisable employee obligations.

➔ **Refer to the discussion of "UBS shares" in the "Capital management" section of this report for more information**

Shareholders' participation rights

We are committed to shareholder participation in our decision-making process. Around 320,000 directly registered shareholders, as well as some 90,000 US shareholders registered via nominee companies, are regularly informed about our activities and performance as well as personally invited to shareholder meetings.

Since March 2013, our shareholder portal (*www.ubs.com/shareholderportal*) allows our registered shareholders to access personalized services and important information about share register entries and our shareholder meetings year-round. The shareholder portal enables registered shareholders to enter their voting instructions electronically ahead of our shareholder meetings. Shareholders can verify their voting instructions before and after shareholder meetings using an encryption method (cryptography). This method of encryption ensures that the voting instructions remain secret throughout the entire voting process. In addition, shareholders can order admission cards and register changes to their address details. It also enables them to manage their subscriptions to shareholder-related publications and to communicate directly with UBS Shareholder Services via a secure channel. The shareholder portal is fully integrated into our internet platform.

➔ **Refer to the "Information policy" section of this report for more information**

Relationships with shareholders

We fully subscribe to the principle of equal treatment of all shareholders, who range from large institutions to individual investors, and regularly inform them about the development of the company.

The Annual General Meeting of Shareholders (AGM) offers shareholders the opportunity to raise any questions regarding our development and the events of the year that are under review. Members of both the Board of Directors (BoD) and Group Executive Board (GEB), as well as our internal and external auditors, are present to answer these questions.

Voting rights, restrictions and representation

We place no restrictions on share ownership and voting rights. However, nominee companies and trustees, who normally represent a large number of individual shareholders and may hold an unlimited number of shares, have voting rights limited to a maximum of 5% of all issued UBS shares to avoid the risk of unknown shareholders with large stakes being entered in the share register. Securities clearing organizations, such as The Depository Trust Company in New York, are not subject to this 5% voting limit.

In order to be recorded in the share register with voting rights, shareholders must confirm that they acquired UBS shares in their own name and for their own account. Nominee companies and trustees are required to sign an agreement confirming their willingness to disclose, upon our request, individual beneficial owners holding more than 0.3% of all issued UBS shares.

All shareholders registered with voting rights are entitled to participate in shareholder meetings. If they do not wish to attend in person, they can issue instructions to accept, reject or abstain on each individual item on the meeting agenda, either by giving instructions to an independent proxy designated by UBS or by appointing another bank or another registered shareholder of their choice to vote on their behalf. Alternatively, registered shareholders can issue their voting instructions to the independent proxy electronically using our shareholder portal. Nominee companies normally submit the proxy material to the beneficial owners and transmit the collected votes to the independent proxy.

Statutory quorums

Shareholder resolutions, including the election and reelection of BoD members and the appointment of the auditors are decided at the AGM by an absolute majority of the votes cast, excluding blank and invalid ballots. Swiss company law requires that, for certain specific issues, a majority of two-thirds of the votes represented at the AGM, and the absolute majority of the par value of shares represented at the AGM, must vote in favor of the resolution for it to be approved. These issues include the creation of shares with privileged voting rights, the introduction of restrictions on the transferability of registered shares, conditional and authorized capital increases, and restrictions or exclusions of shareholders' pre-emptive rights.

The Articles of Association also require a two-thirds majority of votes represented for approval of any change to its provisions regarding the number of BoD members, and any decision to remove a quarter or more of the BoD members.

Votes and elections are normally conducted electronically to ascertain the exact number of votes cast. Voting by a show of hands remains possible if a clear majority is predictable. Shareholders representing at least 3% of the votes represented may request that a vote or election takes place electronically or by written ballot. In

order to allow shareholders to clearly express their views on all individual topics, each item on the agenda is put to a vote separately and BoD elections are made on a person-by-person basis.

Convocation of general meetings of shareholders

The AGM must occur within six months of the close of the financial year and normally takes place in late April or early May. A personal invitation including a detailed agenda and explanation of each motion is sent to every registered shareholder at least 20 days ahead of the scheduled AGM. The meeting agenda is also published in the Swiss Official Gazette of Commerce and in selected Swiss newspapers as well as on the internet at *www.ubs.com/agm*.

Extraordinary General Meetings may be convened whenever the BoD or the auditors consider it necessary. Shareholders individually or jointly representing at least 10% of the share capital may at any time ask in writing for an Extraordinary General Meeting to be convened to address a specific issue put forward by them. Such a request may also be brought forward during the AGM.

Placing of items on the agenda

Pursuant to our Articles of Association, shareholders individually or jointly representing shares with an aggregate par value of CHF 62,500 may submit proposals for matters to be placed on the agenda for consideration at the next shareholders' meeting.

We publish the deadline for submitting such proposals in the Swiss Official Gazette of Commerce and on our website *www.ubs.com/agm*. Requests for items to be placed on the agenda must include the actual motions to be put forward, together with a short explanation, if necessary. The BoD formulates opinions on the proposals, which are published together with the motions.

Registrations in the share register

The general rules for entry with voting rights into our Swiss share register also apply before shareholder meetings. The same rules apply for our US transfer agent that operates the US share register for all UBS shares in a custodian account in the US. There is no closing of the share register in the days before the shareholder meeting. Registrations, including the transfer of voting rights, are processed for as long as technically possible, normally until two days before the shareholder meeting.

Board of Directors

The Board of Directors (BoD), under the leadership of the Chairman, decides on the strategy of the Group upon recommendation of the Group Chief Executive Officer (Group CEO), exercises the ultimate supervision over senior management, and appoints all Group Executive Board (GEB) members. The BoD also approves all financial statements for issue. Shareholders elect each member of the BoD, which in turn appoints its Chairman, Vice Chairmen, Senior Independent Director, members of BoD committees, their respective Chairpersons and the Company Secretary.

Members of the Board of Directors

At the Annual General Meeting of Shareholders (AGM) held on 3 May 2012, Michel Demaré, David Sidwell, Rainer-Marc Frey, Ann F. Godbehere, Axel P. Lehmann, Wolfgang Mayrhuber, Helmut Panke, William G. Parrett and Joseph Yam were reelected as their terms of office expired. Kaspar Villiger and Bruno Gehrig did not stand for reelection. Isabelle Romy, Axel A. Weber and Beatrice Weder di Mauro were elected to their first term on the BoD. Following their election, Axel A. Weber replaced Kaspar Villiger as full-time Chairman of the BoD and the BoD appointed Michel Demaré as Vice Chairman and David Sidwell as Senior Independent Director.

The following biographies provide information on the BoD members and the Company Secretary.

Axel A. Weber
German, born 8 March 1957
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Chairman of the Board of Directors / Chairperson of the Governance and Nominating Committee / member of the Corporate Responsibility Committee

Year of initial appointment: 2012

Professional history and education
Axel A. Weber was elected to the Board of Directors (BoD) at the 2012 AGM and was thereafter appointed Chairman of the BoD. He chairs the Governance and Nominating Committee and became a member of the Corporate Responsibility Committee in 2012. Mr. Weber was president of the German Bundesbank between 2004 and 2011, during which time he also served as a member of the Governing Council of the European Central Bank, a member of the Board of Directors of the Bank for International Settlements, German governor of the International Monetary Fund, and as a member of the G7 and G20 Ministers and Governors. He was a member of the steering committees of the European Systemic Risk Board in 2011 and the Financial Stability Board from 2010 to 2011. On leave from the University of Cologne from 2004 to 2012, he was a visiting professor at the University of Chicago Booth School of Business from 2011 to 2012. From 2002 to 2004 Mr. Weber served as a member of the German Council of Economic Experts. He was a professor of international economics and Director of the Center for Financial Research at the University of Cologne from 2001 to 2004, and a professor of monetary economics and Director of the Center for Financial Studies at the Goethe University in Frankfurt/Main from 1998 to 2001. Mr. Weber holds a PhD in economics from the University of Siegen, where he also received his habilitation. He graduated with a master's degree in economics at the University of Constance and holds honorary doctorates from the universities of Duisburg-Essen and Constance.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Weber is a member of the Group of Thirty, Washington, D.C., and a research fellow at the Center for Economic Policy Research in London and at the Center for Financial Research in Cologne. He is a member of the board of the International Institute of Finance, a senior research fellow at the Center for Financial Studies in Frankfurt/Main and a member of the Monetary Economics and International Economics Councils of the leading association of German-speaking economists, the Verein für Socialpolitik. In addition, he is a member of the Advisory Board of the German Market Economy Foundation and a member of the Advisory Council (Hochschulrat) of the Goethe University in Frankfurt/Main.

Michel Demaré
Belgian, born 31 August 1956
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Independent Vice Chairman / member of the Audit Committee / member of the Governance and Nominating Committee

Year of initial appointment: 2009

Professional history and education
Michel Demaré was elected to the BoD at the 2009 AGM, and in April 2010, was appointed independent Vice Chairman. He has been a member of the Audit Committee since 2009 and the Governance and Nominating Committee since 2010. Mr. Demaré joined ABB in 2005 as Chief Financial Officer (CFO) and as a member of the Group Executive Committee. He stepped down from his function in ABB in January 2013. Between February and August 2008 he acted as the interim CEO of ABB. From September 2008 to March 2011 he combined his role as CFO with that of President of Global Markets. Mr. Demaré joined ABB from Baxter International Inc., where he was CFO Europe from 2002 to 2005. Prior to this, he spent 18 years at the Dow Chemical Company, holding various treasury and risk management positions in Belgium, France, the US and Switzerland. Between 1997 and 2002 Mr. Demaré was the CFO of the Global Polyolefins and Elastomers division. He began his career as an officer in the multinational banking division of Continental Illinois National Bank of Chicago, and was based in Antwerp. Mr. Demaré graduated with an MBA from the Katholieke Universiteit Leuven, Belgium, and holds a degree in applied economics from the Université Catholique de Louvain, Belgium.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Demaré is a member of the board of Syngenta, of the IMD Foundation in Lausanne and of SwissHoldings in Berne.

David Sidwell
American (US) and British, born 28 March 1953
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Senior Independent Director / Chairperson of the Risk Committee / member of the Governance and Nominating Committee

Year of initial appointment: 2008

Professional history and education
David Sidwell was elected to the BoD at the 2008 AGM. In April 2010, he was appointed Senior Independent Director. He has chaired the Risk Committee since 2008 and has been a member of the Governance and Nominating Committee since 2011. Mr. Sidwell was Executive Vice President and CFO of Morgan Stanley between 2004 and 2007. Before joining Morgan Stanley he worked for JPMorgan Chase & Co., where, in his 20 years of service, he held a number of different positions, including controller and, from 2000 to 2004, CFO of the Investment Bank. Prior to this, he was with Price Waterhouse in both London and New York. Mr. Sidwell graduated from Cambridge University and qualified as a chartered accountant with the Institute of Chartered Accountants in England and Wales.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Sidwell is a director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington, D.C., and is a senior advisor at Oliver Wyman, New York. He is the Chairman of the Board of Village Care, New York, and is a director of the National Council on Aging, Washington, D.C.

Rainer-Marc Frey
Swiss, born 10 January 1963
Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach

Functions in UBS
Member of the Human Resources and Compensation Committee / member of the Risk Committee

Year of initial appointment: 2008

Professional history and education
Rainer-Marc Frey was elected to the BoD at the October 2008 Extraordinary General Meeting and has been a member of the Human Resources and Compensation Committee since 2012 and of the Risk Committee since 2008. Mr. Frey is the founder of the investment management company Horizon21 AG. He is Chairman of Horizon21 AG as well as its holding company and related entities and subsidiaries. In 1992, he founded and was appointed CEO of RMF Investment Group. RMF was acquired by Man Group plc in 2002. Between 2002 and 2004 he held a number of senior roles within Man Group. From 1989 to 1992 Mr. Frey served as a director at Salomon Brothers in Zurich, Frankfurt and London, where he was primarily involved with equity derivatives. Between 1987 and 1989 he worked for Merrill Lynch covering equity, fixed income and swaps markets. Mr. Frey holds a degree in economics from the University of St. Gallen.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Frey is a member of the board of DKSH Group, Zurich, as well as of the Frey Charitable Foundation, Freienbach.

Ann F. Godbehere
Canadian and British, born 14 April 1955
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Chairperson of the Human Resources and Compensation Committee / member of the Audit Committee

Year of initial appointment: 2009

Professional history and education
Ann F. Godbehere was elected to the BoD at the 2009 AGM. She has chaired the Human Resources and Compensation Committee since 2011 and has been a member of the Audit Committee since 2009. Ms. Godbehere was appointed CFO and Executive Director of Northern Rock in February 2008, serving in these roles during the initial phase of the business's public ownership until the end of January 2009. Prior to this role, she served as CFO of Swiss Re Group from 2003 to 2007. Ms. Godbehere was CFO of its Property & Casualty division in Zurich for two years. Before this she served as CFO of the Life & Health division in London for three years. From 1997 to 1998 she was CEO of Swiss Re Life & Health in Canada. Between 1996 and 1997 she was CFO of Swiss Re Life & Health North America. Ms. Godbehere is a certified general accountant and in 2003 was made a fellow of the Certified General Accountants Association of Canada.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Ms. Godbehere is a board member and Chairperson of the audit committees of Prudential plc, Rio Tinto plc and Rio Tinto Limited in London. She is on the board of Atrium Underwriters Ltd. and Atrium Underwriting Group Ltd., London, and chairs the audit committee. She is also a member of the boards of Arden Holdings Ltd., Bermuda, and of British American Tobacco plc.

Axel P. Lehmann
Swiss, born 23 March 1959
Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich

Functions in UBS
Member of the Governance and Nominating Committee / member of the Risk Committee

Year of initial appointment: 2009

Professional history and education
Axel P. Lehmann was elected to the BoD at the 2009 AGM and has been a member of the Governance and Nominating Committee since 2011 and of the Risk Committee since 2009. He is a member of the Group Executive Committee of Zurich Insurance Group (Zurich) and has been Group Chief Risk Officer since January 2008 and Regional Chairman Europe since October 2011. In July 2011, he was appointed Chairman of the Board of Farmers Group, Inc., and was responsible for Group IT from 2008 to 2010. In September 2004, Mr. Lehmann was appointed CEO of Zurich American Insurance Company and the North America Commercial business division in Schaumburg, Illinois. He became a member of Zurich's Group Executive Committee and CEO of its Continental Europe business division in 2002, and was in 2004 responsible for integrating it with UK, Ireland and South Africa. In 2001, he took over responsibility for Northern, Central and Eastern Europe and was appointed CEO of Zurich Group Germany. In 2000, Mr. Lehmann became a member of the Group Management Board with responsibility for group-wide business development functions. Mr. Lehmann holds a PhD and a master's degree in business administration and economics from the University of St. Gallen. He is also a graduate of the Wharton Advanced Management Program and an honorary professor of business administration and service management at the University of St. Gallen.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Lehmann is Chairman of the Board of the Institute of Insurance Economics at the University of St. Gallen, and is a member of the Chief Risk Officer Forum and a board member of Economiesuisse.

Wolfgang Mayrhuber
Austrian, born 22 March 1947
Deutsche Lufthansa AG, Aviation Center, D-60546 Frankfurt am Main

Functions in UBS
Chairperson of the Corporate Responsibility Committee / member of the Human Resources and Compensation Committee

Year of initial appointment: 2010

Professional history and education
Wolfgang Mayrhuber was elected to the BoD at the 2010 AGM. He has chaired the Corporate Responsibility Committee since 2011 and has been a member of the Human Resources and Compensation Committee since 2010. He was Chairman of the Executive Board and CEO of Deutsche Lufthansa AG from 2003 to 2010. In 2002, he was elected Deputy Chairman of the Executive Board and, in 2001, he was appointed to the Executive Board with responsibility for the passenger airline business. From 1994 to the end of 2000 he was Chairman of the Executive Board of the newly founded Lufthansa Technik AG. After holding a variety of management positions in the maintenance, repair and overhaul division, he was appointed Executive Vice President and Chief Operating Officer Technical in 1992. In 1970, he joined Lufthansa as an engineer at the engine overhaul facility in Hamburg. Mr. Mayrhuber studied mechanical engineering (dipl. Ing.) at the Technical College in Steyr, Austria, and at the Bloor Collegiate Institute in Canada. In 1990, he completed an executive management training course at the MIT.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Mayrhuber is Chairman of the Supervisory Board and Chairperson of the Mediation Committee, the Nomination Committee and the Executive Committee of Infineon Technologies AG, as well as a member of the supervisory boards of Munich Re Group, BMW Group, Lufthansa Technik AG and Austrian Airlines AG. Furthermore, he serves on the board of HEICO Corporation, Hollywood, FL, and the executive board of Acatech (Deutsche Akademie der Technikwissenschaften).

Helmut Panke
German, born 31 August 1946
BMW AG, Petuelring 130, D-80788 Munich

Functions in UBS
Member of the Human Resources and Compensation Committee / member of the Risk Committee

Year of initial appointment: 2004

Professional history and education
Helmut Panke was elected to the BoD at the 2004 AGM. He has been a member of the Human Resources and Compensation Committee and the Risk Committee since 2008. Between 2002 and 2006 Mr. Panke was Chairman of the Board of Management of BMW Group after becoming a member of BMW's Board of Management in 1996. Between 1993 and 1996 he was Chairman and CEO of BMW Holding Corporation in the US. Subsequent to joining BMW as Head of Planning and Controlling, Research and Development in 1982, he assumed management functions in corporate planning, organization and corporate strategy. Prior to this, he worked as a consultant at McKinsey & Company in both Düsseldorf and Munich. Mr. Panke graduated from the University of Munich with a PhD in physics, and undertook research work at both the University of Munich and the Swiss Institute for Nuclear Research.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Panke is a member of the boards of Microsoft Corporation (Chairperson of the Regulatory and Public Policy Committee) and Singapore Airlines Ltd. (Chairperson of the Safety & Risk Committee). He is a member of the supervisory board of Bayer AG.

William G. Parrett
American (US), born 4 June 1945
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Chairperson of the Audit Committee / member of the Corporate Responsibility Committee

Year of initial appointment: 2008

Professional history and education
William G. Parrett was elected to the BoD at the October 2008 Extraordinary General Meeting. He has chaired the Audit Committee since 2009 and has been a member of the Corporate Responsibility Committee since 2012. Mr. Parrett served his entire career with Deloitte Touche Tohmatsu. He was CEO from 2003 until his retirement in 2007. Between 1999 and 2003 he was a Managing Partner of Deloitte & Touche USA LLP and served on Deloitte's Global Executive Committee between 1999 and 2007. Mr. Parrett founded Deloitte's US National Financial Services Industry Group in 1995 and its Global Financial Services Industry Group in 1997, both of which he led as Chairman. In his 40 years of experience in professional services, Mr. Parrett served public, private, governmental, and state-owned clients worldwide. Mr. Parrett has a bachelor's degree in accounting from St. Francis College, New York, and is a certified public accountant.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Parrett is on the boards of the Eastman Kodak Company, the Blackstone Group LP, and Thermo Fisher Scientific Inc., and chairs each company's audit committee. He is also Past Chairman of the Board of the United States Council for International Business and United Way Worldwide, and a Carnegie Hall Board of Trustees member.

Isabelle Romy
Swiss, born 4 January 1965
Froriep Renggli, Bellerivestrasse 201, CH-8034 Zurich

Functions in UBS
Member of the Audit Committee / member of the Governance and Nominating Committee

Year of initial appointment: 2012

Professional history and education
Isabelle Romy was elected to the BoD at the 2012 AGM. She has been a member of the Audit Committee and the Governance and Nominating Committee since 2012. Ms. Romy is a partner at Froriep Renggli, a large Swiss business law firm. From 1995 to 2012 she worked for another major Swiss law firm based in Zurich, where she was a partner from 2003 to 2012. Her legal practice includes litigation and arbitration in cross-border cases. Ms. Romy has been an associate professor at the University of Fribourg and at the Federal Institute of Technology in Lausanne (EPFL) since 1996. Between 2003 and 2008 she served as a deputy judge at the Swiss Federal Supreme Court. From 1999 to 2006 she was a member of the Ethics Commission at the EPFL. Ms. Romy completed her PhD (Dr. iur.) at the University of Lausanne in 1990 and has been a qualified attorney-at-law admitted to the bar since 1991. From 1992 to 1994 she was a visiting scholar at Boalt Hall School of Law, University of California, Berkeley, and completed her professorial thesis at the University of Fribourg in 1996.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Ms. Romy has been a member of the sanction commission of SIX Swiss Exchange since 2002, serving as Vice Chairman since 2008.

Beatrice Weder di Mauro
Italian and Swiss, born 3 August 1965
Johannes Gutenberg-University Mainz,
Jakob Welder-Weg 4, D-55099 Mainz

Functions in UBS
Member of the Audit Committee / member of the Corporate Responsibility Committee

Year of initial appointment: 2012

Professional history and education
Beatrice Weder di Mauro was elected to the BoD at the 2012 AGM. She has been a member of the Audit Committee and Corporate Responsibility Committee since 2012. She has been a professor of economics, economic policy and international macroeconomics at the Johannes Gutenberg University of Mainz since 2001. Ms. Weder di Mauro was a member of the German Council of Economic Experts from 2004 to 2012. In 2010, she was a resident scholar at the International Monetary Fund (IMF) in Washington, D.C., and in 2006 a visiting scholar at the National Bureau of Economic Research, Cambridge, MA. Since 2003 Ms. Weder di Mauro has been a research fellow of the Center for Economic Policy Research in London. She was an associate professor of economics at the University of Basel between 1998 and 2001 and a research fellow at the United Nations University in Tokyo from 1997 to 1998. Prior to this she worked as an economist for the World Bank and the IMF in Washington, D.C. Ms. Weder di Mauro completed her PhD in economics at the University of Basel in 1993 and received her habilitation there in 1999.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Ms. Weder di Mauro is on the board of Roche Holding Ltd., Basel, and on the supervisory boards of ThyssenKrupp AG, Essen, and the Deutsche Investitions- und Entwicklungsgesellschaft, Cologne.

Joseph Yam
Chinese and Hong Kong citizen,
born 9 September 1948
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Member of the Corporate Responsibility Committee / member of the Risk Committee

Year of initial appointment: 2011

Professional history and education
Joseph Yam was elected to the BoD at the 2011 AGM. He has been a member of the Corporate Responsibility Committee and the Risk Committee since 2011. He is Executive Vice President of the China Society for Finance and Banking and in that capacity has served as an advisor to the People's Bank of China since 2009. Mr. Yam was instrumental in the establishment of the Hong Kong Monetary Authority and served as Chief Executive from 1993 until his retirement in 2009. He began his career in Hong Kong as a statistician in 1971 and served the public for over 38 years. During his service, he occupied several positions such as Director of the Office of the Exchange Fund from 1991, Deputy Secretary for Monetary Affairs from 1985 and Principal Assistant Secretary for Monetary Affairs from 1982. Mr. Yam graduated from the University of Hong Kong in 1970 with first class honors in social sciences. He holds honorary doctorate degrees and professorships from a number of universities in Hong Kong and overseas. Mr. Yam is a Distinguished Research Fellow of the Institute of Global Economics and Finance at the Chinese University of Hong Kong.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Yam sits on the international advisory councils of a number of government and academic institutions. He is a board member and chairs the Risk Committee of the China Construction Bank. He is on the boards of Johnson Electric Holdings Limited and UnionPay International Co., Ltd.

Company Secretary

Luzius Cameron
Australian and Swiss, born 11 September 1955
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
Company Secretary since 2005

Professional history and education
Luzius Cameron was appointed Company Secretary by the BoD for the first time in 2005. He is a Group Managing Director and was appointed to the former Group Managing Board in 2002. From 2002 to 2005 Mr. Cameron was the Director of Strategic Planning and New Business Development, Wealth Management USA. Prior to this role, he was Head of Group Strategic Analysis, and before that, Head of Corporate Business Analysis. Mr. Cameron joined Swiss Bank Corporation in 1989, where he started out in Corporate Controlling before assuming a number of senior roles at Warburg Dillon Read, including Chief of Staff to the Chief Operating Officer in London and Business Manager of the Global Rates Business in Zurich. From 1984 to 1989 he was a lecturer in astrophysics at the University of Basel. Between 1980 and 1989 he was a research analyst at the Institute of Astronomy at the University of Basel and European Southern Observatory. Mr. Cameron holds a PhD in astrophysics from the University of Basel.

Elections and terms of office

In accordance with article 19 para. 1 of the Articles of Association, all BoD members are to be elected on an individual basis for a one-year term of office. As a result, shareholders must confirm the entire membership of the BoD on a yearly basis at the next AGM, which will take place on 2 May 2013.

BoD members are normally expected to serve for a minimum of three years. No BoD member can serve for more than 10 consecutive terms of office or continue to serve beyond the AGM held in the calendar year following his 70th birthday; in exceptional circumstances the BoD can extend both these limits.

Organizational principles and structure

The Organization Regulations were revised during 2012 and are valid as of 1 January 2013. The main changes made included reflecting "Wealth Management" and "Retail & Corporate" as separate business divisions, the joint responsibility assigned to the Audit Committee and the Risk Committee with regard to Group Internal Audit, the transfer of the succession planning for all GEB members from the Human Resources and Compensation Committee to the Governance and Nominating Committee and the introduction of a new section regarding "Global Recovery and Resolution Planning".

Following each AGM, the BoD meets to appoint its Chairman, Vice Chairmen, Senior Independent Director, BoD committee members and their respective Chairpersons. At the same meeting, the BoD appoints a Company Secretary, who acts as secretary to the BoD and its committees.

According to the Articles of Association, the BoD meets as often as business requires, but must meet at least six times a year. In 2012, a total of 27 meetings were held, eight times with the presence of GEB members and 19 times for meetings and calls without GEB participation. On average, 90% of BoD members were present at BoD meetings without GEB participation, and 91% at meetings with GEB participation. The average duration of these meetings and calls was two and a half hours. In addition, the BoD met for a one-day seminar.

At every BoD meeting, each committee chairperson provides the BoD with updates on current activities of his or her committee as well as important committee issues.

At least once per year, the BoD reviews its own performance as well as the performance of each of its committees. This review is based on an assessment of the BoD under the auspices of the Governance and Nominating Committee, as well as a self-assessment of the BoD committees, and seeks to determine whether the BoD and its committees are functioning effectively and efficiently. The last self-assessment was completed in spring 2012 and the BoD found that it is operating effectively. In spring 2013, the assessment will be conducted by an external company.

The committees listed below assist the BoD in the performance of its responsibilities. These committees and their charters are described in the Organization Regulations, published *on www.ubs.com/governance.*

Audit Committee

The Audit Committee comprises five BoD members, with all members having been determined by the BoD to be fully independent and financially literate. On 31 December 2012, William G. Parrett chaired the Audit Committee with Michel Demaré, Ann F. Godbehere, Isabelle Romy and Beatrice Weder di Mauro as additional members. All members have accounting or related financial management expertise and the majority qualify as "financial expert" in terms of the rules established pursuant to the US Sarbanes-Oxley Act of 2002.

The Audit Committee itself does not perform audits, but monitors the work of the external auditors, Ernst & Young Ltd., Basel (Ernst & Young), who in turn are responsible for auditing UBS's and the Group's annual financial statements and for reviewing the quarterly financial statements.

The function of the Audit Committee is to serve as an independent and objective body with oversight of: (i) the UBS Group's accounting policies, financial reporting and disclosure controls and procedures; (ii) the quality, adequacy and scope of external audit; (iii) UBS's compliance with financial reporting requirements; (iv) the senior management's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance; and (v) the performance of Group Internal Audit in conjunction with the Chairman and the Risk Committee. For these purposes, the Audit Committee has the authority to meet with regulators and external bodies in consultation with the Group CEO. Senior management is responsible for the preparation, presentation and integrity of the financial statements.

The Audit Committee reviews the annual and quarterly financial statements of UBS and the Group, as proposed by management, with the external auditors and Group Internal Audit in order to recommend their approval (including any adjustments the Audit Committee considers appropriate) to the BoD.

Periodically, and at least annually, the Audit Committee assesses the qualifications, expertise, effectiveness, independence and performance of the external auditors and their lead audit partner, in order to support the BoD in reaching a decision in relation to the appointment or dismissal of the external auditors and the rotation of the lead audit partner. The BoD then submits these proposals for approval at the AGM.

During 2012, the Audit Committee held a total of 10 meetings and 15 telephone conferences. The meetings had an average duration of three hours and the telephone conferences lasted approximately one hour. Participation was 93%. Also present at the meetings were the Group Chief Financial Officer (Group CFO), the Head Group Internal Audit, the Group Finance Chief Operating Officer, the Head of Group Controlling & Accounting and Ernst & Young. The conference calls were conducted in the presence of the Audit Committee members, the Group CFO and selected management members. Joint Audit Committee/Risk Committee sessions were held at least every quarter. In addition, the Audit Committee held one session with FINMA.

The Audit Committee reports back to the BoD about its discus-

sions with our external auditors. Once per year, the lead representatives of our external auditors present their long-form report to the BoD, as required by FINMA.

The NYSE listing standards on corporate governance set more stringent independence requirements for members of audit committees than for the other members of the BoD. Each of the five members of our Audit Committee is an external BoD member who, in addition to satisfying our independence criteria, does not receive, directly or indirectly, any consulting, advisory or other compensatory fees from UBS other than in his or her capacity as a BoD member; does not hold, directly or indirectly, UBS shares in excess of 5% of the outstanding capital; and (except as noted below) does not serve on the audit committees of more than two other public companies. The NYSE listing standards on corporate governance allow for an exemption for audit committee members to serve on more than three audit committees of public companies, provided that all BoD members determine that the candidate has the time and the availability to fulfill his or her obligations. Considering the credentials of William G. Parrett and Ann F. Godbehere, the BoD has granted this exemption in their cases.

Corporate Responsibility Committee

The Corporate Responsibility Committee supports the BoD in fulfilling its duty to safeguard and advance the Group's reputation for responsible corporate conduct. It reviews and assesses stakeholder concerns and expectations for responsible corporate conduct and their possible consequences for UBS, and recommends appropriate actions to the BoD. The majority of the Corporate Responsibility Committee's members must be independent. The Corporate Responsibility Committee comprises four independent BoD members and, on 31 December 2012, was chaired by Wolfgang Mayrhuber with Axel A. Weber, William G. Parrett, Beatrice Weder di Mauro and Joseph Yam as additional members. The Corporate Responsibility Committee is advised and supported by a number of senior business representatives. It met twice for approximately one and a half hours on average in 2012, and 90% of Corporate Responsibility Committee members were present.

➔ Refer to the "Corporate responsibility" section of this report for more information

Governance and Nominating Committee

The Governance and Nominating Committee supports the BoD in fulfilling its duty to establish best practices in corporate governance across the Group, to conduct a BoD annual self-assessment, to establish and maintain a process for appointing new BoD and GEB members (in the latter case, upon proposal by the Group CEO), and to manage the succession planning of all GEB members. The Governance and Nominating Committee comprises four independent BoD members and, on 31 December 2012, Axel A. Weber chaired the Governance and Nominating Committee, with Michel Demaré, Axel P. Lehmann, Isabelle Romy and David Sidwell as additional members. In 2012, eight meetings were held with an average participation of 85% of members and a duration averaging one hour. One meeting was held with external advisors.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee is responsible for the following functions: (i) supporting the BoD in its duties to set guidelines on compensation and benefits; (ii) approving the total compensation for the Chairman and the non-independent BoD members; (iii) proposing, together with the Chairman, total individual compensation for the independent BoD members and Group CEO for approval by the BoD; and (iv) proposing to the BoD for approval, upon recommendation of the Group CEO, the total individual compensation for GEB members. The Human Resources and Compensation Committee also reviews the compensation disclosure included in this report.

The Human Resources and Compensation Committee comprises four independent BoD members and, on 31 December 2012, Ann F. Godbehere chaired it with Rainer-Marc Frey, Wolfgang Mayrhuber and Helmut Panke as additional members. In 2012, six meetings and seven telephone conferences were held with an average duration of 100 minutes and participation rate of 85%. Of those meetings and calls, 11 were held with external advisors and 13 with the Chairman and Group CEO.

➔ Refer to the "Compensation governance" section of this report for more information on the Human Resources and Compensation Committee's decision-making procedures

Risk Committee

The Risk Committee is responsible for overseeing and supporting the BoD in fulfilling its duty to supervise and set appropriate risk management and control principles in the following areas: (i) risk management and control, including credit, market, country, legal and operational risks; (ii) treasury and capital management, including funding, liquidity and equity attribution; and (iii) balance sheet management. The Risk Committee considers the potential effects of the aforementioned risks on the Group's reputation. For these purposes, the Risk Committee receives all relevant information from the GEB and has the authority to meet with regulators and external bodies in consultation with the Group CEO. On 31 December 2012, the Risk Committee comprised five independent BoD members. David Sidwell chaired the Risk Committee with Rainer-Marc Frey, Axel P. Lehmann, Helmut Panke and Joseph Yam as additional members. During 2012, the Risk Committee held a total of eight meetings and six calls, with an average participation rate of 87% of members. The average meeting duration was five and a half hours and the calls lasted approximately one hour and a quarter.

The Audit Committee Chairperson regularly attended part or all of the Risk Committee meetings. In 2012, the Chairman, the Group CEO, the Group CFO, the Group Chief Risk Officer, the Group General Counsel, the co-CEOs or the CEO of the Investment Bank, the Group Treasurer, the Head Group Internal Audit and Ernst & Young were also regularly present. In addition, the Risk Committee and Human Resources and Compensation Committee met jointly to discuss topics on which they have shared

responsibility. Annually, one session is held with the Governing Board of the SNB and one with FINMA. Two meetings were held with the Federal Reserve Bank of New York and the Connecticut Department of Banking and one meeting was held with the UK Financial Services Authority.

Ad-hoc Strategy Committee

In 2012, an ad-hoc committee on strategy (the Strategy Committee) was created to discuss details of the acceleration of UBS's strategy with the senior management. On 31 December 2012, the Strategy Committee comprised four BoD members. Axel A. Weber chaired the Strategy Committee with Michel Demaré, Rainer-Marc Frey and David Sidwell as additional members. Two telephone conferences and one meeting were held with an average duration of 60 minutes and participation of 92%. All these events were attended by the Group CEO, the Group CFO and the Group Chief Operating Officer.

Special Committee conducting an independent internal investigation

In light of the unauthorized trading incident announced in September 2011, the BoD in the same month created a Special Committee comprised of three independent Risk Committee and Audit Committee members. Its role was, with assistance from Group Internal Audit, to conduct an independent internal investigation into the event, its causes, disciplinary consequences and proposed remedial actions, and to report its findings to the BoD.

David Sidwell chaired the Special Committee with Ann F. Godbehere and Joseph Yam as additional members. In 2012, the committee held five conference calls and one meeting. All of the Special Committee members were present and the meetings lasted for one hour on average. In June the committee decided that, for the time being, no further Special Committee meetings or actions were required and that the Special Committee would going forward be convened if necessary.

Roles and responsibilities of the Chairman of the Board of Directors

Axel A. Weber, the Chairman of the BoD (Chairman), has entered into a full-time employment contract with UBS in connection with his service on the BoD.

The Chairman coordinates the tasks within the BoD, calls BoD meetings and sets their agendas. Under the leadership of the Chairman, the BoD decides on the strategy of the Group upon the recommendation of the Group CEO, exercises the ultimate supervision over management and appoints all GEB members.

The Chairman presides over all our shareholders' meetings, and works with the committee chairpersons to coordinate the work of all BoD committees. Together with the Group CEO, the Chairman is responsible for ensuring effective communication with shareholders and other stakeholders, including government officials, regulators and public organizations. This is in addition to establishing and maintaining a close working relationship with the Group CEO and the other GEB members, providing advice and support while respecting the fact that day-to-day management responsibility is delegated to the GEB.

Roles and responsibilities of the Vice Chairmen and the Senior Independent Director

The BoD appoints one or more Vice Chairmen and a Senior Independent Director. If the BoD appoints more than one Vice Chairman, one of them must be independent. Michel Demaré has been appointed as Vice Chairman and David Sidwell has been appointed as Senior Independent Director. A Vice Chairman is required to lead the BoD in the absence of the Chairman and to provide support and advice to the Chairman. At least twice a year, the Senior Independent Director organizes and leads a meeting of the independent BoD members in the absence of the Chairman. In 2012, three independent BoD meetings were held for a duration of one and a half hours each. The Senior Independent Director relays any issues or concerns of independent BoD members to the Chairman and acts as a contact point for shareholders and stakeholders wishing to engage in discussions with an independent BoD member.

Important business connections of independent members of the Board of Directors with UBS

As a global financial services provider and a major bank in Switzerland, we have business relationships with many large companies, including those in which our BoD members assume management or independent board responsibilities. The Governance and Nominating Committee determines if the nature of the relationships between UBS and the companies whose chair, chief executive or other officer is a member of our BoD does not compromise his or her capacity for independent judgment.

Our Organization Regulations require three-quarters of the BoD members to be independent. As a general rule, for a BoD member to be considered independent, he or she may not have a material relationship with UBS, either directly or as a partner, controlling shareholder or executive officer of a company that has a relationship with UBS. In addition, in order to be considered independent, our BoD members have to fulfill the additional criteria our BoD has established based on the requirements set forth in the NYSE listing standards on corporate governance, the FINMA Circular 08/24 on the supervision and internal controls at banks and the standards established in the Swiss Code of Best Practice for Corporate Governance. These criteria, together with a definition of what constitutes a material relationship, are published on our website under *www.ubs.com/governance*.

Based thereupon, on 31 December 2012, all our BoD members were considered independent by the BoD, with the exception of our Chairman Axel A. Weber. In accordance with the abovementioned independence criteria and due to our Chairman's full-time employment by UBS AG, he is not considered independent.

All relationships and transactions with UBS's independent BoD members are conducted in the ordinary course of business, and

are on the same terms as those prevailing at the time for comparable transactions with non-affiliated persons. All relationships and transactions with UBS BoD members' associated companies are conducted at arm's length.

➔ **Refer to "Note 32 Related parties" in the "Financial information" section of this report for more information**

Checks and balances: Board of Directors and Group Executive Board

We operate under a strict dual board structure, as mandated by Swiss banking law. The separation of responsibilities between the BoD and the GEB is clearly defined in the Organization Regulations. The BoD decides on the strategy of the Group upon the recommendation of the Group CEO, and supervises and monitors the business, whereas the GEB, headed by the Group CEO, has executive management responsibility. The functions of Chairman of the BoD and Group CEO are assigned to two different people, ensuring a separation of power. This structure establishes checks and balances and preserves the institutional independence of the BoD from the day-to-day management of the firm, for which responsibility is delegated to the GEB under the leadership of the Group CEO. No member of one board may be a member of the other.

Supervision and control of the GEB remains with the BoD. The authorities and responsibilities of the two bodies are governed by the Articles of Association and the Organization Regulations, including the latter document's "Annex B – Responsibilities and authorities".

➔ **Refer to www.ubs.com/governance for more details on checks and balances for the BoD and GEB**

Information and control instruments vis-à-vis the Group Executive Board

The BoD is kept informed of the activities of the GEB in various ways. The minutes of the GEB meetings are made available to the BoD members. At BoD meetings, the Group CEO and GEB members regularly update the BoD on important issues.

At BoD meetings, BoD members may request from BoD or GEB members any information about matters concerning UBS that they require to fulfill their duties. Outside meetings, BoD members may request information from other BoD and GEB members, in which case such requests must be approved by the Chairman.

Group Internal Audit independently, objectively and systematically assesses the adherence to our strategy, effectiveness of governance, risk management and control processes at Group, divisional and regional levels, and monitors compliance with legal, regulatory and statutory requirements, as well as with internal policies and contracts. This internal audit organization has a functional reporting line to the Risk Committee and the Audit Committee in line with their responsibilities as set forth in our Organization Regulations. The Risk Committee and the Audit Committee must be informed of the results of the annual internal audit plan and status of annual internal audit objectives and must be in regular contact with the Head Group Internal Audit.

Our compliance function provided an annual compliance report to the BoD in March 2012. This report is required by sections 109 and 112 of the FINMA Circular 08/24 on the supervision and internal controls at banks.

➔ **Refer to the "Risk management and control" section of this report for more information**

Group Executive Board

UBS operates under a strict dual board structure, as required by Swiss banking law. The management of the business is delegated by the BoD to the Group Executive Board (GEB).

Members of the Group Executive Board and changes in 2012

Since the first quarter of 2012, UBS has reported Wealth Management and Retail & Corporate as separate business divisions, with Wealth Management & Swiss Bank ceasing to exist as a business division. Lukas Gähwiler became CEO of Retail & Corporate in addition to his position as CEO of UBS Switzerland, and Jürg Zeltner became CEO of UBS Wealth Management. On 22 March 2012, the Board appointed Andrea Orcel as co-CEO of the Investment Bank alongside Carsten Kengeter, effective 1 July 2012. On 1 April 2012, Alexander Wilmot-Sitwell stepped down as co-CEO of UBS Group Asia Pacific and GEB member. As a consequence Chi-Won Yoon became sole CEO of UBS Group Asia Pacific on that date. On 1 November 2012, Andrea Orcel became sole CEO of the Investment Bank and Carsten Kengeter stepped down from the GEB to lead the management of the businesses and positions to be exited by the Investment Bank.

In spring 2013, the GEB decided that all responsibilities and authorities of the Corporate Center CEO are assumed by the Group Chief Operating Officer and to eliminate the role of the Corporate Center CEO.

The following biographies provide information on the GEB members.

Sergio P. Ermotti
Swiss, born 11 May 1960
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
Group CEO

Year of initial appointment: 2011

Professional history and education
Sergio P. Ermotti was appointed Group CEO in November 2011, having held the position of Group CEO on an interim basis since September 2011. Mr. Ermotti became a member of the GEB in April 2011 and was Chairman and CEO of UBS Group Europe, Middle East and Africa from April to November 2011. From 2007 to 2010 he was Group Deputy Chief Executive Officer at UniCredit, Milan, and was responsible for the strategic business areas of Corporate and Investment Banking, and Private Banking. He joined UniCredit in 2005 as Head of Markets & Investment Banking Division. Between 2001 and 2003 he worked at Merrill Lynch, serving as co-Head of Global Equity Markets and as a member of the Executive Management Committee for Global Markets & Investment Banking. He began his career with Merrill Lynch in 1987, and held various positions within equity derivatives and capital markets. Mr. Ermotti is a Swiss-certified banking expert and is a graduate of the Advanced Management Program at Oxford University.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Ermotti is a non-executive director of the London Stock Exchange Group.

Markus U. Diethelm
Swiss, born 22 October 1957
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
Group General Counsel

Year of initial appointment: 2008

Professional history and education
Markus U. Diethelm was appointed Group General Counsel of UBS and became a member of the GEB in September 2008. From 1998 to 2008 he served as Group Chief Legal Officer at Swiss Re, and was appointed to its Group Executive Board in 2007. Prior to that, he was at the Los Angeles-based law firm Gibson, Dunn & Crutcher, and focused on corporate matters, securities transactions, litigation and regulatory investigations while working out of the firm's Brussels and Paris offices. From 1989 to 1992 he practiced at Shearman & Sterling in New York, specializing in mergers and acquisitions. In 1988, he worked at Paul, Weiss, Rifkind, Wharton & Garrison in New York, after starting his career in 1983 with Bär & Karrer. Mr. Diethelm holds a law degree from the University of Zurich and a master's degree and PhD from Stanford Law School. Mr. Diethelm is a qualified attorney-at-law admitted to the bar in Zurich and in New York State.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Diethelm is Chairman of the Swiss-American Chamber of Commerce's legal committee, and a member of the Swiss Advisory Council of the American Swiss Foundation, of the UBS Foundation of Economics in Society and of the Conseil de Fondation du Musée International de la Croix-Rouge et du Croissant-Rouge.

John A. Fraser
Australian and British, born 8 August 1951
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Chairman and CEO Global Asset Management

Year of initial appointment: 2002

Professional history and education
John A. Fraser was appointed Chairman and CEO of Global Asset Management in December 2001, and became a member of the GEB in July 2002. Since 2008 he has been Chairman of UBS Saudi Arabia. From 1998 to 2001 he was President and Chief Operating Officer of UBS Asset Management and Head of Asia Pacific. From 1994 to 1998 he was the Executive Chairman and CEO of the Australia funds management business. Before joining UBS, Mr. Fraser spent over 20 years in various positions at the Australian Treasury, including two international postings in Washington, D.C., first, at the International Monetary Fund and, subsequently, as the Economic Minister at the Australian Embassy in Washington, D.C. He was the Deputy Secretary (Economic) of the Australian Treasury from 1990 to 1993. Mr. Fraser graduated from Monash University, Melbourne, in 1972, and holds a first-class honors degree in economics.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Fraser is a member of the Advisory Council of AccountAbility and Chairman of the Victorian Funds Management Corporation in Melbourne.

Lukas Gähwiler
Swiss, born 4 May 1965
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
CEO UBS Switzerland and CEO Retail & Corporate

Year of initial appointment: 2010

Professional history and education
Lukas Gähwiler became a member of the GEB and was appointed CEO of UBS Switzerland in April 2010. In his role as CEO of UBS Switzerland he is responsible for all businesses – retail, wealth management, corporate and institutional, investment banking and asset management – in UBS's home market. Since January 2012 he has also been CEO of Retail & Corporate. Between April 2010 and January 2012 he combined the position of CEO of UBS Switzerland with the role of co-CEO of UBS Wealth Management & Swiss Bank. From 2003 to 2010 he was the Chief Credit Officer at Credit Suisse and was accountable for the worldwide credit business of Private Banking, including Commercial Banking in Switzerland. In 1998, Mr. Gähwiler was appointed Chief of Staff to the CEO of Credit Suisse's Private and Corporate business unit and, previous to that, held various front-office positions in Switzerland and North America. He earned a bachelor's degree in business administration from the University of Applied Sciences in St. Gallen. Mr. Gähwiler completed an MBA program in corporate finance at the International Bankers School in New York, as well as the Advanced Management Program at Harvard Business School.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Gähwiler is a member of the board of Economiesuisse, the Zurich Chamber of Commerce and Opernhaus Zurich. He is Vice Chairman of the Swiss Finance Institute, as well as a member of the Foundation Board of the UBS pension fund and of the UBS Foundation of Economics in Society.

Ulrich Körner
German and Swiss, born 25 October 1962
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Group Chief Operating Officer and
CEO Corporate Center
CEO UBS Group Europe, Middle East and Africa

Year of initial appointment: 2009

Professional history and education
Ulrich Körner was appointed Group Chief Operating Officer and CEO Corporate Center, and became a member of the GEB in April 2009. In addition to this function, he was appointed CEO of UBS Group Europe, Middle East and Africa in December 2011. In 1998, Mr. Körner joined Credit Suisse. He served as a member of the Credit Suisse Group Executive Board from 2003 to 2008, holding various management positions, including CFO and Chief Operating Officer. From 2006 to 2008 he was responsible for the entire Swiss client business as CEO Credit Suisse Switzerland. Mr. Körner received a PhD in business administration from the University of St. Gallen, and for several years was an auditor at Price Waterhouse and a management consultant at McKinsey & Company.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Körner is Vice Chairman of the Committee of the Governing Board of the Swiss Bankers Association, Chairman of the Widder Hotel in Zurich, and is Vice President of the Board of Lyceum Alpinum Zuoz. He is Deputy Chairman of the Supervisory Board of UBS Deutschland AG, Chairman of the Foundation Board of the UBS pension fund, a member of the Financial Service Chapter Board of the Swiss-American Chamber of Commerce, a member of the Advisory Board of the Department of Banking and Finance at the University of Zurich and a member of the business advisory council of the Laureus Foundation Switzerland.

Philip J. Lofts
British, born 9 April 1962
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
Group Chief Risk Officer

Year of initial appointment: 2008

Professional history and education
Philip J. Lofts became a GEB member in 2008, and was re-appointed as Group Chief Risk Officer in December 2011 after serving in the same role from 2008 to 2010. He was CEO of UBS Group Americas from January to November 2011. Mr. Lofts, who began his career with UBS over 25 years ago, became Group Risk Chief Operating Officer in 2008 after three years serving as Group Chief Credit Officer. Before this, Mr. Lofts worked for the Investment Bank in a number of business and risk control positions in Europe, Asia Pacific and the US. Mr. Lofts joined Union Bank of Switzerland in 1984 as a credit analyst and was appointed Head of Structured Finance in Japan in 1998. Mr. Lofts successfully completed his A-levels at Cranbrook School. From 1981 to 1984 he was a trainee at Charterhouse Japhet plc, a merchant bank, which was acquired by the Royal Bank of Scotland in 1985.

Robert J. McCann
American (US) and Irish, born 15 March 1958
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
CEO Wealth Management Americas
CEO UBS Group Americas

Year of initial appointment: 2009

Professional history and education
Robert J. McCann was appointed CEO of Wealth Management Americas and became a member of the GEB in October 2009. In addition, he has been CEO of UBS Group Americas since December 2011. From 2003 to 2009 he worked for Merrill Lynch as Vice Chairman and President of the Global Wealth Management Group. In 2003, he served as Vice Chairman of Distribution and Marketing for AXA Financial. He began his career with Merrill Lynch in 1982, working in various positions in capital markets and research. From 2001 to 2003 he was Head of Global Securities Research and Economics. In 2000, he was appointed Chief Operating Officer of Global Markets and Investment Banking. From 1998 to 2000 he was Global Head of Global Institutional Debt and Equity Sales. Mr. McCann graduated with a bachelor's in economics from Bethany College, West Virginia, and holds an MBA from Texas Christian University.

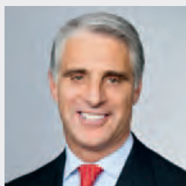
Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. McCann is a board member of the American Ireland Fund, and is Vice Chairman of the Bethany College Board of Trustees. He is a member of the Clearing House Advisory Board, a member of the Presidents Circle of No Greater Sacrifice in Washington, D.C., a member of the Committee Encouraging Corporate Philanthropy and a member of the board of the Catholic Charities of the Archdiocese of New York.

Tom Naratil
American (US), born 1 December 1961
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
Group CFO

Year of initial appointment: 2011

Professional history and education
Tom Naratil was appointed Group CFO and became a member of the GEB in June 2011. He served as CFO and Chief Risk Officer of Wealth Management Americas from 2009 until his current appointment. Before 2009, he held various senior management positions within UBS, including heading the Auction Rate Securities Solutions Group during the financial crisis in 2008. He was named Global Head of Marketing, Segment & Client Development in 2007, Global Head of Market Strategy & Development in 2005, and Director of Banking and Transactional Solutions, Wealth Management USA, in 2002. During this time, he was a member of the Group Managing Board. He joined Paine Webber Incorporated in 1983, and after the merger with UBS became Director of the Investment Products Group. Mr. Naratil holds an MBA in economics from New York University and a bachelor of arts degree in history from Yale University.



Andrea Orcel
Italian, born 14 May 1963
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
CEO Investment Bank

Year of initial appointment: 2012

Professional history and education
Andrea Orcel was appointed CEO of the Investment Bank in November 2012. He had been appointed co-CEO of the Investment Bank and a member of the GEB in July 2012. He joined UBS from Bank of America Merrill Lynch, where he had been Executive Chairman since 2009, President of Emerging Markets (ex Asia) since 2010 and CEO of European Card Services since 2011. Prior to Merrill Lynch's acquisition by Bank of America, Mr. Orcel was a member of Merrill Lynch's global management committee and Head of Global Origination, which combined Investment Banking and Capital Markets. He held a number of other leadership positions, including President of Global Markets & Investment Banking for Europe, Middle East and Africa (EMEA) and Head of EMEA Origination beginning in 2004. Between 2003 and 2007 he led the Global Financial Institutions Group, of which he had been part since joining Merrill Lynch in 1992. Prior to this, he worked at Goldman Sachs and the Boston Consulting Group. Mr. Orcel holds an MBA from INSEAD and a degree in economics and commerce, summa cum laude, from the University of Rome.

Chi-Won Yoon
Korean, born 2 June 1959
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
CEO UBS Group Asia Pacific

Year of initial appointment: 2009

Professional history and education
Chi-Won Yoon was appointed CEO of UBS Group Asia Pacific in April 2012 and has been a member of the GEB since June 2009. He held the position of co-Chairman and co-CEO of UBS Group Asia Pacific from November 2010 to March 2012. From June 2009 to November 2010 he served as sole Chairman and CEO of UBS AG, Asia Pacific. Prior to his current role, Mr. Yoon served as Head of UBS's securities business in Asia Pacific: Asia Equities, which he oversaw from 2004, and Asia Pacific Fixed Income, Currencies and Commodities, which he led from 2009. When he first joined the firm in 1997, he served as Head of Equity Derivatives. Mr. Yoon began his career in financial services in 1986, working first at Merrill Lynch in New York and then at Lehman Brothers in New York and Hong Kong. Before embarking on a Wall Street career, he worked as an electrical engineer in satellite communications. In 1982, Mr. Yoon earned a bachelor's degree in electrical engineering from the MIT, and in 1986, a master's degree in management from MIT's Sloan School of Management.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Yoon is on the board of UBS Securities Co. Ltd. and a member of the Asian Executive Board of MIT's Sloan School of Management.

Jürg Zeltner
Swiss, born 4 May 1967
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Function in UBS
CEO UBS Wealth Management

Year of initial appointment: 2009

Professional history and education
Jürg Zeltner became a member of the GEB in February 2009 and is CEO of UBS Wealth Management. Between February 2009 and January 2012 he served as co-CEO of UBS Wealth Management & Swiss Bank. In November 2007, he was appointed as Head of Wealth Management North, East & Central Europe. From 2005 to 2007 he was the CEO of UBS Deutschland, Frankfurt and, prior to that, he held various management positions in the former Wealth Management division of UBS. Between 1987 and 1998 he was with Swiss Bank Corporation in various roles within the Private and Corporate Client division in Berne, New York and Zurich. Mr. Zeltner holds a diploma in business administration from the College of Higher Vocational Education in Berne and is a graduate of the Advanced Management Program at Harvard Business School.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Zeltner is a board member of the German-Swiss Chamber of Commerce and Chairman of the UBS Optimus Foundation Board.

Responsibilities, authorities and organizational principles of the Group Executive Board

Under the leadership of the Group CEO, the GEB has executive management responsibility for the Group and its business. It assumes overall responsibility for the development of the Group and business division strategies and the implementation of approved strategies. The GEB constitutes itself as the risk council of the Group. In this function, the GEB has overall responsibility for the following: establishing and supervising the implementation of risk management and control principles; approving major risk policies as proposed primarily by the Group Chief Risk Officer; and controlling the risk profile of the Group as a whole as determined by the BoD and the Risk Committee. In 2012, the GEB held a total 22 meetings, not including two GEB offsite meetings and two ad hoc conference calls.

➔ Refer to the Organization Regulations, which are available at www.ubs.com/governance, for more information on the authorities of the Group Executive Board

Responsibilities and authorities of the Group Asset and Liability Management Committee

The Group Asset and Liability Management Committee (Group ALCO), established by the GEB, is responsible for setting strategies to maximize the financial performance of the Group, and is subject to the guidelines, constraints and risk tolerances set by the BoD. The Group ALCO is also responsible for managing the balance sheet of the business divisions through allocation and monitoring of limits as well as managing capital, liquidity and funding; and promoting a one-firm financial management culture. The Organization Regulations additionally specify which powers of the GEB are delegated to the Group ALCO. In 2012, the Group ALCO held nine meetings.

Management contracts

We have not entered into management contracts with any third parties.

Change of control and defense measures

We refrain from restrictions that would hinder developments initiated in, or supported by, the financial markets. We also do not have any specific defenses in place to prevent hostile takeovers.

Duty to make an offer

An investor who acquired more than 33⅓% of all voting rights of UBS AG (directly, indirectly or in concert with third parties), whether they are exercisable or not, would be required to submit a takeover offer for all shares outstanding, according to the Swiss Stock Exchange Act. We have not elected to change or opt out of this rule.

Clauses on change of control

Neither the employment agreement with the Chairman of the BoD, nor the employment contracts with the Group Executive Board (GEB) members and employees holding key functions within the company (Group Managing Directors), contains change of control clauses.

All employment contracts with GEB members contain a notice period of six months, except for one which contains a 12-month notice period. During the notice period, GEB members are entitled to their salary and continuation of existing employment benefits.

In case of a change of control, UBS may, at its discretion, accelerate the vesting of and/or relax applicable forfeiture provisions of employees' awards, and defer lapse date of options or stock appreciation rights.

According to the agreement we have entered into with the Swiss National Bank (SNB), in the event of a change in control of UBS, the SNB has the right, but not the obligation, to require that we purchase the loan the SNB provided to the SNB StabFund at its outstanding principal amount plus accrued interest, and that we purchase the SNB StabFund's equity at 50% of its value at the time.

Auditors

Audit is an integral part of corporate governance. While safeguarding their independence, the external auditors closely coordinate their work with Group Internal Audit (GIA). The Audit Committee, and ultimately the Board of Directors (BoD), supervises the effectiveness of audit work.

➔ **Refer to the "Board of Directors" section of this report for more information on the Audit Committee**

External independent auditors

At the 2012 Annual General Meeting of Shareholders (AGM), Ernst & Young were reelected as auditors for the Group for a further one-year term of office. Ernst & Young assume virtually all auditing functions according to laws, regulatory requests and the Articles of Association. The Ernst & Young lead partner in charge of the UBS financial audit has been Jonathan Bourne since 2010 and his incumbency is limited to five years. The co-signing partner for the financial statement audit is Troy J. Butner who has been on the audit since 2011 and his incumbency is limited to seven years. The Lead Auditor to FINMA is Iqbal Khan; he has been in charge of auditing UBS since 2011. The co-signing partner for the FINMA audit was Marc Ryser since 2012 with an incumbency of seven years.

Special auditor for capital increase

At the 2012 AGM, BDO AG was appointed as special auditor for a three-year term of office. The special auditors provide audit opinions independently from the auditors in connection with capital increases.

Fees paid to external independent auditors

The fees (including expenses) paid to our auditors Ernst & Young are set forth in the table below. In addition, Ernst & Young received CHF 33,327,000 in 2012 (CHF 30,106,000 in 2011) for services performed on behalf of our investment funds, many of which have independent fund boards or trustees.

Audit work includes all services necessary to perform the audit in accordance with applicable laws and generally accepted auditing standards, as well as other assurance services that conventionally only the auditor can provide. These include statutory and regulatory audits, attest services, and the review of documents to be filed with regulatory bodies. The additional services classified as audit in 2012 included several engagements for which Ernst & Young were mandated at the request of FINMA to review new or remediated processes, whether in response to regulatory changes, such as Basel III, or as a result of control deficiency remediation, for example, in connection with the 2011 unauthorized trading incident.

Audit-related work comprises assurance and related services that traditionally are performed by the auditor, such as attest services related to financial reporting, internal control reviews, performance standard reviews, consultation concerning financial accounting and reporting standards and due diligence investigations on transactions in which we propose to engage.

Tax work involves services performed by professional staff in Ernst & Young's tax division, and includes tax compliance, tax consultation and tax planning with respect to our own affairs.

"Other" services are permitted services which comprise on-call advisory services and in 2012 also an assessment of the opera-

Audited

Fees paid to external auditors

UBS paid the following fees (including expenses) to its external auditors Ernst & Young Ltd.:

CHF thousand	**31.12.12**	31.12.11
Audit		
Global audit fees	**53,900**	52,600
Additional services classified as audit (services required by law or statute, including work of a non-recurring nature mandated by regulators)	**23,648**	5,240
Total audit	**77,548**	57,840
Non-audit		
Audit-related fees	**8,401**	8,190
of which assurance and attest services	***3,427***	*3,123*
of which control and performance reports	***4,134***	*4,626*
of which advisory on accounting standards, transaction consulting including due diligence, other	***840***	*441*
Tax services	**817**	1,021
Other	**1,990**	1,483
Total non-audit	**11,208**	10,694

tional risk framework. In addition, 2012 and 2011 included non-recurring expenses.

Pre-approval procedures and policies

To ensure Ernst & Young's independence, all services provided by them have to be pre-approved by the Audit Committee. A pre-approval may be granted either for a specific mandate, or in the form of a blanket pre-approval authorizing a limited and well-defined type and amount of services.

The Audit Committee has delegated pre-approval authority to its Chairperson, and the Group Chief Financial Officer (Group CFO) submits all proposals for services by Ernst & Young to the Chairperson of the Audit Committee for approval, unless there is a blanket pre-approval in place. At each quarterly meeting, the Audit Committee is informed of the approvals granted by its Chairperson and of services authorized under blanket pre-approvals.

Group Internal Audit

With 357 personnel worldwide on 31 December 2012, GIA performs the internal auditing function for the entire Group. GIA is an independent and objective function that supports the firm in achieving its defined strategic, operational, financial and compliance objectives, and the BoD and its committees in discharging their governance responsibilities. GIA provides assurance by assessing the reliability of financial and operational information, as well as compliance with legal, regulatory and statutory requirements. All reports with key issues are provided to the Group CEO, the Group Executive Board members responsible for the business divisions and other responsible management. In addition, the Chairman, the Risk Committee and the Audit Committee are regularly informed about important issues. GIA further assures the closure and successful remediation of issues, irrespective of the function which identified them (issues identified by GIA, local internal audit functions, external auditors, legal and compliance, regulators, as well as self-identified issues raised by management). GIA closely cooperates with internal and external legal advisors and risk control units on investigations into major control issues.

To maximize its independence from management, the Head of GIA, James P. Oates, reports directly to the Chairman of the BoD as well as to the Risk Committee and the Audit Committee. GIA has unrestricted access to all accounts, books, records, systems, property and personnel, and must be provided with all information and data needed to fulfill its auditing duties. The Risk Committee and the Audit Committee may order special audits to be conducted. Other BoD members, committees or the Group CEO may request such audits with the approval of the Audit Committee or the Risk Committee.

Coordination and close cooperation with the external auditors enhance the efficiency of GIA's work.

Information policy

We provide regular information to our shareholders and to the financial community.

Financial results will be published as follows

First quarter 2013	30 April 2013
Second quarter 2013	30 July 2013
Third quarter 2013	29 October 2013

The Annual General Meeting of shareholders will take place as follows

2013	2 May 2013
2014	7 May 2014

We meet with institutional investors worldwide throughout the year and regularly hold results presentations, special investor seminars as well as deal-related and non-deal road shows. Meetings include members of the investor relations team and, where possible, senior management. We make use of diverse technologies such as webcasting, audio links and cross-location video-conferencing to widen our audience and maintain contact with shareholders around the world.

Registered shareholders may opt to receive our annual report or review booklet, which reflects on specific 2012 initiatives and achievements of the firm and provides an overview of our activities during the year as well as some key financial information. Each quarter, shareholders have the option to receive a brief mailed update on our quarterly financial performance. Shareholders can also request our complete financial reports, produced on a quarterly and annual basis.

We make our publications available to all shareholders simultaneously to ensure they have equal access to our financial information.

Shareholders can help us to achieve our environmental ambitions by opting to read our financial publications electronically through our Investor Relations website instead of taking delivery of printed copies. We have reviewed and shortened our distribution lists to internal and external stakeholders and reduced stocks, yielding significant annual savings in terms of both paper and costs. In addition, shareholders can change their subscription preferences at any time using our shareholder portal (www.ubs.com/shareholderportal).

➔ Refer to www.ubs.com/investors for a complete set of published reporting documents and a selection of senior management industry conference presentations

➔ Refer to the corporate calendar at www.ubs.com/investors for future financial report publication and other key dates

Financial disclosure principles

Based on discussions with analysts, investors, regulators and other stakeholders, we believe the market rewards companies that provide clear, consistent and informative disclosure about their business. Therefore, we aim to communicate our strategy and results in a manner that allows stakeholders to gain an understanding of how our firm works, what our growth prospects are and what risks our strategy entails. We continually assess feedback from analysts and investors and, where appropriate, reflect this in our quarterly and annual reports. To continue achieving these goals, we apply the following principles in our financial reporting and disclosure:

- *Transparency* in disclosure that enhances understanding of the economic drivers and builds trust and credibility
- *Consistency* in disclosure within each reporting period and between reporting periods
- *Simplicity* in disclosure that allows readers to gain an understanding of the performance of our businesses
- *Relevance* in disclosure that prevents information overload by focusing on what is required by regulation or statute and what is relevant to our stakeholders
- *Best practice*, leading the way to improved standards

We endorse the work of the Enhanced Disclosure Task Force (EDTF) and the recommendations issued by the EDTF on 29 October 2012 in its report "Enhancing the Risk Disclosures of Banks." Our Annual Report for 2011 contained disclosures consistent with many of the recommendations of the EDTF, including some referenced in their report as "leading practice." We have incorporated further changes to our disclosures in our Annual Report for 2012 in light of these recommendations and will further enhance our Annual Report in 2013.

Financial reporting policies

We report our results after the end of every quarter, including a breakdown of results by business division and disclosures relating to risk management and control, capital, liquidity and funding management.

Our consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

➔ Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report for a detailed explanation of the basis of UBS's accounting

We are committed to maintaining the transparency of our reported results and to ensuring that analysts and investors can make meaningful comparisons with previous periods. If there is a

major reorganization of our business divisions, or if changes to accounting standards or interpretations lead to a material change in the Group's reported results, our results are restated for previous periods, when required by applicable accounting standards. These restatements show how results would have been reported according to the new basis and provide clear explanations of all relevant changes.

US regulatory disclosure requirements

As a "foreign private issuer", we must file reports and other information, including certain financial reports, with the US Securities and Exchange Commission (SEC) under the US federal securities laws. We file an annual report on Form 20-F, and submit our quarterly financial reports and other material information, including materials sent to shareholders in connection with shareholders' meetings, under cover of Form 6-K to the SEC. These reports are all available at *www.ubs.com/investors* and also on the SEC's website *at www.sec.gov.*

An evaluation was carried out under the supervision of management including the Group CEO and the Group CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a–15e) under the US Securities Exchange Act of 1934. Based upon that evaluation, the Group CEO and Group CFO concluded that our disclosure controls and procedures were effective as of 31 December 2012. No significant changes have been made to our internal controls or to other factors that could significantly affect these controls subsequent to the date of their evaluation.

In accordance with Section 404 of the US Sarbanes-Oxley Act of 2002, our management is responsible for establishing and maintaining adequate internal control over financial reporting. The financial information of this report contain the management's assessment of the effectiveness of internal control over financial reporting as of 31 December 2012. The external auditors' report on this assessment is also included in this report.

➔ **Refer to the "Financial information" section of this report**

Corporate responsibility

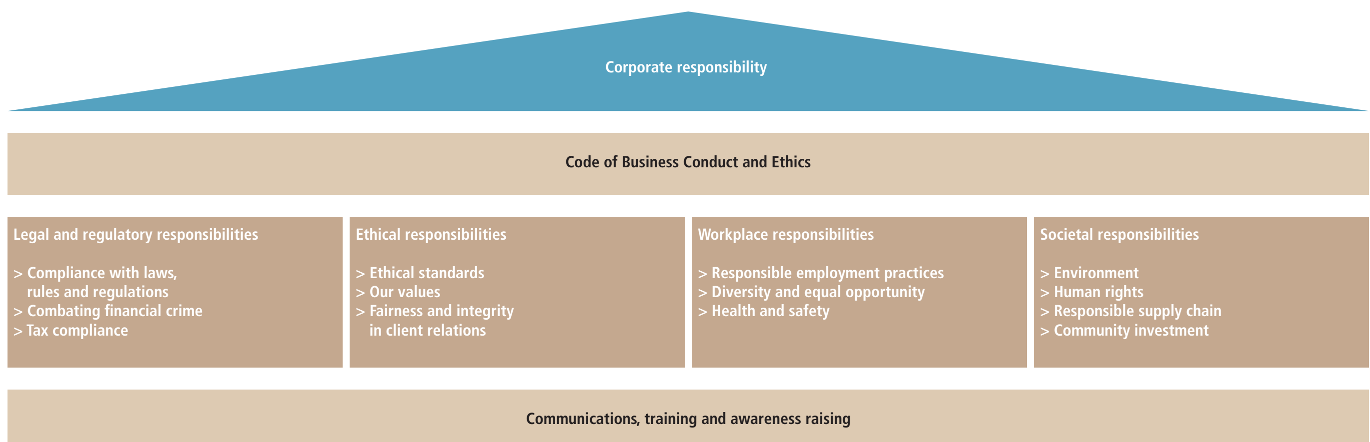
Our firm's commitment to corporate responsibility demands careful management of our relationships with our stakeholders. Our engagement with them makes a critical contribution to our understanding and management of topics relevant to our firm and to advancing our corporate responsibility strategy. In 2012, we directed our efforts at key societal topics, met key corporate responsibility objectives and delivered on our external corporate responsibility commitments to the benefit of our firm and its stakeholders.

The successful delivery of our corporate responsibility commitments and activities is founded on the firm conviction that, above all, our firm must conduct its business in a sustainable way. We have made good on this belief over the course of our 150-year history and have demonstrated resilience in the face of the many political, economic and regulatory changes and challenges that came to pass during this period. As shown in detail elsewhere in this report, 2012 was a milestone year for UBS in more ways than one. Historically, we celebrated the firm's 150th anniversary together with clients and others around the globe. We continued to successfully execute our plans to improve our already strong capital position and reduce risk-weighted assets and costs. In October, from this position of strength, we announced a significant acceleration in the implementation of our strategy that will define the future of UBS.

We aim to conduct our business in a sustainable way by complying with all our policies, guidelines and procedures relating to appropriate and responsible corporate behavior. Our definition of corporate responsibility encompasses the legal, ethical and social responsibilities that we as a company and as employees have towards our stakeholders. These responsibilities are reflected in our Code of Business Conduct and Ethics.

By adhering to this code, we demonstrate our commitment to being a responsible corporate institution and acting with integrity in all our interactions with our stakeholders. Proper implementation of the Code of Business Conduct and Ethics contributes to the wider societal goal of sustainable development. Policies and guidelines as well as associated objectives related to this aspiration are guided and supervised at the highest level of our firm. We demonstrate accountability for our corporate responsibility commitments and activities at both Board of Directors (BoD) and Group Executive Board (GEB) level.

Corporate responsibility at UBS



Key corporate responsibility developments in 2012

In 2012, we continued to support our clients in understanding key societal opportunities and challenges and acted as a trusted financial advisor on sustainability issues. We did so by expanding our comprehensive range of sustainability products and services, including impact investing, sustainable real estate funds, socially responsible investment products and advisory on sustainability challenges.

We have established a leading position in values-based investing and providing environmental, social and governance (ESG) research. In 2012, we demonstrated this, for example, through the global roll-out of our Investment Bank's ESG Analyzer and through the honors we received in the annual Thomson Reuters Extel/UKSIF Socially Responsible Investing & Sustainability survey. Our firm's efforts also received external recognition in the S&P Carbon Disclosure Project report.

We apply a robust framework to manage environmental and social risk in our businesses. In 2012, we continued to strengthen the implementation of key policies and standards, including our Position on Controversial Activities, supported by a sustained roll-out of training and awareness-raising activities for client-facing staff. In doing so, we were able to draw from an industry-leading environmental and social risk screening process, which we established through a successful collaboration between our risk and compliance functions in 2011.

Our compliance function is a significant contributor to ensuring that our corporate responsibility commitments are met and plays a key role in protecting our firm from reputational, business or financial damage. At the same time, it makes a valuable and significant contribution to the fight against financial crime, in particular by deploying our global sanctions, anti-money laundering and anti-bribery programs to deny rogue states, suspected criminals and terrorists access to the financial system via UBS or its products and services. A comprehensive legal and compliance risk assessment in 2011 did not identify any significant incidents of non-compliance with our anti-corruption policy and other regulations related to anti-corruption. Nonetheless, in 2012 an anti-corruption initiative was put in place to strengthen our defenses against corruption involving the firm.

Our environmental and social risk management and our global sanctions, anti-money laundering and anti-bribery programs are important examples of the need for effective outreach and internal collaboration between our business divisions and external collaboration with our stakeholder community. In 2012, we once again demonstrated our commitment to engaging with various initiatives and partners to develop and, where appropriate, enhance our standards. We joined the Roundtable on Sustainable Palm Oil as part of its "Banks & Investors" membership category. We also joined other organizations focused on topics of major relevance to society, including the European Venture Philanthropy Association and the World Demographic & Ageing Forum. We are among the thought leaders in corporate responsibility in banking and participate actively in key international corporate responsibility initiatives. These include the Wolfsberg Group (on anti-money laundering), the UN Principles for Responsible Investment (on responsible investing), the UN Global Compact and the UN Environment Program (UNEP) Finance Initiative.

Our long-standing involvement in the UNEP Finance Initiative reflects our commitment to managing our environmental footprint. Our worldwide environmental management system covers in-house operations, risk management and products and services. In 2012, UBS successfully passed its ISO 14001 surveillance audit. We accomplished our Group-wide CO_2 emission reduction target of 40% below 2004 levels, as originally decided by the GEB in February 2006. In addition, we renewed our climate change strategy and are determined to prepare our clients for success in an increasingly carbon-constrained world.

Our well-established and vigorous community investment program formed an integral part of our firm's 150th anniversary celebrations. UBS Community Affairs teams around the world implemented an Employee Recognition Award, recognizing 150 UBS employees or teams of employees for their outstanding community involvement. In Switzerland, we launched a major education initiative, consisting of six sub-projects centering on the UBS International Center of Economics in Society at the University of Zurich. This initiative will benefit the entire Swiss population notably by providing support to projects aimed at apprentices, young entrepreneurs, start-up companies and employees of all age groups.

➔ **Refer to www.ubs.com/responsibility for more information on the contents of this section**

Governance, strategy and commitments

Corporate responsibility governance

The BoD is responsible for formulating our firm's values and standards and ensuring we meet our obligations to our stakeholders. Both the Chairman of the BoD and the Group Chief Executive Officer (Group CEO) play a key role in safeguarding our reputation and ensuring we communicate effectively with all our stakeholders.

All BoD committees are focused on achieving our goal of creating sustainable value. Of the five BoD committees, the Corporate Responsibility Committee shoulders the main undertaking for corporate responsibility. As set out in the committee's charter, the Corporate Responsibility Committee actively reviews and assesses how we meet the existing and evolving corporate responsibility expectations of our stakeholders. It also monitors and reviews our corporate responsibility policies and regulations, as well as the implementation of our corporate responsibility activities and commitments. Moreover, it regularly reviews the Code of Business Conduct and Ethics. In 2012, an external review of this code, undertaken at the behest of the BoD, praised the high quality of the document. The reviewers proposed various minor modifications which were subsequently implemented and a revised version of the Code of Business Conduct and Ethics was published.

➔ Refer to www.ubs.com/code for a copy of the UBS Code of Business Conduct and Ethics

➔ Refer to the Organization Regulations of UBS for the Charter of the Corporate Responsibility Committee

In 2012, the Corporate Responsibility Committee continued to be chaired by Wolfgang Mayrhuber. The committee has four additional members, including the Chairman of the BoD, and is advised by a panel of ten members mainly from the GEB, including the Group CEO and all regional CEOs. The members of the advisory panel participate in Corporate Responsibility Committee meetings and are responsible for implementing its recommendations. The advisory panel benefits from direct connections to operational corporate responsibility activities such as anti-money laundering (through the membership of the Group General Counsel) and environmental & social risk management (through the membership of the Group Chief Risk Officer, who also holds the role of Group Environmental Representative).

The GEB is responsible for the development and implementation of our Group and business division strategies, including those pertaining to corporate responsibility. At, or directly below, GEB level there are various committees or boards concerned with tasks and activities relating to particular aspects of corporate responsibility, including the Global Environmental & Social Risk Committee chaired by the Group Chief Risk Officer. Additionally, our Environmental & Human Rights Committee oversees the operational execution of UBS's Environmental Policy and Statement on Human Rights.

➔ Refer to www.ubs.com/environment for more information on our environmental and human rights governance

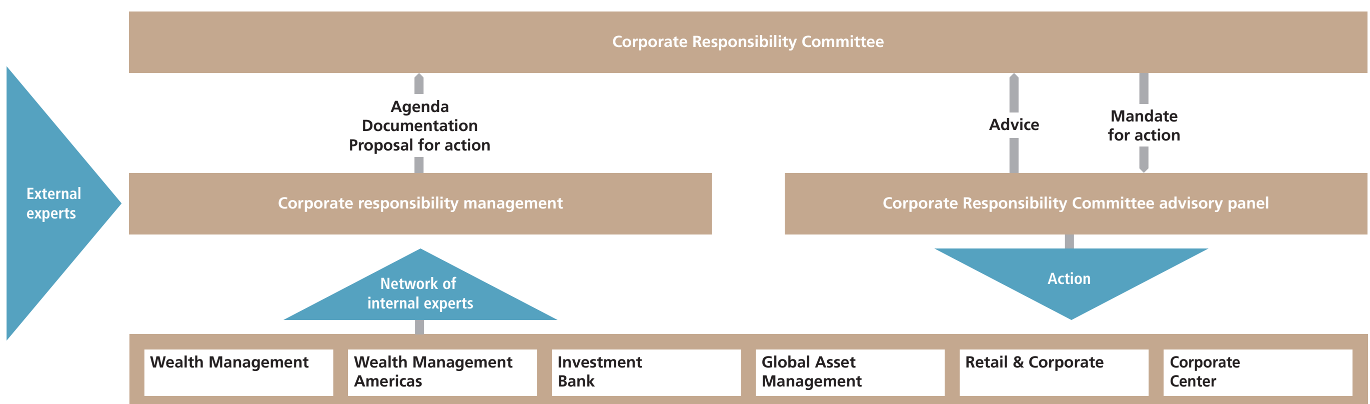
The GEB monitors our efforts to combat money laundering, corruption and terrorist financing. These efforts are led by the Head of Global AML (anti-money laundering) Compliance and supported by a network of expert global business teams. The GEB also monitors the implementation of our diversity and inclusion-related strategies and plans for each business division. Our global diversity and inclusion team supports senior management and Human Resources business partners in developing these plans. Our global head of Human Resources is also a member of the Corporate Responsibility Committee's advisory panel.

➔ Refer to the "Our employees" section of this report for more information on labor standards and diversity programs

The Global Community Affairs Steering Committee is chaired by the Group CEO and composed of several members of our senior management. This GEB-level committee sets the overall strategic direction and aims of our community affairs. In addition, it is ultimately responsible for determining our response to worldwide disasters.

➔ Refer to the discussion on community investment below for more information on our charitable and related activities

Our corporate responsibility governance process



Our commitment to responsible banking requires us to undertake regular and critical assessments of our policies and practices. This in turn requires the careful consideration and assessment of societal issues of potential relevance to UBS. With committees focused on corporate responsibility topics and issues both at BoD and GEB level, we demonstrate that we have firmly established responsibility for the oversight of this important and complex task at the highest level of the firm.

External commitments and initiatives

We are committed to engaging in external corporate responsibility initiatives. These support us in our efforts to advance in areas that are already mandated by government and regulators as well as in areas that, while still largely voluntary, are nonetheless of significance to strengthening our corporate responsibility agenda.

In 2012, UBS joined the Roundtable on Sustainable Palm Oil (RSPO), thereby reinforcing our commitment to responsible palm oil production. As part of the RSPO's "Banks & Investors" membership category, UBS actively promotes RSPO in its business relationships in the palm oil sector, for example by requiring that our clients are members in good standing of the RSPO and by actively seeking to enhance certification of their palm oil production.

In May 2011, directly prior to the United Nations' endorsement of the Guiding Principles for the Implementation of the "Protect, Respect and Remedy" Framework on business and human rights (the Guiding Principles), UBS convened a meeting in Thun, Switzerland, with a number of universal banks (subsequently referred to as the Thun Group) to consider the Guiding Principles. In 2012, a discussion document setting out the challenges and best practice examples of operationalizing the Guiding Principles in universal banks was drafted and developed. Work is currently ongoing in order to finalize the document.

External ratings, assurance and awards

Our performance and success in the area of sustainability is reflected in the key external ratings and rankings we have achieved. As one of the top 10 companies worldwide in the 2012 Carbon Disclosure Project, UBS was ranked as excellent in its measures to combat climate change.

We are included in the Carbon Performance Leadership Index, which is produced by the Carbon Disclosure Project and features companies that have distinguished themselves through their efforts to reduce emissions and their strategies for combating climate change. We are also represented in the Carbon Disclosure Leadership Index, putting us among the companies which are setting the standards in reporting on the risks and opportunities arising for businesses in connection with climate change. We are among the few financial sector companies represented in both Carbon Disclosure Project indices.

We have been a member of the FTSE4Good index series since its inception and obtained a top ranking in 2012. We are, however, disappointed that we were removed from the Dow Jones Sustainability Index World (DJSI World). Our overall assessment had risen to 76 points in 2011, a score we maintained throughout 2012, but as the benchmark was raised in 2012, we no longer qualified for inclusion in the index.

We received several honors in the 10th annual Thomson Reuters Extel/UKSIF Socially Responsible Investing & Sustainability Survey of over 500 investment professionals from 27 countries. We were named the leading brokerage firm for renewable energy research and our head of global sustainability research in the Investment Bank was honored as the leading brokerage individual for thematic research. UBS was ranked second in the leading brokerage firm for thematic research and leading brokerage individual for renewable energy research categories, as well as third in the leading brokerage firm for integrated research on climate change and leading brokerage firm for SRI & sustainability overall categories.

Furthermore, we were ranked third in Lundquist's CSR Online Awards Switzerland 2012, maintaining our top-three ranking for the fourth consecutive year. These awards consider how well corporate websites are used as a platform for corporate social responsibility communications and stakeholder engagement.

Stakeholder dialogue

We regularly engage with our stakeholders on a wide range of topics, yielding important information on their expectations and concerns. This provides a critical contribution to our understanding and management of issues relevant to our firm. Our relationships with stakeholders are multi-faceted and include major single interactions with large groups (e.g. the 2012 employee survey), regular communications throughout the year with representatives from a particular group (e.g. media), as well as dialogue meetings with single individuals (e.g. client enquiries).

In 2012, we engaged with experts and stakeholders on a range of topics. These included discussions with clients on values-based investing, including those taking place at the 2012 UBS Philanthropy Forum. At the annual UBS Q-Series® conference, global thought leaders were joined by nearly 200 clients and investors. The conference featured 40 speakers from some of the world's leading academic and business institutions, who identified inflection points – ranging from current environmental, social and governance issues to the impact of changing dynamics – and discussed how these can affect a company's business objectives and ultimate profitability.

Discussions with employees covered various sustainability topics, including energy. Working together with investors and rating agencies, we considered key environmental, social and governance topics such as climate change, while discussions with non-governmental organizations focused on the subjects of deforestation, mining, controversial weapons, and climate change, particularly in relation to coal. In addition, we sought input from our employees regarding our corporate responsibility strategy and associated activities. An internal, cross-divisional and cross-regional network of experts continues to play a particularly important role, with its members providing critical input on stakeholder expectations and concerns. These contributions are relayed back to the Corporate Responsibility Committee and provide a very

valuable addition to information gathered through other monitoring channels.

We believe it is crucial that we keep our stakeholders informed about our sustainability commitments and activities. To this end, we include sections in our Annual Report 2012 dedicated to "Corporate responsibility" and "Our employees". The content of these sections, other relevant Annual Report text and data and information on the UBS website are reviewed by Ernst & Young Ltd according to the Global Reporting Initiative's Sustainability Reporting Guidelines.

➔ Refer to www.ubs.com/gri for more information

Training and awareness-raising

We actively engage in internal and external education and awareness-raising on corporate responsibility topics and issues. Through induction, education and broader awareness-raising activities we ensure that our employees are in no doubt as to the importance of our societal commitments. General information is published on our intranet and on our corporate responsibility website. In 2012, training and awareness-raising activities for employees continued to embrace the Code of Business Conduct and Ethics, notably through induction events for all new employees. Employees were also made aware of the firm's corporate responsibility strategy and activities through other training and awareness-raising activities. Some 4,514 employees received training on environmental issues, of which, 3,548 received a general education on our environmental policy and programs and 966 participated in specialist training targeted within their area of expertise and influence. Employee speaker sessions, exhibitions and lunchtime training sessions were delivered in all regions alongside specific technical training for the regional environmental teams. Employees are also required to undergo regular refresher training in anti-money laundering-related issues. This includes online training, awareness campaigns and seminars.

➔ Refer to the "Education and talent development" section of this report for more information

Corporate responsibility in banking

We are focused on gaining and retaining the trust of all our stakeholders alongside our goal of generating sustainable earnings and creating long-term shareholder value. We are aligned with the demands of our shareholders, clients, employees and society in general and our banking activities are undertaken in a responsible manner. In addition, we are constantly striving to ensure that our products and services are suited to the needs and requirements of our clients. Through our corporate responsibility efforts we demonstrate that we are not only listening to our stakeholders, but also aiming to be in an industry-leading position and meet their expectations.

Combating financial crime

We continue to further strengthen our efforts to prevent and combat financial crime. Our commitment to assisting in the fight against money laundering, corruption and terrorist financing is illustrated by the way we take responsibility in our own operations for preserving the integrity of the financial system. We employ a rigorous risk-based approach to ensure our policies and procedures are able to detect risks and that relationships which are classified as higher risk are dealt with appropriately. We adhere to strict know-your-client regulations without undermining clients' legitimate right to privacy. Ongoing due diligence and monitoring, including the use of advanced technology to help identify transaction patterns or unusual dealings, assists in the identification of suspicious activities. If suspicious activities are discovered, they are promptly escalated to management or control functions.

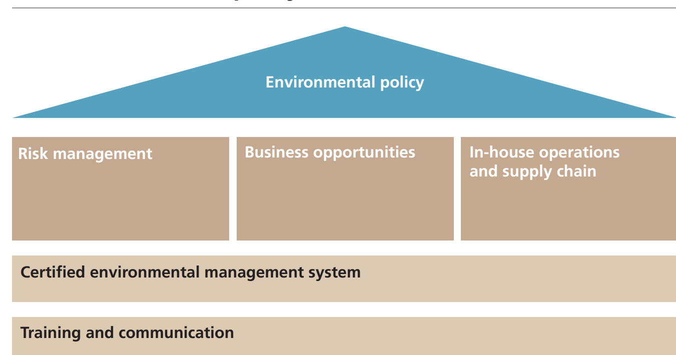
During 2012, Global AML (anti-money laundering) Compliance worked closely with the Environmental and Social Risk group to develop and introduce new and more effective ways to screen potential business partners, vendors and clients with regards to potential issues relating to environmental and social risk.

In 2011, all business divisions were required to perform a legal and compliance risk assessment. This comprehensive process, which included an assessment of corruption, sanction and anti-money laundering risks, is also forward-looking with follow-up actions to highlight the priorities and objectives for each business division. This risk assessment did not identify any significant incidents of non-compliance with our anti-corruption policy and other anti-corruption regulations. Nonetheless, in 2012 an anti-corruption initiative was put in place to strengthen our defenses against corruption.

As part of our extensive and ongoing efforts to prevent money laundering, corruption and terrorist financing, our internal global anti-money laundering policies were reviewed in 2011 and enhancements to address more specific risks in relation to corruption and terrorist financing were implemented globally. We have also reviewed and amended our approach to controversial weapons in order to comply with the Swiss law that came into effect on 1 February 2013. This law implements the Oslo Convention ban on the use, stockpiling, production and transfer of cluster munitions and the ban on the use, stockpiling, production and transfer of anti-personnel mines and on their destruction.

We are a founding member of the Wolfsberg Group, an association of 11 global banks established in 2000 which aims to develop financial services industry standards and related products

Our environmental policy



for know-your-client, anti-money laundering and counter-terrorist financing policies. Together with the other members of the group, we continue to work closely with the Financial Action Task Force, an inter-governmental body that develops and promotes national and international policies to combat money laundering and terrorist financing through consultation with the private sector.

We will always act decisively to prevent potentially irresponsible or harmful actions by individuals. First and foremost, this means that our employees must uphold the law, adhere to relevant regulations, and behave in a responsible and principled manner. To this effect, our business processes and control mechanisms are constantly reviewed to enhance our prevention capabilities.

Managing environmental and social risks

UBS applies a risk framework to all transactions, products, services and activities in order to identify, assess and manage environmental and social risks. Environmental and social (including human rights) risks are broadly defined as the possibility of UBS suffering reputational or financial harm from transactions, products, services or activities such as lending, capital raising, advisory services or investments that involve a party associated with environmentally or socially sensitive activities. For products, services and activities identified as having significant environmental and social risk potential, procedures and tools for the timely identification, assessment, escalation and monitoring of such risks are applied and integrated into standard risk, compliance and operations processes.

- Client on-boarding or conflict clearance: new corporate clients are assessed for environmental and social risks associated with their business activities.
- Transaction due diligence: before proceeding with a transaction, environmental and social risks are identified and analyzed as part of standard transaction due diligence processes.
- Product development: new financial products and services are reviewed before launch to assess their compatibility and consistency with UBS's environmental and human rights principles.
- Supply chain management: prior to any new or renewed contract being awarded, standardized checks are completed to assess supplier- and commodity-specific environmental, labor and human rights risks.
- In-house environmental management: our operational activities and employees, or contractors working on UBS premises, are assessed for compliance with relevant environmental regulations.

Business or control functions are responsible for identifying and assessing environmental and social risks as part of the client, supplier or transaction due diligence process. Where these functions determine the existence of potential material risk, they refer the client, supplier or transaction to a specialized environmental and social risk unit for enhanced due diligence. To support the consistent identification and assessment of such risks, we developed internal industry sector guidelines in 2009. These guidelines provide an overview of key environmental and human rights issues that arise in the various life cycles of the sector, and summarize industry standards in dealing with them. The guidelines currently cover six sectors: chemicals; forestry products and biofuels; infrastructure; metals and mining; oil and gas; and utilities. If identified risks are determined to create significant potential reputational risk, they are escalated for approval to senior management, at divisional, regional, or group level, depending on the significance of the risk.

In 2011, we strengthened our environmental and social (including human rights) risks framework by defining controversial activities that we will not engage in, or will only engage in under stringent pre-established guidelines.

➔ Refer to the "UBS position on relationships with clients and suppliers associated with controversial activities" section below for more information

Environmental and social risk assessments

		For the year ended			% change from
	GRI[1]	31.12.12	31.12.11	31.12.10	31.12.11
Cases referred to environmental and social risk functions[2]	FS2	**1,039**	416	194	150
by region					
Americas	FS2	**288**	111	48	159
Asia Pacific	FS2	**222**	136	84	63
Europe, Middle East and Africa	FS2	**225**	119	32	89
Switzerland	FS2	**304**	50	30	508
by business division					
Investment Bank	FS2	**533**	330	147	62
Wealth Management	FS2	**157**	59	20	166
Retail & Corporate	FS2	**223**	22	24	914
Wealth Management Americas	FS2	**5**	5	3	0
Global Asset Management	FS2	**12**	n/a	n/a	n/a
Corporate Center[3]	FS2	**109**	n/a	n/a	n/a

1 Global Reporting Initiative (see also www.globalreporting.org). FS stands for the Performance Indicators defined in the GRI Financial Services Sector Supplement. 2 Transactions and onboarding requests referred to and assessed by environmental and social risk functions. 3 Relates to procurement / sourcing of products and services.

Clients, transactions or suppliers potentially in breach of UBS's position, or otherwise subject to significant environmental and human rights controversies, are identified as part of UBS's know-your-client compliance processes. This was made possible by integrating advanced data analytics on companies associated with such risks into the web-based compliance tool used by UBS staff before they enter into a client or supplier relationship, or a transaction. The systematic nature of this tool vastly enhances our ability to identify potential reputational risk, and is evidenced by the increasing number of cases referred for assessment to our environmental and social risk units in 2012.

➔ **Refer to the "Environmental and social risk assessments" table above for more information**

Sustainable products and services

By integrating environmental and social considerations into our advisory, research, investment, finance and ownership processes across all our businesses, we provide financial products and services which help our clients benefit from environmentally and socially related business opportunities.

Investment advisory

UBS offers investment advisory services for wealth management clients helping them to consider the potential social and environmental impacts of their investments as well as the potential financial returns when selecting an investment opportunity. Our philanthropy and sustainable investing teams have continued to develop the holistic service offered within our wealth management business. These teams provide thought leadership, advice, products and solutions to existing and prospective private clients who wish to make investments in accordance with their own personal values. These services also extend to aiding philanthropic or investment decisions intended to effect positive change. For example, UBS Portfolio Screening Services help Wealth Management clients align their portfolios to their sustainability values by assessing client portfolios using specific sustainability criteria. Based on increased interest among our clients, we screened CHF 1.2 billion of client assets in 2012. In 2012, we also developed a prototype UBS Sustainability Health Check which highlights any discrepancies between clients' sustainability preferences and the actual composition of their portfolio. We plan to develop this advisory service in 2013 with planned roll out to clients in 2014. Also in 2012, the Arbor Group within Wealth Management Americas established a new program by which UBS donates a portion of their standard management fee to the Conservation Agreement Fund for all interested investors. Our services also include

- mission-related investing for donor-advised funds and private foundations
- sustainable portfolio management, such as mandate solutions and separately managed accounts for private clients and institutions with a strong focus on sustainability across all asset classes

UBS position on relationships with clients and suppliers associated with controversial activities

This position stipulates activities that we will not engage in, or will only engage in under stringent pre-established guidelines. We will not knowingly provide financial services to corporate clients, or purchase goods or services from suppliers, where the use of proceeds or primary business activity of the client, supplier or acquisition target involves environmental and social risks, defined as follows:

Extractive industries, heavy infrastructure, forestry and plantations operations that risk severe environmental damage to or through:

- endangered species of wild flora and fauna listed in Appendix 1 of the Convention on International Trade in Endangered Species
- high-conservation-value forests as defined by the six categories of the Forest Stewardship Council
- uncontrolled and/or illegal use of fire for land clearance
- illegal logging, including the purchase of illegally harvested timber (logs or roundwood)
- palm oil production unless a member in good standing of the Roundtable on Sustainable Palm Oil and actively seeking to enhance certification of its production
- wetlands on the Ramsar List of Wetlands of International Importance
- world heritage sites as classified by the United Nations Educational, Scientific and Cultural Organization (UNESCO)

All commercial activities that:

- engage in child labor as defined by the International Labor Organization's Conventions 138 (minimum age) and 182 (worst forms)
- engage in forced labor as defined by the International Labor Organization's Convention 29
- threaten indigenous peoples' rights as defined by the International Finance Corporation's Performance Standard 7
- engage in diamond mining and trading of rough diamonds unless Kimberley Process-certified

– managed accounts with environmental, social and governance criteria (sourced from third-party data provider MSCI) embedded into private clients' fundamental investment process, enabling them to identify and exclude securities based on issue-oriented screens (offered in the US).

For institutional clients, Global Asset Management offers customized portfolios in the form of segregated mandates and institutional accounts that allow clients to define and exclude certain controversial stocks or sectors due to their perceived social or environmental impact.

Research

UBS produces award-wining research into the impact of environmental, social and governance issues on sectors and companies. Our specialized teams have published research regularly into topics that will shape our future, including climate change, energy efficiency, resource scarcity and demographics. Our experience and sector knowledge helps us to determine what is material by raising questions about the effect environmental, social and governance issues are having on the competitive landscape for the global sectors we cover as well as about how companies are affected in relative terms. Increasing client demand for integrating sustainability issues into fundamental investment analysis, in a systematic manner, is reflected in our publications and client conferences:

– Our UBS Q-series® reports focus on thought-provoking discussions on pivotal investment questions, and on making clear investment conclusions, leading to a firm-wide drive for more thoughtful, proprietary and valuable research. Examples of Q-series® reports published in 2012 include "Global Pharmaceuticals – Will vaccines transform pharma growth?", "Global Marine Sector: Is green shipping just a storm in a teacup?" and "What is 'Integrated Reporting'? – How good disclosure connects to value".
– The Investment Bank's UBS Q-series® ESG Analyzer seeks to answer one of the most frequently asked questions in the field of sustainability, namely which environmental, social and governance issues are material in the context of a typical investment portfolio? The ESG Analyzer identifies top-positioned stocks for sustainability themes and identifies environmental, social and governance issues in more than 30 sectors and across close to 500 stocks. This comprehensive view is made possible by the input of more than 80 UBS sector analysts worldwide.
– The Investment Bank hosted the UBS Q-series® conference, which this year focused on "Inflection Points Towards Sustainability" and joined global thought leaders with nearly 200 clients and investors. The Investment Bank also hosted the UBS European Conference "Sustainability Track", which featured sessions on food provision and on corporate governance.
– In 2012, one of the flagship publications of UBS Wealth Management, UBS research focus ("Investing in the future with energy"), discussed how sustainable energy sources are increasing in importance and identified the key implications of this trend for private investors. Sustainable investment topics are also covered in the UBS CIO Monthly Letter, which is available in ten languages.
– We also offer our bundled expertise for example in summits for family offices and young successors where clients can meet our experts from all businesses across the firm, including research, advisory and investment.

Our outreach and dialogue programs include a partnership with the Smith School of Enterprise and the Environment at the University of Oxford, with which UBS hosts a series of events, open to both UBS clients and employees, and feature thought leaders from around the globe. Sir David King, who was the founding director of the Smith School, is a Senior Scientific Advisor to UBS and, in this capacity, advises UBS's clients on all scientific matters with specific emphasis on climate change and the challenges it poses to sustainable economic growth.

Investment products

Global Asset Management is committed to environmental, social and governance integration and has been a signatory to the UN Principles for Responsible Investment since 2009. These Principles provide a voluntary framework according to which all investors can incorporate environmental, social and governance issues into their decision-making and ownership practices and align their objectives with those of society at large.

Global Asset Management offers a range of sustainable investment funds that integrate material sustainability factors with a rigorous fundamental investment process. Their focus is on innovative companies, referred to as sustainability champions, which provide solutions to sustainability challenges. Our investment themes include energy savings, environment, social and health care and demographics. Our objective is to identify winning sustainable business models at attractive valuations, providing our investors with strong excess returns. We also manage four Exchange Traded Funds which track MSCI's Socially Responsible Indices and are listed on the Deutsche Börse (Xetra), SIX Swiss Exchange and the London Stock Exchange.

Global Asset Management launched UBS Clean Energy Infrastructure Switzerland at the end of 2012. This investment solution for institutional investors offers unprecedented access to a diversified portfolio of Swiss infrastructure facilities and companies in the field of renewable energies and energy efficiency. By the first closing date for subscriptions, on 31 December 2012, capital commitments had reached some CHF 250 million from 18 institutional investors.

Furthermore, Global Asset Management's Global Real Estate business has defined and implemented a Sustainability and Responsible Property Investment strategy for its real estate products and mandates. As a responsible property investor, the financial objectives of clients remain the primary focus, but we also consider long-term social and environmental aspects.

Through our open architecture, we also offer our wealth management clients the opportunity to invest in socially responsible

investment bonds, equity and microfinance products from leading third-party providers. As of 31 December 2012, invested assets held in socially responsible investments (SRI) totaled USD 253.73 billion, representing 11.38% of our total invested assets. The increase in our reported SRI invested assets in 2012 is largely due to growing demand for screening services and the expansion of the Sustainability and Responsible Property Investment strategy to an increased number of investment funds.

➔ **Refer to the "Socially responsible investments invested assets" table below for more information**

Corporate and private clients finance and advisory

UBS provides capital raising and strategic advisory services to renewable energy and clean technology companies globally, including those in the solar, wind, energy efficiency, biofuels and renewable chemicals sectors. Our Renewable Energy & Clean Technology team (RE&CT) within the Investment Bank includes senior employees on four continents. In 2012, the team raised approximately USD 5.7 billion from 12 transactions, further establishing RE&CT as one of the leading clean technology practices globally. Transactions we supported included the USD 350 million initial public offering (IPO) of Borregaard SA – the first internationally book-run IPO in the Nordic region since May 2011 – and the USD 220 million convertible bond transaction for GT Solar, which was the largest offering of its kind for a solar company in 2012. We also supported the USD 319 million H share IPO of Huadian Fuxin – the third-largest IPO in Hong Kong in 2012 – and the USD 72 million IPO of Renewable Energy Group, which is the largest independent biodiesel producer in the United States.

In cap and trade emissions markets, such as the EU Emissions Trading Scheme (EU ETS), companies have annual caps on the amount of emissions their facilities are allowed to produce. Companies that are able to reduce their emissions below their cap can sell their unused quota to other entities, thereby creating an emissions market. Through the use of financial instruments, we are able to help our clients manage their exposure to the emissions markets. UBS Exchange Traded Derivatives is an active member of the major emission exchanges in Europe and North America, and offers execution and full service clearing for contracts on EU ETS allowances, UN Certified Emissions Reductions, Regional Greenhouse Gas Initiative allowances, and permits for nitrogen oxide and sulfur dioxide.

In Switzerland, our home market, we reward energy-efficient renovations and support the goals of the Swiss nationwide building efficiency program. Our Swiss private clients benefit from the UBS "eco" Mortgage when building energy-efficient homes and a cash benefit (funded by proceeds from the Swiss CO_2 levy refund) when renovating their homes sustainably.

From 2013 onward, we will incentivize Swiss SMEs to save energy by promoting the Swiss Energy Agency's SME Model. Clients will profit from the "Energy check-up for SMEs" at reduced costs and, in addition, we will offer a cash premium to clients who commit to an energy reduction plan within this scheme.

Voting rights

We believe that voting rights have economic value and should be treated accordingly. Where Global Asset Management has been given the discretion to vote on behalf of our clients, we will exercise our delegated fiduciary responsibility by voting in the manner we believe will be most favorable to the value of their investments. We are strongly supportive of the Stewardship Code published by the Financial Reporting Council of the United Kingdom in 2010. This aims to enhance engagement between institutional investors and companies. Good corporate governance should, in the long term, lead towards both better corporate performance and improved value for shareholders and other stakeholders. In 2012, we voted on more than 59,000 separate resolutions at 5,945 company meetings. Our approach to corporate governance is an active one and is integral to our investment process. We are an active member of a number of collaborative shareholder bodies.

Socially responsible investments invested assets[1]

		For the year ended			% change from
CHF billion, except where indicated	GRI[2]	**31.12.12**	31.12.11	31.12.10	31.12.11
UBS total invested assets		**2,230**	2,167	2,152	3
UBS SRI products and mandates					
positive criteria	FS11	**1.60**	1.84	2.00	(13)
positive criteria / RPI	FS11	**32.15**	28.19	na	14
exclusion criteria[3]	FS11	**35.68**	27.46	21.27	30
exclusion criteria / policy-based restrictions[4]	FS11	**181.64**	180.85[6]	na	0
Third-party[5]	FS11	**2.66**	2.58	2.40	3
Total SRI invested assets	FS11	**253.73**	240.92	25.67	5
Proportion of total invested assets (%)[7]		**11.38**	11.12	1.19	

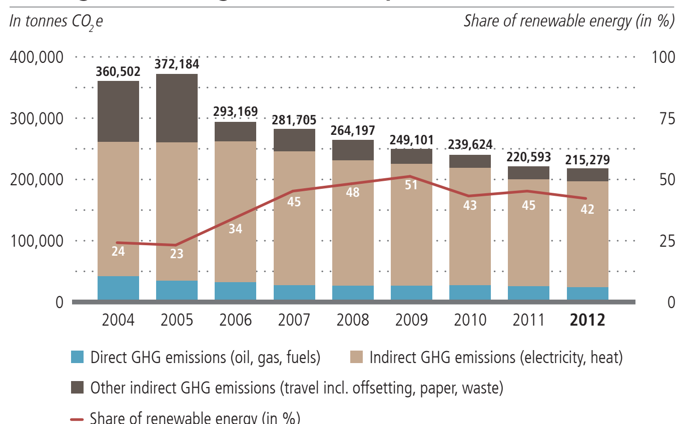
1 All figures are based on the level of knowledge as of January 2013. 2 FS stands for the performance indicators defined in the Global Reporting Initiative Financial Services Sector Supplement. 3 Includes customized screening services (single or multiple exclusion criteria). 4 Assets subject to restrictions under UBS policy on the prohibition of investments in companies related to anti-personnel mines and cluster munitions. 5 SRI products from third-party providers apply either positive and exclusion criteria or a combination thereof. 6 Invested assets subject to policy-based restrictions in 2011 has been restated. 7 Total SRI / UBS's invested assets.

Socially responsible investments (SRI) are products that consider environmental, social or ethical criteria alongside financial returns. SRI can take various forms, including positive screening, exclusion or engagement.

Positive criteria apply to the active selection of companies, focusing on how a company's strategies, processes and products impact its financial success, the environment and society. This includes best-in-class or thematic investments.

Exclusion criteria one or several sectors are excluded based on environmental, social or ethical criteria, for example, companies involved in weapons, tobacco or gambling, or companies with high negative environmental impacts. This also includes faith-based investing consistent with principles and values of a particular religion.

UBS's greenhouse gas (GHG) footprint



Since 2010, Global Asset Management in Switzerland has offered UBS Voice, a free service enabling holders of Swiss institutional funds to express voting preferences ahead of shareholders' meetings of major Swiss corporations. This allows additional shareholder input into the voting decisions of the funds' management company. More than 40% of invested assets for which UBS Voice is offered participate in this service.

Corporate responsibility in operations

Reducing our environmental impact

We have been managing our internal environmental impact for decades. Since the 1970s, we have focused on improving energy efficiency, reducing consumption of paper and other resources, actively managing waste volumes and encouraging our employees to replace air travel with more sustainable options. We manage the UBS Environmental Program through an Environmental Management System in accordance with ISO 14001 and have greenhouse gas emissions data externally verified according to ISO 14064 standards.

Climate change strategy

In 2006, the GEB endorsed a firm-wide CO_2 emission reduction target of 40% below 2004 levels by 2012 which was achieved in the reporting year. Steps taken towards achieving this target included adopting internal efficiency measures, increasing the proportion of renewable energy used and offsetting emissions we cannot avoid, such as business air travel.

We have set a new target as part of our renewed climate change strategy and will aim to reduce our CO_2 emissions by a further 15% by 2016, resulting in an overall reduction of 50% below 2004 levels.

➔ Refer to "Our climate change commitment" in this section of the report for more information

Energy consumption and efficiency

Energy consumption has a significant environmental impact and is the biggest contributor to our overall greenhouse gas emissions. Since baseline year 2009, we have reduced our energy consumption by 21%. This reduction comes as the result of, for example, engineering teams ensuring that heating, air-conditioning and lighting controls of buildings we occupy are optimized. In addition, we apply externally verified standards to validate building performance.

Information technology (IT) consumes half of the electricity used by the global business and our IT-driven initiatives contributed significantly to these energy savings. Consolidation and virtualization have reduced average IT server energy consumption by 22% since 2011. The Desktop Transformation Program initiated in 2010 and continued through 2012 is designed to reduce the number of personal computers by 14% whilst ensuring that new computers and monitors are more energy-efficient than the equipment they replace.

Environmental targets and performance in our operations[1]

	2012	Target 2012	Baseline[4]	Change from baseline	Achievement[6]	2011	2010
Total net greenhouse gas (GHG) emissions (GHG footprint) in t CO_2e[3]	**215,279**	–40%	360,501[5]	–40%	green	220,593	239,624
Energy consumption in GWh	**761**	–10%	957	–21%	green	827	859
Share of renewable energy	**42%**	increase	24%[5]	73%	green	45%	43%
GHG offsetting (business air travel) in t CO_2e	**73,024**	100%	0[5]	100%	green	88,867	69,152
Paper consumption in kg per FTE	**122**	stabilize	130	–6%	green	122	119
Share of recycled and FSC paper	**55.8%**	50%	33.8%	65%	green	44.3%	42.8%
Waste in kg per FTE	**230**	stabilize	265	–13%	green	242	251
Waste recycling ratio	**54.2%**	70%	54.4%	–0.3%	red	54.2%	53.7%
Water consumption in m m^3	**1.95**	–5%	2.55	–23%	green	2.00	2.27

Legend: CO_2e = CO_2 equivalents; FTE = full-time employee; GWh = gigawatt hour; kWh = kilowatt hour; km = kilometer; kg = kilogram; m m^3 = million cubic meter; t = tonne

1 Detailed environmental indicators according to the Global Reporting Initiative are available on the internet at www.ubs.com/environment. 2 Gross GHG emissions include: direct GHG emissions by UBS; indirect GHG emissions associated with the generation of imported / purchased electricity (grid average emission factor), heat or steam and other indirect GHG emissions associated with business travel, paper consumption and waste disposal. 3 GHG footprint equals gross GHG emissions minus GHG reductions from renewable energy and GHG offsets. 4 Baseline year 2009 if not indicated otherwise. 5 Baseline year 2004. 6 Green: target achieved / red: target not achieved.

Renewable energy
We are reducing our use of carbon-intensive energy by including a high proportion of renewable energy. In 2004, we sourced 24% of our energy consumption from renewable energy and district heating, increasing this to 42% by 2012.

Business travel and offsetting CO_2 emissions
We try to minimize our CO_2 emissions and encourage our employees to choose alternatives to air travel such as high-speed rail, recording an 8% reduction in the number of flights taken and a 5.7% increase in global employee rail travel in 2012. Our investments in video conferencing solutions contributed to this reduction and we also recorded a 31% increase in video conference volumes compared with the previous year. The marketing and events team adopted environmental guidelines for client conferences and considered the impact of delegate travel, hotels, venue facilities and catering as part of their logistics and planning.

Over the past six years, we have offset all CO_2 emissions resulting from agency booked business air travel and client events and conferences. We neutralized over 600,000 metric tons of CO_2 emissions and thereby supported renewable energy and other projects reducing CO_2 emissions with an amount of CHF 5.3 million. Projects we selected meet the requirements of the Gold Standard for voluntary emissions reductions while providing positive community benefits. Schemes selected include a wind power project in Turkey and community biofuel projects in China, South Africa and India.

Paper, waste and water targets
To complement our climate change strategy, we are committed to further reducing our environmental footprint and set targets to reduce paper consumption, waste generation and water usage. In 2012, we surpassed all of these targets, except for the one set for waste recycling, as evidenced by the data provided in the table "Environmental targets & performance in our operations".

- The amount of paper used per employee decreased 6% compared with baseline year 2009. Double-sided printing and copying, now the default setting for printers used by the majority of our employees, combined with an ongoing shift towards the distribution of electronic documents, contributed to our surpassing the target to stabilize paper use. We increased the percentage of office paper from Forest Stewardship Council (FSC) or recycled sources from 34% in 2009 to 56% in 2012, surpassing our 50% target.
- The continued implementation of bin-less offices in many larger locations has reduced the waste per employee by 13% since 2009, surpassing the target to stabilize this at 2009 levels. However, our waste recycling ratio has stabilized at 54%, falling short of our target of 70%. Paradoxically, this is due to our success in reducing annual paper consumption, a significant recyclable waste stream, from 130 kg to 122 kg per full-time employee.
- Our water consumption decreased 23% compared with 2009 levels, exceeding our target of 5%.

➔ **Refer to http://www.ubs.com/global/en/about_ubs/corporate_responsibility/cr_in_operations/ecology.html for information on our new targets aiming to reduce our environmental footprint further**

Engaging our employees
By educating, increasing awareness among and offering incentives to employees on environmental matters, we hope to help them behave in a sustainable way both at work and at home. As part of our commitment to reducing CO_2 emissions, we continued to support Earth Hour in March 2012, switching off lights in UBS offices in 58 cities around the world, for one hour. This was also the starting signal for our annual internal and external environmental awareness campaign. The theme in 2012 was 'Less is more' and focused on energy efficiency, with activities including environmental fairs, an online environmental quiz and video messages from experts, as well as articles and interviews with senior management posted on our internal and external websites.

Responsible supply chain management
We purchase products and services ranging from office maintenance services across information technology infrastructure to items such as stationery. Responsible supply chain management principles serve to embed our ethics and values with our suppliers, contractors, service partners and project teams. As part of this commitment, we have implemented a framework to identify, assess and monitor supplier practices in the areas of human and labor rights, the environment and corruption. In 2012, we refined our risk rating concept and initiated training with our procurement and sourcing specialists. All our significant active suppliers have been screened for existing environmental and human rights issues. These screenings identified no critical issues according to UBS's requirements. In addition, over 400 suppliers completed a responsible supply chain questionnaire assessing environmental and social management practices.

Community investment

We continued our well-established tradition of supporting the advancement and empowerment of organizations and individuals within the communities in which we do business. Our initial focus was centered on direct cash donations, but our community investment program now encompasses employee volunteering, matched-giving schemes, in-kind donations, disaster relief efforts and partnerships with community groups, educational institutions and cultural organizations in all of our business regions.

Community Affairs
In 2012, UBS and our affiliated foundations made direct cash donations totaling CHF 27.5 million to carefully selected non-profit partner organizations and charities, compared with CHF 31.1 million in 2011. Additionally, spending on the UBS Anniversary Edu-

cation Initiative amounted to CHF 16.7 million. These donations were primarily aimed at our Community Affairs key themes of education and entrepreneurship. Contributions were also made to other causes, in particular disaster relief, including a commitment of more than USD 1.2 million in total financial contributions to long-term relief and rebuilding efforts in response to the devastation caused by Hurricane Sandy in the United States. These donations, combined with other significant activities, notably the volunteering activities of employees, have continued to provide substantial benefits to projects and people around the world, as demonstrated by the examples provided below.

Across all business regions, our employees continue to play a very active role in our community investment efforts, in particular through their volunteering activities. In 2012, 12,563 employees spent 110,065 hours volunteering, an increase of 8% and 5%, respectively, compared with 2011. We support their commitment by offering up to two working days a year for volunteering efforts, and also match employee donations to selected charities.

In Switzerland, our community investment efforts are also advanced by the UBS Culture Foundation, the UBS Foundation for Social Issues and Education, and the A Helping Hand from UBS

Our climate change commitment

Climate change is one of the most significant challenges of our time. The world's key environmental and social challenges, such as population growth, energy security, loss of biodiversity and access to drinking water and food are all closely intertwined with climate change. This makes the transition to a low-carbon economy vital.

We recognize that financial institutions are increasingly expected to play a key role in the transition to a low-carbon economy, and we are determined to support our clients in preparing for success in an increasingly carbon-constrained world. As one of the leading wealth management firms worldwide, and the leading universal bank in Switzerland backed by a top asset management business and a client-centered investment bank, our climate change strategy focuses on the following areas. It is in these areas where we believe we can make the greatest contribution to the transition towards a low-carbon economy:

– **Risk management: seeking to protect our clients', and our own, assets from climate change risks, within our sphere of influence.** Recognizing that the transition to a low-carbon economy will take time and that fossil fuels will continue to dominate energy production for decades to come, we are determined to understand the risks that our clients', and our own, assets are exposed to in the context of uncertain policy and technology developments addressing climate change. This includes developing a metrics-based approach to measure our exposure to climate change risks in high-risk sectors such as real estate and energy.

– **Investments: helping to mobilize private and institutional capital towards investments facilitating climate change mitigation and adaptation**. Our clients will continue to look for investment opportunities and some will increasingly focus on investments facilitating climate change mitigation and adaptation.

– **Finance: supporting this transition as corporate advisor, and/or with our lending capacity.** We are helping corporate clients raise capital on domestic/international capital markets in order to meet the high investment levels required for the transition to a low-carbon economy. In Switzerland, we are also supporting private clients in renovating their private homes sustainably and innovative small and medium-sized enterprises (SMEs) in providing solutions for climate change mitigation and adaptation.

– **Research: offering world-class research capacity to our clients on climate change issues.** Building on our renowned expertise, we act as a thought leader and expert advisor to our clients on financial impacts of, and solutions for, climate change.

– **In-house operations: reducing our own greenhouse gas emissions.** We are positioning our in-house operations in support of a low-carbon economy by further investing in

Employees association. In 2012, these organizations made valuable contributions to important social causes, including fostering the humanities and the creative arts, supporting communities in need, and helping disabled and disadvantaged people.

Client foundation

Established in 1999, the UBS Optimus Foundation works to break down the barriers that prevent children from reaching their potential. The Foundation works with carefully selected partners globally on projects which help children in the areas of health, education and protection against violence and sexual abuse. Since its establishment, the Foundation has received more than 18,000 donations totaling over CHF 175 million, enabling it to support 275 projects in 75 countries. Because UBS bears all administrative costs related to the UBS Optimus Foundation, 100% of every donation goes directly towards the projects funded.

In 2012, we published the Optimus Study, the most comprehensive research ever conducted in Switzerland into the extent of sexual assault on children and adolescents. The study's findings are helping the government and child protection agencies to improve in delivering child protection services for children and in turn, reduce the incidence of child sexual victimization.

sustainable real estate and efficient IT infrastructure and limiting business travel-related CO_2 emissions.

– **Engagement & disclosure: reporting and communicating transparently about the progress of our strategy.** We are engaging with our stakeholders on climate change issues and continue to raise awareness among our employees. In addition, we will continue to disclose progress we make in executing our climate change strategy through established standards, such as the Global Reporting Initiative and the Carbon Disclosure Project.

These efforts build on a history and strong track record of reducing our environmental footprint in a consistent and transparent manner. In the reporting year 2012, we reached our ambitious goal set in 2006 to reduce CO_2 emissions by 40% compared with 2004 baseline levels. A target on which we delivered successfully by adopting energy efficiency measures to reduce the energy consumption of the buildings we occupy, and of critical facilities such as the data centers we use, while increasing the proportion of renewable energy used. Emissions that cannot be reduced by other means (e.g. business air travel) are offset. Our achievements have been recognized by external experts, in particular by the most significant climate-change-focused investors' initiative, the Carbon Disclosure Project, which in 2012 ranked UBS as one of the top 10 companies worldwide for excellence in transparency and achievement in combating climate change.

We will regularly report on the progress we make in executing our new climate change strategy which, in 2013, will focus on the following elements:
– Participating in an industry-wide initiative to develop accounting metrics for CO_2 emissions associated with lending and investments;
– Reducing the environmental impact of our Global Real Estate investment portfolios;
– Offering the "Energy check-up for SMEs" to Swiss SMEs in partnership with the Swiss Private Sector Energy Agency and renewing the cash bonus to support private clients in renovating their private homes sustainably;
– Launching UBS Clean Energy Infrastructure Switzerland for institutional clients to invest in renewable energy infrastructure;
– Continuing to support renewable energy and clean technology financing through our Investment Bank;
– Developing the UBS Sustainability Health Check, which will allow Wealth Management clients to identify discrepancies between their sustainability preferences (including climate change) and the composition of their portfolio; and
– Reducing our greenhouse gas footprint by 50% compared with 2004 baseline levels, another 15% below 2012 levels, and reducing our overall energy consumption by 10% compared with 2012 levels by 2016.

Key examples of UBS's community investment activities across the globe

Switzerland
To mark UBS's 150th anniversary, UBS Employee Volunteering teamed up with the Swiss Foundation for Landscape Conservation for 10 jubilee projects. More than 330 UBS volunteers worked for more than 3,300 hours across all UBS regions helping to restore the Swiss landscape. One of the projects took place on an alpine pasture in Gantrisch nature reserve where employees helped to preserve the species-rich meadows and alpine pastures as well as other important landscape features. Another of these projects took place in Liddes where UBS employees had the opportunity to work on the historic irrigation canal "Bisse de la Tour", under expert supervision.

Americas
In 2012, Community Affairs Americas expanded the Elevating Entrepreneurs program and teamed up with lenders in two new locations, Chicago and Los Angeles, to provide USD 15 million in financing solutions for qualified small businesses. Through a variety of student mentoring programs sponsored by UBS, we also contributed 8,148 volunteer hours to supporting children and young adults in developing their career and computer skills and providing them with work experience to help them achieve academic success and economic empowerment.

Additionally, we launched Season of Service, a community impact initiative which resulted in approximately 161 different volunteer activities being undertaken from October to December and 4,473 volunteer hours logged by UBS employees across the Americas region. In response to the devastation caused by Hurricane Sandy in late October, Community Affairs Americas announced that UBS is committing more than USD 1.2 million in total financial contributions to aid in the long-term relief and rebuilding efforts.

Asia Pacific
In March 2011, an earthquake and resulting tsunamis devastated Kamaishi City in the Tohoku region of northeast Japan, causing the deaths of 1,250 residents. In response, UBS initiated the UBS Tohoku Project; a five-year strategy to bring relief to the disaster-struck region. In 2012, UBS and Japanese partner organization RCF Tohoku Earthquake Consulting Team, a reconstruction support organization, implemented the second phase of this strategy to help regenerate and rebuild the local community. Asia Pacific volunteers were first introduced to the work of RCF Tohoku Earthquake Consulting Team and the local rebuilding strategy Create-Play-Learn-Eat, allowing them to learn about the situation in Kamaishi before working on respective proposals for each of the focus areas to support the regeneration and rebuilding efforts.

UBS volunteers also spent a day harvesting rice at the UBS RICE Project paddy field. The UBS RICE Project aims to improve the water quality and biodiversity of Lake Kasumigaura, north of Tokyo, and it is part of a larger program led by UBS's community partner, Asaza Fund, to provide local children with the opportunity to learn about ecosystems and develop environmental awareness. Through UBS's investment, the environment around the previously abandoned paddy field has been enriched and continues to thrive.

Europe, Middle East and Africa
UBS was given the 25th Anniversary Lord Mayor of London's Dragon Award in recognition of the achievements of the firm's community affairs program in London over the past 25 years.

Some 90 young performers from On-track, UBS's community partnership with the London Symphony Orchestra, performed at the opening ceremony of the Olympics.

Across the region, rapidly increasing numbers of UBS employees are sharing their business skills through strategic volunteering in their local communities: In Israel 90% of employees are supporting young social entrepreneurs in partnership with Ashoka Ventures, and in Turkey 40% of employees are supporting students in developing their science and math skills.

➔ **Refer to www.ubs.com/community for more information**

Our employees

Our employees' drive, ability, insight and experience are key to meeting the needs of our clients and building our businesses. We are committed to attracting, developing and retaining the best in their field of expertise and to furthering our reputation as a leading employer. We promote a culture that is centered around our principles of client focus, excellence and sustainable performance. This helps maximize opportunities to create value for all of our stakeholders on the basis of our employees' development and success.

Our workforce

Our competitive strength depends on the quality of our people. We want to be the best in all the businesses that we choose to be in. Therefore, hiring, developing and retaining high-caliber employees are fundamental priorities. On 30 October 2012, we announced a significant acceleration in the implementation of our strategy to transform the firm. This involves further sharpening our focus in the Investment Bank, reducing costs significantly and implementing further efficiencies more rapidly. Specifically, we announced that we would concentrate on our core strengths in advisory, research, equities and foreign exchange and that we would exit uneconomical business lines, predominantly in fixed income. As a result, by 2015, we are likely to have a full-time equivalent headcount of around 54,000 compared with 62,628 at the end of 2012. We will continue to act as a responsible employer during the process of reducing headcount, making use of our internal labor market and career transition support services.

As of 31 December 2012, we employed 62,628 people, 2,192 fewer than a year earlier. In 2012, our employees worked in 56 countries, with approximately 36% of our staff employed in Switzerland, 35% in the Americas, 17% in Europe, Middle East and Africa and 12% in Asia Pacific. Employee turnover, as a percentage of average overall headcount, was 12.9% in 2012 compared with 13.2% in 2011. Employee-initiated turnover was 6.7%, down 1.1% from 2011.

Internal mobility encourages cross-divisional collaboration and innovation, as well as individual career development. In 2012, we supported employee mobility across business divisions and regions. Opportunities for internal movement declined in 2012 due

Personnel by region

	As of			% change from
Full-time equivalents	**31.12.12**	31.12.11	31.12.10	31.12.11
Americas	**21,995**	22,924	23,178	(4)
of which: USA	***20,833***	*21,746*	*22,031*	*(4)*
Asia Pacific	**7,426**	7,690	7,263	(3)
Europe, Middle East and Africa	**10,829**	11,019	10,892	(2)
of which: UK	***6,459***	*6,674*	*6,634*	*(3)*
of which: Rest of Europe	***4,202***	*4,182*	*4,122*	*0*
of which: Middle East and Africa	***167***	*162*	*137*	*3*
Switzerland	**22,378**	23,188	23,284	(3)
Total	**62,628**	64,820	64,617	(3)

Personnel by business divisions and Corporate Center

	As of			% change from
Full-time equivalents	**31.12.12**	31.12.11	31.12.10	31.12.11
Wealth Management	**16,210**	15,904	15,663	2
Wealth Management Americas	**16,094**	16,207	16,330	(1)
Investment Bank	**15,866**	17,007	16,488	(7)
Global Asset Management	**3,781**	3,750	3,481	1
Retail & Corporate	**10,156**	11,430	12,089	(11)
Corporate Center	**522**	523	566	0
Total	**62,628**	64,820	64,617	(3)
of which: Corporate Center personnel (before allocations) [1]	***25,255***	*26,269*	*26,565*	*(4)*

1 Comparative figures in this table may differ from those published in quarterly and annual reports (for example due to adjustments following organizational changes).

to personnel reductions and cost focus. However, 906 employees still transferred between business divisions compared with 1,228 in 2011 and 366 moved to roles in a different region compared with 472 in 2011.

Recruiting new employees

Our recruitment of new talent in 2012 generally was more restrained than in 2011. Ongoing challenges in our operating environment dampened demand in several business areas throughout 2012, and our announcement in October of a significant acceleration of the implementation of our strategy curbed recruitment further. While one of our primary goals in 2012 was to retain and, where necessary, redeploy employees to other functions, we were still committed to hiring the best available talent to sustain and grow our core businesses. One priority was to continue recruiting experienced client advisors in our asset-gathering businesses. We also invested in our future by hiring graduates and interns in each of our operating regions, as well as apprentices in Switzerland. Existing staff were a key source of hiring in 2012, with 41% of all positions being filled by internal talent compared with 28% in 2011. Recruitment using agencies was reduced to 9% in 2012 from 16% in the previous year.

In 2012, we filled 5,381 positions across the firm, with lower than usual hiring in the Investment Bank. Our wealth management businesses continued to hire steadily, with UBS Wealth Management recruiting 275 client advisors and Wealth Management Americas hiring 620 financial advisors.

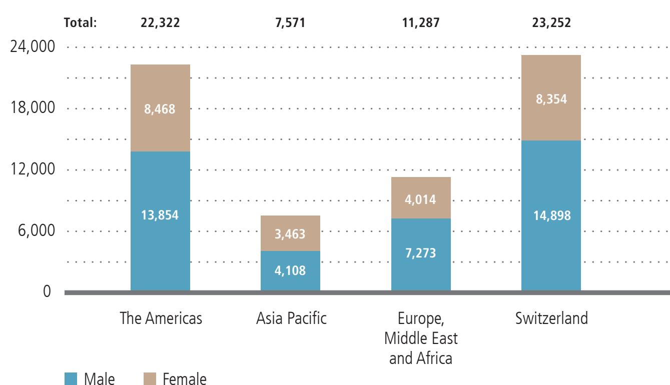
Throughout 2012 we worked to ensure that we had a continuous and visible presence on our target campuses, consistent with our commitment to graduate hiring. Senior leaders from across the firm were actively present on campus and at UBS recruiting events, underscoring UBS's commitment to recruiting and developing young talent. Furthermore, targeted programs such as "Unlock Your Potential" were held globally to attract diverse graduate talent. Our graduate trainees continued to benefit from unique educational opportunities and business-specific activities as part of a structured Graduate Training Program. In 2012, 782 university graduates were hired into one of UBS's undergraduate or MBA graduate training programs. An additional 968 interns were hired globally over the course of the year. Our apprenticeship program in Switzerland continued to be strong in 2012, hiring 247 business and 38 IT apprentices.

Despite the relatively challenging conditions, we continued to be seen as an attractive employer. Globally, 95% of candidates accepted our offer of employment in 2012, with 97% of individuals in Switzerland accepting. Notably, UBS ranked fourth, among both business students and experienced business professionals, in global employer branding firm Universum's 2012 Ideal Employer surveys in Switzerland. Globally, UBS ranked in the top 50 in Universum's 2012 World's Most Attractive Employers list.

➔ Refer to "www.ubs.com/awards" for additional information regarding UBS's standing as an employer

Gender distribution by geographical region[1]

On 31.12.12



1 Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this graph only. Looking at sub-regional data, the Americas consists of the USA at 21,109 and the rest of the Americas at 1,213. EMEA consists of the UK at 6,659, the rest of Europe at 4,421 and Middle East and Africa at 207. This accounts for the total UBS end-2012 employee number of 64,432, which excludes staff from UBS Card Center, Hotel Seepark Thun, Wolfsberg and Widder Hotel.

Strengthening and sustaining our diverse workforce and inclusive work environment

We believe it is essential to have a workforce of individuals from widely diverse backgrounds, cultures and life experiences. A varied and inclusive workforce results in a more innovative, dynamic and, ultimately, more successful company. Additionally, diversity in elements such as gender, ethnicity, business experience, education, nationality, religion, age, disability and sexual orientation help us to further understand and meet the needs of our diverse client base.

We are committed to increasing the diversity of our workforce by attracting, developing and retaining employees who promote the diverse culture we seek. At the same time, we are building an inclusive work environment that encourages development and collaboration and is focused on enhancing client relationships.

Our workforce is truly global. We have 891 offices in 56 countries, and our employees are citizens of 145 countries. In 2012, the average age of our employees was 39 years and the average length of employment with the firm was 8.9 years. In Switzerland, more than 51% of employees have worked at UBS for more than 10 years.

Our global diversity strategy is realized through action plans for each business division, integration into all our people processes and a range of regional initiatives. In 2012, we expanded our strategy to focus on new business development, particularly among underserved client groups. For example, Wealth Management Americas launched a program called "Elevating Entrepreneurs". This program matches small business owners in underserved communities with a UBS financial advisor and a client who mentor the entrepreneur, providing strategic financial and business advice.

We continued to integrate diversity aspects into our workforce management and development processes during 2012, incorporating concepts like recognizing and avoiding unconscious bias into our leadership development offering. Business areas such as

Gender distribution by employee category[1]

	Officers (Director and above)		Officers (other officers)		Non-officers		**Total**	
As of 31.12.12	Number	%	Number	%	Number	%	**Number**	**%**
Male	18,189	78.5	13,724	62.9	8,220	42.3	**40,133**	**62.3**
Female	4,974	21.5	8,108	37.1	11,217	57.7	**24,299**	**37.7**
Total	23,163	100.0	21,832	100.0	19,437	100.0	**64,432**	**100.0**

1 Calculated on the basis that a person (working full-time or part-time) is considered one headcount (in this table only). This accounts for the total UBS end-2012 employee number of 64,432, which excludes staff from UBS Card Center, Hotel Seepark Thun, Wolfsberg and Hotel Widder.

Finance sponsored training sessions for all of their employees aimed at avoiding unconscious bias.

In 2012, regional diversity teams worked with business and human resource leaders on diversity initiatives that were closely linked to regional talent strategies. As examples, a mentoring program in Switzerland that helps women Associate Directors and Directors focus on career progression was extended to include more women in our IT organization. Several business areas in Switzerland piloted "TeilzeitMann", a federally-funded project promoting gender equality and helping to remove barriers to part-time roles for men. The UK hosted its third annual Diversity & Inclusion Week to raise awareness among employees about the value of a diverse and inclusive workplace. We piloted mentoring programs for senior-level women in Hong Kong and Japan during 2012 to increase their career development and networking opportunities. In Singapore and Beijing, we held a series of events for female undergraduates to help them prepare for a successful job search upon graduation. In the US, an ongoing recruitment initiative hired diverse financial advisors to provide access to underserved markets. We also engaged with a number of colleges and workforce development programs like "Year Up" and "NPower" to give diverse talent from underserved communities professional experience. In 2012, 20 of these students were hired as UBS interns, enabling them to be coached and mentored while gaining work experience in a financial services organization.

In 2012, approximately 14,000 employees across UBS were members of 21 employee networks. These networks, representing affinities such as gender, culture, life stage or sexual orientation, help build relationships across our businesses and an open climate where employees feel their values are welcomed in a professional capacity. Our global network guidelines enable employees to set up or join employee networks/affinity groups in all our operating regions. Additionally, our human resource policies and processes have global coverage and outline our commitment to a non-discriminating, harassment-free workplace and equal opportunities for all employees.

Managing performance

We are committed to ensuring that employees are clear on their goals, and we provide the support they need to be effective in their jobs as well as to advance their careers. Our performance management framework features regular opportunities for employee-manager dialogue throughout the yearly cycle, consistent and transparent assessment processes, and a clear link between performance, demonstrated achievements and compensation.

In 2012, we streamlined our performance management process and timetable considerably. This helped employees and managers focus on it appropriately during an extremely active part of their business cycle. Our overarching goal for performance management remains the same: to strengthen our performance culture and focus on our strategy so we can achieve long-term, sustainable profitability.

Employees' performance reviews are based on their contribution and whether their individual performance appropriately reflects factors like leadership, collaboration and teamwork, client focus and professional behavior. Risk objectives were integrated for all employees in 2012 as part of a concerted effort to raise risk awareness and incorporate it into performance and reward decisions. In 2012, 99% of the employees eligible to participate in the firm's global performance assessment cycle received a performance review.

Performance management for our senior executives and certain other key employees is especially rigorous. Senior leaders receive a comprehensive evaluation based on key achievements relative to their objectives, including business performance, risk management, leadership and change impact. A thorough assessment includes feedback from peers as well as direct reports.

Employees identified as "Key Risk Takers" continue to be subject to extended performance management procedures. These individuals may work in front-office, logistics or control functions.

Our approach to people management

Focusing on business priorities, rigorous risk management and building leadership strength

Due to their role, they are able to materially commit, use or control the firm's resources and exert significant influence over our risk profile. In addition to self, manager and relevant 360-degree reviews, at least one person in a control function such as risk, finance or compliance must critically review the Key Risk Taker's performance to attest to the person's attitudes and actions toward managing risk.

As part of our overarching people management processes, we have Group-wide ranks and salary ranges that are applicable to all employees, as well as a standardized role classification model. Many human resource processes are based on these global role profiles that provide a foundation for more clearly defined career paths and development plans for all employees.

Education and talent development

We take a structured and integrated approach to our talent, leadership and development practices. Our goal is to give our employees and leaders what they need to excel in their roles, progress in their careers, and ultimately create value for our stakeholders.

The UBS Business University manages all of UBS's learning and development activities, aligning them with Group-wide, divisional and regional business strategies. In 2012, our employees participated in a total of 599,763 development activities, averaging 9.6 training experiences per employee (FTE), which equates to an average investment of 2.1 training days.

One of the Business University's primary objectives is to help our senior leaders and key talent to lead people in line with our principles and leadership culture. Our leadership and talent development offerings were enhanced in 2012 to better support them and this training, along with a comprehensive suite of management skills training and new hire programs, provides current and future leaders with the necessary skills to lead UBS forward.

We introduced Client Leadership Experience workshops in 2008 that bring together client-facing employees from all business divisions to build the knowledge, skills and networks needed to deliver the best solutions from across the firm to our clients. In 2012, 25 workshops were held in 10 cities in the Americas, Europe, Asia Pacific and Switzerland and attended by over 800 Directors, Executive Directors and Managing Directors. Since inception, 3,700 employees have participated in a Client Leadership Experience workshop.

A comprehensive business education offering is provided through more than 110 role-specific learning pathways. These pathways, covering topics such as risk, compliance, sales, advisory and markets, are a series of activities, events and experiences that help ensure consistent training across similar job roles worldwide. Client-facing staff participate in tailored advisory and sales training programs. As an example, in 2012, UBS launched a comprehensive certification program for all client advisors in our Private Clients, Wealth Management Switzerland and Corporate & Institutional Clients areas. This rigorous training, examination and certification process has been externally accredited by the State Secretariat for Economic Affairs (SECO) in Switzerland. We expect over 5,000 UBS client advisors in Switzerland to undergo the certification process over the next three years.

All employees can access a broad range of development and training as part of their daily work and through various programs. Our eLearning portfolio consists of more than 2,000 courses. In 2012, around 18,000 employees participated in voluntary online learning on topics such as communication skills, management and leadership, financial markets and IT. As an example, more than 6,000 employees completed one or more Understanding our Business modules in 2012 to broaden their understanding of our business divisions and their primary activities. Other learning modules on risk, general finance and compliance topics help employees develop the skills they need to work effectively in their roles and within the evolving business and regulatory environments. Mandatory online training helps ensure that compliance and regulatory requirements are met by the relevant employees. In 2012, employees across all business divisions completed more than 378,000 mandatory training sessions.

All employees are expected to consider career and skill development opportunities as part of the firm's continuous performance management process. To support this, we give employees an overarching structure, tools and individual development opportunities within an integrated talent management framework. In addition, we invest in talent development and succession planning for the most critical roles across the firm. An annual firm-wide talent review helps to identify and build the skills and competencies of employees who are identified as having leadership potential. Possible successors for senior leadership roles are identified and tracked on a firm-wide basis, and they are offered specialized development opportunities in addition to on-the-job training.

UBS Wealth Management Master

Launched in late 2012, the UBS Wealth Management Master is the highest internal certification available to client-facing staff in Wealth Management. It enables senior professionals to acquire in-depth expertise in account, investment and relationship management. Combining structured training with on-the-job development, the two-year program enables participants to deepen their skill sets and learn how to accelerate profitable growth for both clients and the firm. The teaching staff comprises notable academics from leading universities and business schools, senior consultants, industry experts, and UBS subject matter experts. These specialists share cutting-edge business views and financial market expertise, as well as best practices to help participants attain the highest level of professional excellence.

Compensation

We strive to offer our employees competitive pay and incentives, while carefully considering our obligations to shareholders and regulators. Our approach recognizes the need to compensate individuals for their performance within the context of market conditions, a fast-changing commercial environment and evolving regulatory oversight. Our foremost priority is to encourage and reward behavior that contributes to sustainable profitability and the firm's long-term success. In 2012, we continued to actively consider risk and account for risk-adjusted profitability in our compensation approach.

Our compensation structure is designed to be appropriately balanced between fixed and variable elements. We emphasize the variable component as an incentive to excel and to foster a performance-driven culture, while supporting appropriate and controlled risk taking. Employee compensation is viewed within a total reward framework that takes into account base salary, discretionary incentives and benefits.

Our Total Reward Principles are the foundation of our compensation framework, particularly for integrating risk control and managing performance, as well as specifying how we structure our compensation and performance award pool funding. They reflect our long-standing focus on pay for performance, sustained profitability, risk awareness and sound governance.

➔ Refer to "Our deferred variable compensation plans" in the "Compensation" section of this report for more information

Employee share ownership

We support employee share ownership because we believe personal accountability for business actions and decisions can be encouraged through equity-based awards. Our employee share purchase plan, Equity Plus, is a voluntary equity-based program whereby eligible employees can purchase UBS shares at market price and receive one free share for every three shares purchased. These shares vest in three years, subject to continued employment at UBS and retention of the purchased shares. We also use UBS equity as a significant component in our performance award deferral programs. On 31 December 2012, current employees held an estimated 6% of UBS shares outstanding (including approximately 4% in unvested/blocked shares from our compensation programs), based on all known shareholdings from employee participation plans, personal holdings and individual retirement plans. At the end of 2012, an estimated 50% of all employees held UBS shares, while an estimated 36% held UBS stock options.

➔ Refer to the "Compensation" section of this report for more information

Our identity and our commitment to being a responsible employer

Relationships based on respect, trust and mutual understanding are the foundation for all of our business activities. The firm's Code of Business Conduct and Ethics demonstrates the importance we place on responsible workplace behavior. This code sets out the principles and practices employees are expected to follow and forms the basis for all UBS employee policies and guidelines.

The UBS Identity outlines what we strive to be – the choice of clients worldwide – and how we intend to fulfill that vision. The firm's guiding principles, confirmed to employees in mid-2012, characterize the way we work together and the promises we make to our clients that shape how we are perceived. Unrivaled client focus is at the heart of our business model, and we strive for excellence in everything we do. We aim to deliver sustainable performance by strengthening our reputation and by delivering consistent returns to our shareholders. These principles are integrated into our corporate decision-making and people management processes, and they are intended to shape the daily actions of our employees.

Our vision	Our principles			Our attitude
We want to become:	To achieve this, our actions are driven by three principles:			And we promise that:
The *choice of* clients – worldwide	Client focus	Excellence	Sustainable performance	"We will not rest, until…"
	We demonstrate an unrivalled client focus at every level of our business, building relationships that create long-term value.	We strive for excellence in everything we do, from the products and services we develop to the way we collaborate across the firm to deliver the best of what UBS has to offer.	We work continuously to strengthen our reputation as a rock-solid firm and provide consistent returns to our shareholders.	…we've helped our clients reach their goals. We're relentless in our efforts to do the best for our clients.

Listening to the voice of our employees

In June and July 2012, we conducted a Group-wide survey to get employees' views on where we stand in relation to living up to our principles, achieving our strategy and providing a work environment where employees can succeed. These elements are prerequisites to achieving our vision to be the choice of clients worldwide. We openly communicated the findings to our employees and will use these year-one results as a benchmark for continuous improvement.

Globally, 39,142 employees participated in the survey. Overall the results conveyed a largely positive picture of the firm relative to our external benchmark, especially around client focus (with an 80% positive rating). UBS outperformed a benchmark of more than 50 banks, mutual fund companies and insurers in overall satisfaction with the firm as a place to work and with regard to opportunities for employees to have challenging and interesting work.

We were encouraged to learn that our employees appreciate the high quality of our solutions and services and the value we place on cross-business collaboration. Results for employee engagement showed that our employees are highly motivated to contribute in their jobs beyond what is expected (significantly higher than the benchmark), but pride in the firm was below expectations. We fully recognize that we need to rebuild employees' trust and confidence.

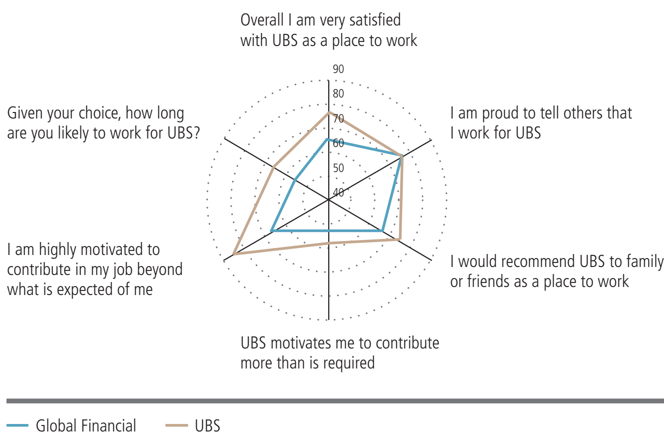
Feedback on measures of respect and recognition were encouraging. These elements are essential for effective cooperation across the firm and they have a positive effect on client service and sustainable results. The survey also provided insights into areas in need of improvement such as the communication of our strategy. We have already taken action to change this view, starting with the announcement in October 2012 of the acceleration of the implementation of our strategy. In addition, we are addressing feedback on our talent management and recruiting processes as well as suggestions of ways to increase efficiency.

Following the conclusion of the survey, the GEB, as well as business divisions and functions, had numerous follow-up discussions and agreed on specific action plans to reinforce our strengths and address the most significant areas of perceived weakness. Regular, targeted "check-in" surveys will help us measure progress and keep us on track as we continue to build our corporate culture.

Benefits and well-being

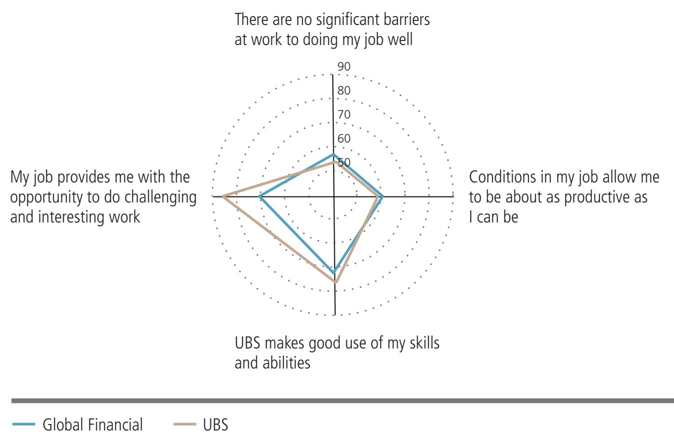
We strive to be a responsible employer and invest in all of our employees, whether full- or part-time, by offering a comprehen-

Engagement[1]



1 The 2012 survey of UBS employees and development of the Global Financial benchmark was conducted by Hay Group. The scale ranges from "strongly agree" to "strongly disagree". The results shown in the graph above are the percentage of responses that were "strongly agree" or "agree". For the question "Given your choice, how long are you likely to work for UBS?", the scale ranges from "less than 1 year", "1–2 years", "3–5 years", and "more than 5 years / until retirement". The graph above shows the percentage of people who answered "more than 5 years / until retirement".

Enablement[1]



1 The 2012 survey of UBS employees and development of the Global Financial benchmark was conducted by Hay Group. The results shown in the graph above are the percentage of responses that were "strongly agree" or "agree".

sive suite of benefits such as insurance, pension, retirement and time off that are competitive in our markets. We also offer additional benefits, such as flexible working arrangements, to employees in many of our major markets. As examples, in Switzerland, employees who are part of a "Workplace for the Future" (WFF) initiative can work at their desk or any other WFF-equipped space in or out of their office building. An open layout and enhanced IT infrastructure increase productivity and collaboration, while desk sharing and standardization reduce the firm's rental and operating costs. WFF was expanded to the UK in 2012 and is intended to be rolled out worldwide in the coming years. In addition, in 2012 we revised our "teleworking" policy in order to make it easier for employees in Switzerland to work outside UBS premises. We also encourage and support employee volunteering in the many communities in which we operate.

To help employees manage life and work issues, we offer employee assistance programs in a number of locations. In the UK, employee assistance programs provide access to specialist support on topics such as finances, family, bereavement and legal/consumer rights. A health and well-being program provides an on-site general practitioner, physiotherapist and dentist, as well as occupational health services. Emergency child care, emergency home care for elderly or disabled adults and a booking service for out-of-school care are provided by an external provider.

In the US, the Work/Life Assistance Program offers around-the-clock online and telephone counseling and referral services to employees and their families to help resolve issues that may affect their health, personal life, or job performance. Counselors are available to address issues such as emotional conflicts, depression, marital issues, grief and work performance. The program also offers referral services for child care, prenatal care, adoption, academic services and adult care. In addition, UBS provides on-site child care at our Stamford, Connecticut site and emergency/backup child care in most other US locations.

Employee assistance initiatives in Asia Pacific are generally conducted on a country-by-country basis. In Hong Kong, for example, consultants from an external provider help employees and their immediate family members manage work and life stress, family, mental health, grief or trauma, and other challenges. In Japan, these services are available through another outside team of consultants trained in fields such as counseling, law, accounting and psychology.

In Switzerland, assistance for current and retired employees as well as their family members is provided through our Social Counseling and Retiree Services functions. Services include counseling for personal issues, difficulties in the workplace, sickness or disability, financial difficulties and retirement. Employees also have access to an internal ombudsman's office and a childcare referral service. An HR Health Care function considers local health and safety matters. In Switzerland, work days lost to accident or illness are tracked, with 18,619 and 117,226 days respectively in 2012. This amounts to five work days per employee in Switzerland.

Programs are in place in every region to provide transitional support to employees impacted by restructuring exercises. For example, in Switzerland, we have a long-standing initiative called COACH to help redeploy employees within UBS or help them find jobs outside the firm in the event of restructuring. COACH advisors provide support and assistance in finding a new job by working closely with our internal recruitment center and outside employment services. During the process, employees retain full salary and benefits, and financial assistance is available for job-related training, if needed.

In Switzerland, employees below the level of Director participate in a social plan that covers employees whose jobs are subject to the Agreement on Conditions of Employment for Bank Staff. This plan lays out the terms and conditions for any necessary redundancies. It also governs the requirements and procedures for internal hiring, job transfers, and, when needed, severance. The aim is to make any necessary job cuts or operational changes in a responsible manner, making full use of our internal labor market, and to offer support and career advice to these employees.

➔ **Refer to www.ubs.com/health-safety for our health and safety statement**

Employee representation

As part of our commitment to being a responsible employer, we work with all of our employee representation groups to maintain an active dialogue between employees and management.

The UBS Employee Forum was established in 2002 and has representatives from 18 countries across Europe. It facilitates an open exchange of views and information on pan-European issues that can affect our regional performance, prospects or operations. Additionally, local forums address issues such as health and safety, changes to workplace conditions, pension arrangements and consultation on collective redundancies and business transfers. In Switzerland, for example, the Employee Representation Committee partners with UBS management in annual salary negotiations and represents employee interests on specific topics outlined in the collaboration and co-determination clauses of staff policies. Employee Representation Committee representatives are elected to represent employees whose work contracts are governed by Swiss law and the Agreement on Conditions of Employment for Bank Staff. The UK Employee Forum, which is formed by elected representatives from all of our UK businesses and appointed management representatives, focuses on local economic, financial and social activities concerning UK employees. It may also be used to develop workforce agreements affecting UK employees. Collectively, the UBS Employee Forum, including the Employee Representation Committee and UK Employee Forum, represents about 50% of our global workforce.

Compensation

Letter from the Human Resources and Compensation Committee of the Board of Directors

Dear shareholders,

Following the advisory vote on UBS's Compensation Report at last year's Annual General Meeting (AGM), we consulted widely with our shareholders to better understand your views with regard to improving our compensation plans and disclosures. We incorporated the findings from these consultations into our review process and have implemented wide-ranging changes for 2012. I and the rest of the Board of Directors (BoD) are convinced that the revamped compensation framework will help us achieve our primary objective of delivering attractive and sustainable returns over the medium to longer-term to our shareholders.

Our compensation philosophy is to provide our employees with compensation that recognizes their individual contributions and that clearly links their pay not just to the delivery of business targets but also to demonstrating the right behaviors. It is also important to recognize that UBS is undergoing a fundamental transformation which takes time to achieve and it remains critical that we continue to attract, motivate and retain the right people in order to execute our strategy.

The 2012 changes to our compensation framework start with the elimination of all plans with upside leverage and a complete alignment of our model for all employees, by having just two deferred variable compensation plans – a deferred share plan and a new deferred contingent capital plan (DCCP). These instruments incorporate:

- longer deferral periods (share plan with three to five years for full vesting and DCCP with five-year cliff vesting);
- more challenging multi-year performance conditions and forfeiture triggers;
- enhanced "harmful acts" provisions; and
- no leverage.

Furthermore, in relation to Group Executive Board (GEB) members specifically, we have:

- increased the UBS share retention requirement by 67% for the Group CEO, and 75% for other GEB members;
- introduced a cap on the GEB performance award pool of up to 2.5% of adjusted pre-tax profit – for 2012 the actual size of the award pool was well below the cap at 1.7% of the adjusted pre-tax profit; and
- introduced additional performance conditions such that 100% of GEB deferred compensation is subject to forfeiture if performance conditions are not met.

The far-reaching changes to our compensation framework and the alignment of our plans to our strategy strengthen the link between compensation and the firm's medium to longer-term performance. Put simply, we believe our new compensation structure will help to promote a stronger pay-for-performance culture and will discourage excessive risk-taking.

With regard to the actual awards for 2012, the HRCC and the BoD have tried to balance the many positive developments during the year, including:

- the firm's strong share price performance, which was up 28% over the year;
- significant progress in building our industry-leading capital ratios;
- the target for reducing risk-weighted assets being exceeded;
- substantial net new money inflows; and
- sufficient progress in executing the firm's strategy set out in 2011 to enable UBS to announce an acceleration of its implementation in October 2012,

with the disappointing loss for the year, which was primarily driven by goodwill impairment charges, increased charges for litigation and regulatory matters, including the cost of the LIBOR settlement, as well as own credit losses.

Taking all these factors into consideration and recognizing the tremendous efforts of our people to make progress towards achieving the firm's targets, we have

reduced the overall performance award pool to CHF 2.5 billion (a 7% decrease on 2011 and a 42% decrease on 2010). The performance award pools for individual business areas reflect their particular performance. In some business areas within the Investment Bank and the Corporate Center, pool funding has shrunk by as much as 20%, while other business areas have seen modest rises in the size of their pools.

In addition, we determined that the GEB would receive no part of their 2012 performance awards in cash. Therefore 100% of every GEB member's performance award for 2012 is deferred and subject to forfeiture if performance conditions are not achieved.

Taken together, we believe 2012's reduced performance award pool and the significant adjustments we have made to UBS's compensation plans demonstrate our commitment to strengthen employee focus on and accountability for longer-term performance. We recognize that certain features in our plans such as the longer deferrals are more demanding when compared with others in the industry. However, we are convinced that the framework is the right one for the firm and provides a balanced approach whereby we reward employees who execute the firm's strategy successfully and responsibly.

The BoD and I would like to thank our shareholders for the time they took to meet with us and share their views on compensation. Over the following pages you will find the details on UBS's compensation for 2012, for which we will seek your support at our AGM in May 2013. The BoD and I are committed to continually improving our reporting to you on compensation matters and we welcome your feedback on this report.

Ann F. Godbehere
Chair of the Human Resources and Compensation Committee of the Board of Directors

Our compensation governance

Ensuring we have strong governance and oversight of our compensation process is the responsibility of the Human Resources and Compensation Committee. Such governance is crucial to ensure that our compensation processes are transparent and fair, that we set appropriate incentives to attract and retain the best people, and that we support and reward sustainable value creation in the longer-term interests of our shareholders.

The Human Resources and Compensation Committee (HRCC) is a committee of the Board of Directors (BoD) and consists of four independent BoD members. On 31 December 2012, the HRCC members were Ann F. Godbehere, who chairs the committee, Rainer-Marc Frey, Wolfgang Mayrhuber and Helmut Panke.

➔ **Refer to the "Board of Directors" section of this report for further information about the Human Resources and Compensation Committee**

Overview of the HRCC's work

The HRCC meets regularly and works closely with the Risk Committee to ensure that risk considerations are embedded in our compensation framework and processes. Helmut Panke and Rainer-Marc Frey are members of both the HRCC and the Risk Committee and this affords the HRCC an invaluable risk perspective when considering compensation-related issues. The HRCC also appoints external advisors to provide impartial advice on compensation-related matters as well as data on market trends and benchmarks, including in relation to Group Executive Board (GEB) and BoD compensation.

Among its other responsibilities, the HRCC, on behalf of the BoD:
- reviews our Total Reward Principles;
- reviews and approves annually the design of the total compensation framework, including compensation strategy, programs and plans;
- reviews performance award funding throughout the year and

Compensation authorities

The BoD has the ultimate responsibility for approving the compensation strategy proposed by the HRCC, a BoD committee that determines the appropriate level of resources for compensation matters.

Recipients	Compensation recommendations developed by	Approved by	Communicated by
Chairman of the BoD	Chairperson of the HRCC	HRCC	HRCC
Independent BoD members (remuneration system and fees)	Chairman of the BoD and HRCC	BoD	Chairman of the BoD
Group CEO	Chairman of the BoD and HRCC	BoD	Chairman of the BoD
GEB members	HRCC and Group CEO	BoD	Group CEO
Key Risk Takers	Responsible GEB member together with functional management team	Divisional pools: HRCC Overall pool: BoD	Line manager

Recipients	Variable compensation recommendations developed by	Approved by	Communicated by
Employees	Responsible GEB member together with functional management team	Divisional pools: HRCC Overall pool: BoD	Line manager

proposes the final performance award pool to the full BoD for approval;
- together with the Group Chief Executive Officer (Group CEO), proposes base salaries and annual performance awards for GEB members to the BoD, which approves the total compensation of the GEB;
- together with the Chairman of the BoD, proposes the compensation for the Group CEO;
- approves the total compensation for the Chairman of the BoD;
- together with the Chairman, proposes the total individual compensation for independent BoD members for approval by the BoD; and
- ensures that there is an appropriate focus on talent development and management with respect to our business heads and key senior leaders.

It is important to note that the Group CEO and the Chairman of the BoD may not attend any parts of committee meetings at which specific decisions are made about their own individual compensation. These decisions are at the discretion of the HRCC and the BoD. Base fees and committee retainers received by independent BoD members are subject to an annual review. A proposal is submitted by the Chairman of the BoD to the HRCC, which then submits a recommendation to the BoD.

If you would like more information regarding the responsibilities and authorities for compensation-related decisions illustrated in the table "Compensation authorities" on the previous page, please see "Annex B – Responsibilities and authorities" and "Annex C – Charter of the Committees of the Board of Directors of UBS AG" of the Organization Regulations of UBS AG. These can be found at *www.ubs.com.*

The Risk Committee's input is critical to ensuring our compensation plans continue to fully reflect our approach to risk management and control

Ours is a risk management business and our success depends on prudent risk-taking. We will not tolerate inappropriate behavior that can harm the firm, its reputation or the interests of our many stakeholders. The Risk Committee works closely with the HRCC to ensure our compensation plans reflect our approach to risk management and control. The Risk Committee supervises and sets appropriate risk management and control principles and receives regular briefings on how risk is factored into the compensation process. It also monitors Group Risk Control's involvement in compensation programs and reviews whether the risk-related aspects of the compensation process have been adhered to.

Human Resources and Compensation Committee – additional information

The HRCC held 13 meetings in 2012. Each meeting had an average attendance of 85%. External advisors attended 11 of those meetings. The Chairman of the BoD and the Group CEO were present at all 13 of those meetings, although they were absent during discussions related to their own compensation. During the year, the HRCC reappointed Hostettler, Kramarsch & Partner to provide impartial external advice on compensation-related matters. The company has no other mandates with UBS. The HRCC reviewed the company's certification of its independence based on the factors outlined in the New York Stock Exchange listing rules. Compensation consulting firm Towers Watson, appointed by Group Human Resources, continued to provide the HRCC with data on market trends and benchmarks, including in relation to GEB and BoD compensation. Various subsidiaries of Towers Watson provide similar data to Group Human Resources in relation to compensation at lower levels of the organization. Towers Watson has no other compensation-related mandates with UBS.

Our Total Reward Principles

Our compensation philosophy and objectives are embodied in our Total Reward Principles. They influence how we structure compensation and provide funding for our performance award pool. They reflect our focus on pay for performance, sustainable profitability, sound governance and risk awareness, and support the firm's strategy by promoting and rewarding behavior that enhances the firm's position and reputation. The Total Reward Principles were reconfirmed by the Human Resources and Compensation Committee on 24 October 2012.

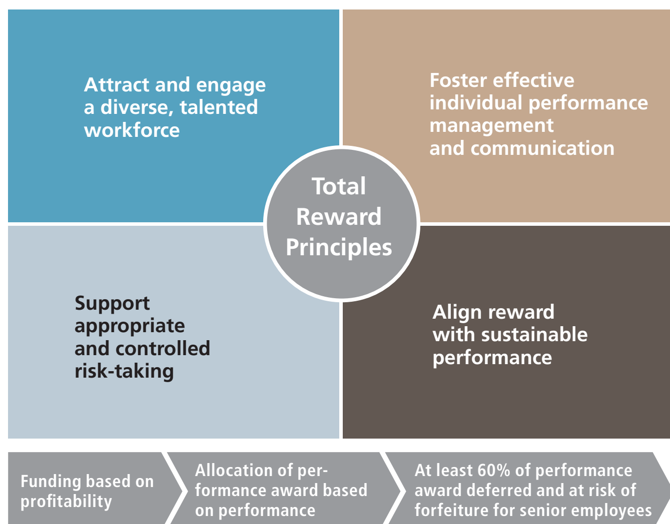
Ensuring we attract and engage a diverse, talented workforce

The success of the business is dependent upon attracting and retaining talented people who will help us successfully execute our strategy in a responsible manner and thus create longer-term, sustainable value for our shareholders. We aim to offer market-competitive compensation that strikes an appropriate balance between fixed and variable elements. We believe base salaries need to be sufficient to allow for a flexible policy when it comes to performance awards. We set performance award levels that encourage our employees to perform and to be entrepreneurial, while at the same time placing an emphasis on strong risk management and measured risk-taking.

➔ Refer to the "Overview of our compensation model" section of this report for more information about our compensation system

Total Reward Principles

The four Total Reward Principles establish a framework for managing performance and integrating risk control. They also specify how we structure compensation and provide necessary funding for our performance award pool. These principles apply to all employees, but may vary in certain locations due to local laws and regulations.



How we foster effective individual performance management and communication

Throughout the firm, sustainable performance is the key factor in determining compensation. Our assessment of an employee's performance goes beyond the achievement of financial objectives and takes account of the longer-term risk impact of an employee's actions and any relevant reputational issues. In determining an employee's performance award, we not only consider their contribution to UBS's Group or business division results and whether they have achieved their individual performance objectives, but also take into account whether they:
- adhere to our corporate values and principles;
- implement our strategic goals of client focus, excellence and sustainable performance;
- demonstrate leadership when it comes to our clients, business, people and change;
- lead or support effective collaboration and teamwork;
- operate with a high level of integrity and ensure compliance with UBS policies;
- actively manage risk, including reducing operational risk, and strike an appropriate balance between risk and reward; and
- exhibit professional and ethical behavior.

Employees are assessed not just against defined objectives, but also on a relative basis against their peers within the firm. This enables us to fairly differentiate performance, and consequently compensation, in an objective, transparent and disciplined manner.

➔ Refer to the "Our employees" section of this report for more information on our performance management processes

Ensuring rewards are aligned with sustainable performance

Throughout the firm, sustainable performance is the key factor in determining compensation. Refer to the following sections of this report for more details.

How we support and promote appropriate and controlled risk-taking

We place a strong emphasis on sound risk control in our compensation policies.

Our performance reviews recognize that different businesses have different risk profiles, and that additional factors should be considered, including the fact that earnings may vary in quality over time based on the risks taken, the full impact of which may only emerge in subsequent years. Employees are required to demonstrate an appropriate understanding of the nature of their business and its associated risks, including operational risks, to consider their actions in light of UBS's reputation and risk appetite, and to accept responsibility for all risks that arise, which includes taking steps to manage and mitigate them. As part of their compliance training, employees are required to certify annually that they are compliant with various UBS policies.

In determining performance award funding, whether on a Group, divisional or business area level, we take the following key risks into account, where applicable: credit risk; market risk; treasury risk; operational risk, including legal and compliance risks; and reputational risk. The quantitative risk measures we consider when determining performance awards include, but are not limited to, the liquidity-adjusted stress ratio, the number of days on which the daily value-at-risk is exceeded, and the number of operational risks and audit recommendations that are effectively resolved. Our risk measures are reinforced by qualitative assessments conducted by Risk and Legal & Compliance relating to how the businesses manage such matters.

To keep our employees focused on the longer-term profitability of the firm, we require that a significant part of their performance award be deferred for up to five years if their total compensation exceeds CHF/USD 250,000. Part, or all, of the unvested deferred portion may be forfeited in certain cases. Examples include where an employee has acted contrary to the firm's interests by contributing to significant financial losses or restatements; causing reputational harm; or breaching risk policy, legal or regulatory requirements, all of which constitute harmful acts.

In addition, we take specific measures regarding the compensation of our Key Risk Takers. They are the most senior members of management, together with selected individuals who, by the nature of their role, exert significant influence over the firm's risk profile. We identify these individuals, whether they are in front-office, control or logistics functions (such as IT), consistent with specific regulatory guidance and best practice in the industry. During 2012, the number of individuals identified as Key Risk Takers increased to more than 500. Key Risk Takers are subject to more rigorous scrutiny, which they receive in the form of performance evaluations from the control functions, and part of their compensation is subject to performance conditions.

To monitor risk effectively, our control functions, primarily Legal & Compliance, Risk Control and Finance, must be independent. To support this, their compensation is determined independently from the revenue producers that they oversee, supervise or support. Their performance award pool is not based on the performance of these businesses, but instead reflects the performance of the firm as a whole. In addition, we consider other factors such as how well the function has performed, together with our market positioning. Decisions regarding individual compensation for the leaders of these control functions are made by the function heads and approved by the Group CEO.

Additionally, we have an internal disciplinary process which is relevant to all employees, the Incident & Consequences Process, that evaluates the behavior of employees involved in disciplinary events, incidents in which controls have been violated and cases of financial loss each year, and imposes compensation-related sanctions on the employees concerned.

➔ **Refer to the "Overview of our compensation model" section of this report for more information about key performance indicators and Key Risk Takers**

Updated benchmarking against peers

We benchmark GEB compensation and benefit levels against those of our peers by referring to a peer group of companies selected based on the comparability of their size, business mix, geographic mix, and the extent to which they are our competitors for talent. We also consider the regulatory environment, and the culture and practices of these peers that may have an impact on their pay strategy and pay levels. These companies, which are predominantly large European and US banks operating internationally, are our main competitors when it comes to hiring.

In 2012, the HRCC reviewed our peer benchmarking process. The committee decided that to improve comparability, it was appropriate to expand our peer comparison group by adding BNP Paribas, Goldman Sachs, Julius Baer, and Nomura. Consequently, our peer comparison group now consists of the following companies: Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, Julius Baer, Morgan Stanley and Nomura. The committee decided that a more diverse comparison group is appropriate given the wider variation in business models that is emerging across financial services and thus the broader array of competitors, particularly for talent.

In the view of the HRCC and the BoD, our executive compensation structure is appropriate relative to this peer group. It will continue to review the peer group regularly to ensure that the firms that constitute it remain relevant benchmarks for the purposes of determining GEB compensation.

With regard to compensation for other employees, given the diversity of our businesses, the companies we use as benchmarks vary with and are dependent on the relevant business divisions and locations, as well as the nature of the positions involved. For certain businesses or positions, we may take into account other major international banks, additional large Swiss private banks, private equity firms, hedge funds and non-financial firms. Furthermore, we also benchmark employee compensation internally for comparable roles within and across business divisions and locations.

We believe that the extended length of our deferral periods and the scope of employees subject to the DCCP five-year cliff-vesting will go further than comparable requirements at many firms in our peer group. While these changes, coupled with reduced performance award pools in certain business areas, will require close management focus, we are confident that our compensation framework is right for the firm and reinforces our focus on medium- and longer-term performance.

Comparability assessment against main peers[1]

Benchmarking ensures that our executive compensation is appropriate relative to our peer group. The key benchmarking criteria are summarized in the following table.

Firm	Size[2]	Business mix[3]	Geographic mix[4]	Competitors for talent[5]	HQ location: regulatory[6]	HQ location: geography[7]
Bank of America	○	◐	○	●	◐	◐
BNP Paribas	◐	○	◐	◐	○	◐
Barclays	◐	◐	●	●	◐	◐
Citigroup	○	○	◐	●	◐	◐
Credit Suisse	●	●	●	●	●	●
Deutsche Bank	●	●	◐	●	◐	●
Goldman Sachs	◐	○	◐	◐	◐	○
HSBC	○	○	◐	●	◐	◐
JP Morgan Chase	○	○	○	●	◐	◐
Julius Baer	○	○	○	◐	●	●
Morgan Stanley	●	●	◐	●	◐	◐
Nomura	○	◐	○	◐	◐	○

○ Less comparable ◐ Moderately comparable ● Comparable

1 Source: Group Corporate Development assessed the criteria Size, Business and Geographic Mix and Group HR assessed the criteria Competitors for Talent and HQ locations. 2 Size: evaluated in terms of revenue, profitability, assets and employee size. This would potentially impact management complexity outside of the impact of product mix and geography. 3 Business mix in terms of type and size of major businesses would impact pay strategy, pay levels and approach and, importantly, risk profile. 4 Geographic mix: evaluated not only in terms of mix, but also from a European HQ perspective. Impacts executive role definition and management complexity. 5 Competitors for talent: firms from which UBS recruits and / or firms which recruit from UBS. 6 HQ location / regulatory: impact of the regulatory environment based on home regulator. 7 HQ location / geography: culture and practice that impacts pay strategy, levels.

Overview of our compensation model

Our strategy places our clients' best interests at the center of everything we do and is designed to help us deliver attractive and sustainable returns to our shareholders. Our success in doing so will ultimately depend on the efforts of our employees and we believe it is essential to provide them with the opportunity to participate in the firm's longer-term success. However, we must clearly link pay with performance. To reinforce this link, the key performance indicators we use to measure our progress in executing our strategy are taken into account when determining the size of each divisional performance award pool and used as a basis for setting the performance conditions of our compensation plans.

Overview of key changes to compensation framework for performance year 2012[1]

Group Executive Board (GEB)	All other employees with total compensation above CHF / USD 250,000
– GEB overall performance award pool capped at 2.5% of the firm's adjusted pre-tax profit for each year. – Minimum number of UBS shares to be held up from 200,000 to 350,000 shares for each member, and from 300,000 to 500,000 shares for the Group CEO. – Cap on immediate cash paid as part of performance award reduced to CHF / USD 1 million (down from CHF / USD 2 million). – Deferred compensation mix now half in form of Equity Ownership Plan (EOP) awards and half in form of new Deferred Contingent Capital Plan (DCCP) awards. Total percentage of deferred compensation increased to at least 80%, from at least 76%. – DCCP awards consist of a notional bond which replicates many of the features of UBS contingent loss-absorbing bond placed in the market in 2012, with annual interest payments. Awards vest in their entirety after five years, provided no trigger or viability event occurs. 20% of the award may be forfeited for each year the firm does not achieve an adjusted pre-tax profit. 100% of award at risk of forfeiture. Interest will only be awarded for each year in which the firm achieves an adjusted pre-tax profit. – Vesting of EOP awards occurs in years 3 to 5, previously in years 1 to 5. – New compensation framework increases average deferral period for the GEB to 4.5 years (from 2.7 years for 2011). – More stringent performance conditions for EOP awards based on Group and divisional performance, so that 100% of the award is at risk of forfeiture (previously up to 50% at risk). – Discontinuation of Cash Balance Plan and Performance Equity Plan. – Enhanced harmful acts provisions.	– Cap on immediate cash paid as part of performance award reduced to CHF / USD 1 million (down from CHF / USD 2 million). – Deferred compensation mix now half in form of EOP awards and half in form of new DCCP awards. – DCCP awards consist of a notional bond which replicates many of the features of UBS contingent loss-absorbing bond placed in the market in 2012, with annual interest payments. Awards vest in their entirety after five years, provided no trigger or viability event occurs. Interest will only be awarded for each year in which the firm achieves an adjusted pre-tax profit. – Vesting for EOP awards occurs in years 2 and 3, previously in years 1 to 3. – New compensation framework increases the average deferral period to 3.8 years (from 2.0 years for 2011). – More stringent performance conditions for EOP awards based on Group and divisional performance apply to Group Managing Directors, Key Risk Takers and Highly Paid Employees (i.e employees with a performance award of CHF / USD 2 million or more), so that 100% of their awards are at risk of forfeiture (previously up to 50% at risk). – Enhanced harmful acts provisions.

1 There are variations in plans for Global Asset Management employees, which are not reflected in this table.

How we determine an individual's pay

We focus on an employee's total compensation, which consists of two elements: a fixed element, generally the base salary; and an annual discretionary performance award. The level of performance award depends on several factors, including the firm's overall performance, the performance of the employee's business division, and the individual's performance.

To safeguard against excessive pay in 2012, we introduced a cap on the size of the GEB performance award pool of up to 2.5% of the Group adjusted operating profit. We also capped the amount of immediate cash that can be paid as part of the total performance award granted to any employee at CHF / USD 1 million, which is a 50% reduction on the previous cash cap.

Base salary

The base salary reflects an employee's skills, role and experience while taking local market practices into consideration. It is fixed and usually paid monthly or semi-monthly. We review base salaries every year to ensure they remain competitive, comparing them with relevant internal and external benchmarks. Adjust-

Compensation overview[1]

A balanced mix of fixed and variable compensation ensures appropriate risk-taking and behavior that produces sustainable business results.

	Chairman of the BoD	Board of Directors	Group Executive Board	Key Risk Takers	Other employees
Base salary[2]	●		●	●	●
Cash performance award			●	●	●
Equity Ownership Plan (EOP)[3, 4]			●	●	●
Deferred Contingent Capital Plan (DCCP)[3, 5]			●	●	●
Base fee and committee retainer(s)[6]		●			

1 All monetary figures stated in the "Compensation" section are gross figures (compensation before applicable withholdings and deductions)." 2 The base salary of the Chairman of the BoD consists of a cash amount and a fixed number of shares. 3 All employees with a total compensation of CHF / USD 250,000 or more are eligible. 4 Additional profitability performance condition for GEB members, Key Risk Takers, Group Managing Directors and other employees with a total performance award exceeding CHF / USD 2 million. 5 Additional performance condition if our Basel III common equity tier 1 ratio falls below 7% or if a viability event occurs. 6 At least 50% of the base fee is paid in blocked UBS shares.

ments are made when there is a significant change in job responsibility, and we may make annual adjustments to reflect performance and respond to movements in the marketplace.

In 2011, we made very limited salary increases, and we continued this approach in 2012 to keep our fixed-cost base down. With effect from March 2013, base salaries were increased by a total of CHF 62 million or 1% of the monthly salary run rate for February 2013. This compares with a base salary increase made for the 2012 performance year of approximately 1.5%. The increases for 2013 apply primarily to employees who were promoted and those whose base salary fell significantly short of the market benchmark for their role. Our total salary expense for 2012 was CHF 6,814 million, down 1% from 2011 and down 3% from 2010.

Performance award

The majority of our permanent employees are considered for an annual discretionary performance award. The amount of any performance award depends on the factors, including, but not limited to, those mentioned at the start of this section, and is at the complete discretion of the firm.

As previously stated, performance awards are fully discretionary. For the 2012 performance year, for employees across the Group, the performance award was, on average, approximately 37% of the base salary. Among GEB members in office at the end of 2012, it was, on average, 321% of a GEB member's base salary. For 2011, the comparable figures were 40% and 331%, respectively.

Key performance indicators

The performance of the Group is assessed using criteria such as risk-adjusted profits, performance relative to the industry and general market competitiveness.

In addition to the key performance metric of risk-adjusted profitability, we use a number of additional criteria to assess the performance of each of our business divisions.

For example:

- we assess the performance of business areas in our wealth management businesses using criteria such as the level of net new money over the year;
- in the Investment Bank, we consider factors such as revenue and profitability, the cost-income ratio and return on risk-weighted assets;
- the financial performance of business areas in Global Asset Management is assessed using criteria such as the level of assets under management and investment performance.

Risk-related objectives also vary between businesses and include:

- the client credit documentation and operational costs in our wealth management businesses;
- the number of days during which the daily value-at-risk limit is exceeded in the Investment Bank;
- whether risk investment guidelines and Group and risk policies have been adhered to, and whether significant risk events occur in Global Asset Management; and
- broader qualitative indicators taking into account our market position for a large part of the Corporate Center.

For the Group as a whole, we consider progress against our strategic initiatives, including, but not limited to, risk-weighted asset reduction, balance sheet reduction, delivery of cost efficiencies and capital accretion.

In addition, we look at the organization's risk profile and culture, including the extent to which operational risks and audit issues are identified and resolved and the quality of its engagement in risk initiatives.

On a business area level, the size of the pool depends on its performance and that of the business division to which it belongs. This means an individual's performance award depends on the

available funding for their business area and business division, as well as on their personal achievements. However, any performance award is made at UBS's sole discretion and we do not apply a formula or assign weightings to specific performance indicators in determining individual performance awards. Performance award levels can fluctuate significantly from year to year and it is possible that an individual receives no performance award in a given year.

We evaluate performance on an ongoing basis. If performance is weak, we reduce our performance award pool accruals accordingly.

➔ Refer to the "Compensation funding and expenses" section of this report for more information

Deferral of performance awards

A significant part of our performance awards is deferred over several years. The unvested deferred amounts are forfeited or reduced if any applicable performance conditions are not met or if employees commit harmful acts. Employees with a total compensation of CHF/USD 250,000 or more receive 40% of their performance awards in cash, subject to the cash cap of CHF/USD 1 million. Above the total compensation threshold of CHF/USD 250,000, a minimum of 60% of their annual performance awards are deferred, with 30% in UBS shares that are deferred under the Equity Ownership Plan (EOP) with the remaining 30% granted under the Deferred Contingent Capital Plan (DCCP). Global Asset Management employees receive 45% of their performance awards in cash-settled notional funds under the EOP and the remaining 15% under the DCCP. A high-level overview of the framework is provided on the following page.

➔ Refer to the "Deferred variable compensation plans" section of this report for more information about the terms of our deferred variable compensation plans, including the forfeiture provisions to which they are subject, and the terms applicable to Global Asset Management employees

➔ Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for details of specific local plans with deferral provisions that differ from those described here

Other variable compensation

To support hiring or retention, particularly at senior levels, we may offer certain incentives. These include the following:

- replacement payments to compensate employees for deferred awards forfeited as a result of joining UBS. Such payments are standard industry practice and are often necessary to attract senior candidates who generally have a significant portion of their awards deferred at their current employer and where continued employment is required to avoid forfeiture. As a general principle, these "forfeited equity replacements" take into account the terms and features of any deferred award that an individual has forfeited upon joining UBS. As such, if, by joining UBS, an employee has forfeited deferred equity compensation, this will be replaced by an award under the EOP. Replacement awards are not considered part of an employee's total compensation although they constitute costs that the bank must incur to hire such employees.
- on a very limited basis, guarantees may be required to attract individuals with certain skills and experience. These awards, which are fixed incentives either in cash or in equity awarded under a plan, are paid regardless of future events, but are limited to the first performance year.
- sign-on payments are occasionally offered to important top-level candidates to increase the chances of their accepting an offer. Awards made to employees hired at the end of the year to replace performance awards that they have forfeited, as well as those offered to certain graduate hires, are also reported as sign-on payments.
- retention payments made to key senior employees to induce them to stay, particularly during critical periods for the firm.

Replacement payments, guarantees and sign-on payments are generally agreed at the time of hiring. The table on page 282 shows the amount of such payments made in 2012, together with the number of beneficiaries.

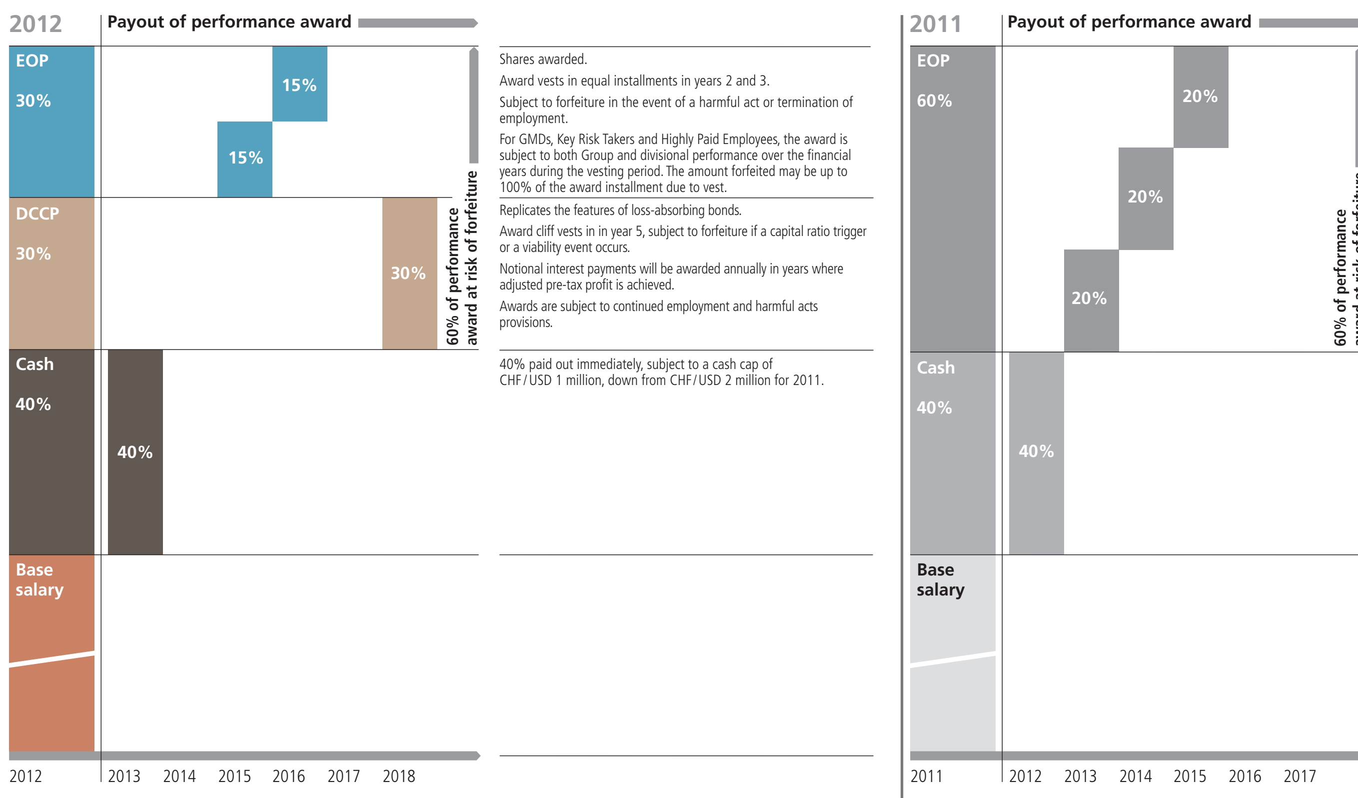
Employment contracts for those holding the rank of Director and above generally contain a notice period of between one and six months, depending on the location, which such employees must serve and during which time they are paid their base salary. We provide for severance payments in redundancy cases when employees are asked to leave as part of a reduction in the workforce. These are governed by location-specific severance policies. At a minimum, we offer severance terms which comply with the applicable local laws ("legally obligated severance"). In certain locations, we may provide severance packages that are negotiated with our local social partners that go beyond these minimum legal requirements ("standard severance"). In addition, we may make severance payments that exceed legally obligated or standard severance payments ("supplemental severance") where we believe that they are appropriate under the circumstances. For example, we may grant a performance award on a pro-rated basis to employees who have performed well but have been made redundant after the third quarter of the year. In the exceptional cases that special payments are made outside the circumstances described above, or where substantial severance payments are made, a further stringent approval process applies.

With the exception of severance payments made in redundancy cases, all the payments described above, though typical in our industry, are only offered in special circumstances. They are highly restricted, take into account the specific circumstances of each case and are normally one-time payments with substantial deferral. They generally require the approval of the divisional CEO and Human Resources heads, and, in certain circumstances, the Group Head of Human Resources, the Group CEO or the HRCC. Furthermore, such payments may be forfeited or reduced should an employee subsequently act in a manner detrimental to the interests of the firm.

2012 compensation framework for all employees with total compensation of CHF / USD 250,000 or more, except GEB members[1]

The graph below provides an illustrative overview of the 2012 compensation framework for all employees with total compensation of CHF/USD 250,000 or more, excluding GEB members and Global Asset Management employees. It also provides a comparison with the framework for 2011.

Of the annual performance award, 40% is paid immediately in cash, 30% under the EOP and 30% under the DCCP.[2]



1 Except for Global Asset Management employees and employees in certain locations subject to specific local plans with different deferral provisions. 2 Code Staff receive 50% in the form of blocked UBS shares.

Pensions and benefits

We offer certain benefits such as health insurance and retirement benefits. These benefits vary depending on the location, but are competitive within each of the markets in which we operate.

Pensions give employees and their dependents a level of security after their retirement or in the event of disability or death. While pension plans may vary across locations in accordance with local requirements, pension plan rules in any one location are generally the same for all employees in that location, including management.

➔ **Refer to "Note 30 Pension and other post-employment benefit plans" in the "Financial Information" section of this report for more information**

Employee share purchase program

We believe it is important that all our employees have the opportunity to take a personal stake in the success of the firm. Our employee share purchase program, the Equity Plus Plan, allows employees to contribute up to 30% of their base salary and/or up to 35% of their performance award toward the purchase of UBS shares. All employees below the rank of Managing Director are eligible to participate. Employees can purchase UBS shares at market price, and receive one free share for every three purchased through the program. Shares purchased under the Equity Plus Plan are generally restricted from disposal for a maximum of three years from the time of purchase. The free shares vest after three years, with vesting subject to continued employment with the firm.

Compensation for financial advisors in Wealth Management Americas

In line with market practice in the US for brokerage businesses, the compensation system for financial advisors in Wealth Management Americas is based on commissions. The commissions, paid monthly, are based on revenue and other strategic performance measures and objectives. We reduce payout rates if financial advisors make repeated or significant client account or trans-

action errors. In addition to these commissions, advisors may also qualify for year-end awards, most of which are deferred over either a six- or 10-year period. The size of these awards may be based on length of service, coupled with the amount of net new money brought in, or the amount of revenue generated from wealth management-based services or products. For 2012, we paid a total of CHF 2,793 million in compensation to financial advisors in Wealth Management Americas. These amounts are neither part of nor expensed in our discretionary performance award pools and are categorized as "Wealth Management Americas financial advisor compensation".

Identifying our Key Risk Takers

Identifying Key Risk Takers is important to ensure we incentivize only appropriate risk-taking. Key Risk Takers are defined as those employees who can materially set, commit or control significant amounts of the firm's resources and/or exert significant influence over its risk profile. This includes employees who work in front-office roles, logistics or control functions. There are currently more than 500 individuals classified as Key Risk Takers, including GEB members. We also include employees with a performance award exceeding CHF/USD 2 million (Highly Paid Employees) in this category if they have not already been identified as Key Risk Takers. All GEB members are Key Risk Takers, but disclosed separately in this report.

Compensation measures for Key Risk Takers and Highly Paid Employees

Key Risk Takers identified at the beginning of the performance year are subject to a performance evaluation by the control functions. Additionally, the vesting of their deferred awards is partially contingent on the profitability of the business division in which they work, or, in the case of Corporate Center employees, on the profitability of the Group as a whole. Like all other employees, they also face forfeiture or reduction of the deferred portion of their compensation if they commit harmful acts.

Equivalent compensation measures for Group Managing Directors

The same compensation measures apply to all Group Managing Directors (GMDs) regardless of whether they are determined to be Key Risk Takers or not. They receive part of their annual performance award under the EOP and the DCCP, with the vesting of their deferred EOP awards contingent on the same performance conditions to which Key Risk Takers are subject. Furthermore, any immediate cash award in excess of the CHF/USD 1 million cap is deferred as shares under the EOP.

➔ **Refer to the discussion "Support appropriate and controlled risk-taking" in the "Total Reward Principles" section of this report for more information**

We believe that we are fully compliant with the relevant Swiss Financial Market Supervisory Authority (FINMA) requirements regarding risk-takers, and we also consult with our other regulators around the globe on the topic. We make separate disclosures about risk takers in our local annual reports in line with local disclosure requirements.

Identifying our UK Code Staff

In accordance with guidance from the UK Financial Services Authority (UK FSA), we have identified 185 employees, consisting of senior management and employees whose professional activities could have a material impact on the firm's risk profile in the UK, as so-called "Code Staff". Compensation measures that apply to Code Staff are generally similar to those applied to Key Risk Takers. However, due to specific UK FSA requirements, 50% of Code Staff performance awards that are paid out immediately are delivered in UBS shares. Furthermore, any shares granted to Code Staff under the EOP for their performance in 2012 will be subject to an additional six-month blocking period upon vesting.

Identifying our Covered Employees

In the US, the Federal Reserve has recommended a more expansive approach for identifying employees who expose their firms to material amounts of risk. Based on guidance from the Federal Reserve Bank of New York, we have identified those employees, known as "Covered Employees". For 2012 there are 805 senior executives, employees who manage revenue-producing lines of business and revenue producers in the US who individually or collectively expose the firm to material amounts of risk.

Group Executive Board (GEB)

Performance objectives for GEB members are linked to Group and divisional key performance indicators. The Group CEO's performance award depends on the performance of the Group as a whole, while GEB members who are divisional Chief Executive Officers are assessed based on Group and divisional profitability.

Key Risk Takers[1]

Classification	Location	Number of employees
GEB members	Global	11
Key Risk Takers	Global	501, excluding GEB members

1 Includes employees with a performance award exceeding CHF/USD 2 million (Highly Paid Employees).

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Audited

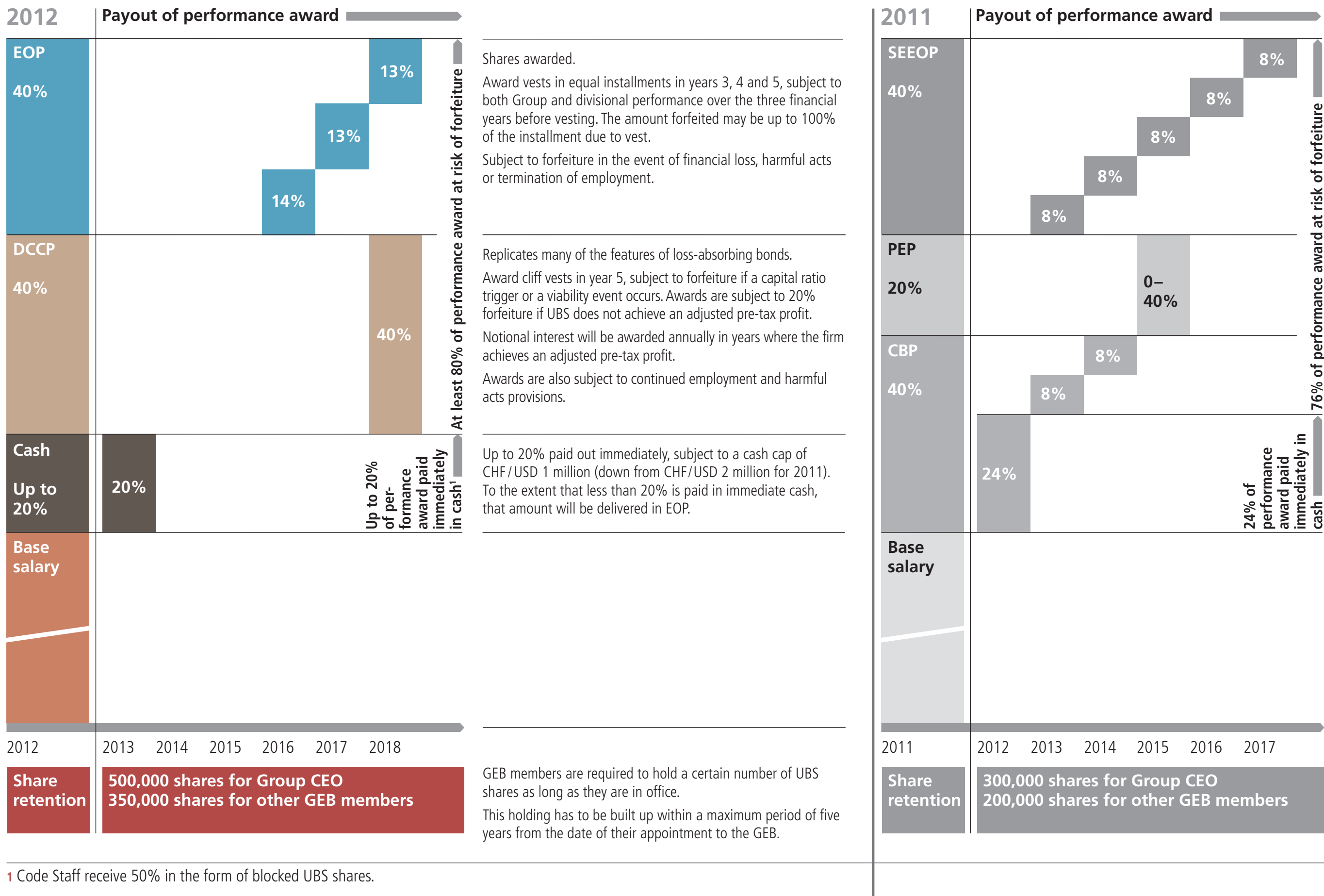
Sign-on payments, replacement payments, severance payments and guarantees

CHF million, except where indicated	Total 2012	Of which expenses recognized in 2012[4]	Of which expenses to be recognized in 2013 and later	Total 2011[1]
Total sign-on payments[1]				
Amount	17	11	6	29
Number of beneficiaries	182			342
of which Group Executive Board (GEB) members				
Amount	–	–	–	–
Number of beneficiaries	–			–
of which Key Risk Takers[2]				
Amount	4	2	2	3
Number of beneficiaries	5			2
Total replacement payments[1]				
Amount	96	23	72	154
Number of beneficiaries	203			518
of which GEB members[2]				
Amount	25	10	15	–
Number of beneficiaries	1			–
of which Key Risk Takers[2]				
Amount	32	6	26	59
Number of beneficiaries	16			35
Total guarantees				
Amount	40	15	26	237
Number of beneficiaries	68			359
of which GEB members				
Amount	–	–	–	–
Number of beneficiaries	–			–
of which Key Risk Takers[2]				
Amount	20	6	14	84
Number of beneficiaries	10			34
Total severance payments[3]				
Amount	319	314	5	239
Number of beneficiaries	2,321			1,530
of which GEB members				
Amount	–	–	–	–
Number of beneficiaries	–			–
of which Key Risk Takers[2]				
Amount	0.2	0.2	–	5
Number of beneficiaries	1			4

1 In 2011 sign-on payments and replacement payments were reported together. Total 2011 was restated correspondingly. 2 Expenses for Key Risk Takers are full-year amounts for individuals in office on 31 December 2012. Key Risk Takers include employees with a performance award of CHF / USD 2 million or more (Highly Paid Employees). 3 Severance payments include legally obligated and standard severance , as well as supplemental severance payments of CHF 16 million. 4 Expenses before post vesting transfer restrictions.

2012 compensation framework for GEB members

The graph below provides an illustrative overview of the 2012 compensation for GEB members, comparing it with the framework in 2011.
Of the annual performance award, up to 20% is paid immediately in cash, a minimum of 40% is deferred under the EOP and another 40% under the DCCP.



1 Code Staff receive 50% in the form of blocked UBS shares.

Those who lead Group control functions or who are regional CEOs are assessed based on the performance of the Group and the regions that they oversee. We also apply various qualitative criteria in evaluating the performance of GEB members. These include: their ability to manage risk; bring about change in the organization; establish strong teams; and develop new leadership talent. GEB members are also assessed on how effectively they adhere to our strategic principles and apply our values.

➔ **Refer to the "2012 compensation for the Group Executive Board and Board of Directors" section of this report for more information**

Base salary and performance awards

GEB members receive a base salary and are eligible to receive an annual discretionary performance award. While GEB awards are at the discretion of the BoD, they take into account the overall performance of the Group and are dependent on the available performance award pool funding. Overall, the GEB performance award pool is limited to up to 2.5% of the Group's adjusted pre-tax profit.

➔ **Refer to the discussion in the "2012 compensation for the Group Executive Board and Board of Directors" and "Compensation funding and expenses" sections of this report for more information**

At least 80% of a GEB member's performance award is deferred in line with our focus on sustainable performance. Of this, 40% is awarded under the Deferred Contingent Capital Plan (DCCP), a minimum of 40% is awarded under the Equity Ownership Plan (EOP) and a maximum of 20% is paid out immediately, subject to a cash cap of CHF/USD 1 million (any amount above the cash cap is paid in UBS shares or notional shares under the EOP). For GEB members, EOP awards vest from year 3 to 5 in three equal installments, subject to the applicable performance conditions being met. DCCP awards vest in their entirety in year 5, although no-

tional interest is awarded annually, provided that the firm achieves an adjusted pre-tax profit for that year. In addition to the capital ratio trigger of 7%, DCCP awards for GEB members will be subject to an additional performance condition. If UBS does not achieve an adjusted pre-tax profit during the vesting period, GEB members would forfeit 20% of the award for each loss-making year. As such, 100% of the award is at additional risk of forfeiture.

By discontinuing our previous deferred variable compensation plans, we have eliminated all leverage from our compensation plans, thereby further discouraging excessive risk-taking.

➔ Refer to the "Deferred variable compensation plans" section of this report for more information

➔ A high-level overview of the 2012 compensation framework for GEB members is provided on the following page, which includes the 2011 framework (shaded) for comparison purposes

To further align their interests with those of our shareholders, as well as to further ensure that they remain focused on the longer-term success of the firm, we operate a formal share ownership requirement, under which GEB members must hold a minimum number of UBS shares. In 2012, the minimum holding requirement levels were increased. Each GEB member must now hold a minimum of 350,000 shares compared with the previous requirement of 200,000 shares. The Group CEO is now required to hold 500,000 shares compared with the previous minimum of 300,000 shares. These shareholdings must be built up within a maximum period of five years from the date a GEB member is appointed and must be retained for as long as he or she remains in office. The number of UBS shares held by each GEB member is determined by adding any vested or unvested shares to privately held shares. GEB members are not permitted to sell their UBS shares until the abovementioned thresholds have been reached.

Employment contract terms

Employment contracts for GEB members do not provide for "golden parachutes", that is, special severance terms, including supplementary contributions to pension plans. All employment contracts with GEB members contain a notice period of six months, except for one which contains a 12-month notice period. If a GEB member leaves the firm before the end of a performance year, he or she may be considered for a discretionary performance award based on his or her contribution during the time worked in that performance year. Such awards are at the full discretion of the firm, which may decide not to grant any awards.

Benefits

Benefits for GEB members are in line with local practices for other employees.

➔ Refer to the "2012 compensation for the Group Executive Board and the Board of Directors" section of this report for more information

Audited

Fixed and variable compensation[1]

CHF million, except where indicated	Total for the year ended 2012 amount	%	Not deferred amount	%	Deferred[3] amount	%	Total for the year ended 2011[4]
Group Executive Board (GEB) members[2]							
Total compensation							
Amount	70	100	18	25	52	75	75
Number of beneficiaries	13						15
Fixed compensation							
Base salary	18	25	18	100	0	0	20
Variable compensation	52	75	0	0	52	100	55
Immediate cash	0		0	0	0	0	N/A
Equity Ownership Plan	31		0	0	31	100	N/A
Deferred Contingent Capital Plan	21		0	0	21	100	N/A
Discontinued deferred compensation plans[5]	N/A	N/A	N/A	N/A	N/A	N/A	55
Key Risk Takers[6]							
Total compensation							
Amount	790	100	403	51	387	49	656
Number of beneficiaries	501						448
Fixed compensation							
Base salary	218	28	218	100	0	0	194
Variable compensation	572	72	185	32	387	68	462

1 The compensation of GEB members who assumed their roles in 2012 is reflected in the GEB and Key Risk Taker numbers in this table on a pro-rated basis. 2 The figures refer to all GEB members in office in 2012 and all GEB members who stepped down during 2012. 3 This is based on the specific plan vesting which may differ from the accounting expensing. 4 Year 2011 as reported in Annual Report 2011. 5 Cash Balance Plan, Senior Executive Equity Ownership Plan and Performance Equity Plan. 6 Includes employees with a performance award of CHF / USD 2 million or more (Highly Paid Employees).

How the LIBOR-related settlements and fines have impacted our compensation for 2012

In December 2012, UBS reached a settlement with the UK Financial Services Authority (FSA), the US Department of Justice (DOJ) and the Commodity Futures Trading Commission (CFTC) resolving LIBOR and other benchmark-related investigations, under which UBS agreed to pay fines totaling approximately CHF 1.4 billion. At the same time, the Swiss Financial Market Supervisory Authority (FINMA) issued an order concluding its formal proceedings with respect to UBS, requiring UBS to pay CHF 59 million in disgorgements.

Shareholders, clients and our employees are understandably concerned about the conduct identified in the LIBOR investigations. From the time management discovered the wrongdoing and promptly reported it to regulators, we have fully cooperated with these regulators and taken significant remedial action to improve policies, protocols and controls.

Termination of employment and other disciplinary measures

We took disciplinary measures against those employees who were found to have been involved in the misconduct or who failed in their supervisory duties, including terminating their employment. 26 employees left UBS before disciplinary action could be taken. 25 employees had their employment terminated, either by separation agreement or termination for cause. 27 individuals were sanctioned with various warnings, reductions in their compensation and forfeiture of part of their deferred compensation, and by not being considered for promotions. We continue to assess whether sanctions against other current and former employees should be taken based on our ongoing reviews or information we receive from regulators.

Forfeiture of unvested deferred performance awards

In addition to the reduction or elimination of performance awards paid to individuals for 2011 and 2012, we estimate that approximately CHF 60 million of unvested deferred performance awards has been forfeited. These forfeitures were principally due to the following:

- terminations
- resignations
- performance conditions in our deferred variable compensation plans being deemed not to have been met
- the application of the harmful acts forfeiture provisions

Performance award pool funding

Given the serious nature of the matter and the financial and reputational impact that it had on the firm, the cost of the LIBOR-related settlements was taken fully into account in determining the size of the overall performance award pool for 2012. In addition, the HRCC recommended to the BoD that the performance award pools for the Investment Bank and the Corporate Center should be reduced to reflect the gravity of the matter. In doing so, they considered both the direct actions of those who attempted to influence LIBOR rates and the fact that UBS's controls and procedures did not detect or prevent these actions.

Investment Bank

In determining the size of the performance award pool for the Investment Bank, the HRCC considered the division's financial performance for the year, adjusted for items such as goodwill impairment and restructuring charges. To assist in its thinking, it factored in a discretionary adjustment equivalent to approximately 50% of the LIBOR-related costs for the year. Finally, the HRCC also took into account the Investment Bank's significant achievements in reducing its risk-weighted assets and balance sheet and accelerating the implementation of the firm's strategy. Taking all these factors into consideration, the HRCC determined that the Investment Bank's overall performance award pool should be reduced by approximately 20% compared to the level of performance awards for the division for 2011. In addition, unlike in 2012, no special awards will be granted to Investment Bank employees in 2013. The HRCC also determined that performance awards subject to performance conditions that were due to vest in March 2013 for the Investment Bank should be reduced by 10%. This 10% forfeiture, amounting to over CHF 14 million at the time of forfeiture, applied to over 300 individuals.

Corporate Center

The Corporate Center performance award pool was also reduced as a result of the LIBOR matter. However, no forfeiture of performance awards with performance-linked vesting conditions was deemed appropriate in the Corporate Center as the relevant performance condition, that is, the firm's overall profitability, as measured on an adjusted performance basis, was met.

Our deferred variable compensation plans

To ensure our employees' and shareholders' interests are aligned, we pay part of our performance awards in UBS shares. To keep our employees focused on the medium and longer-term profitability of the firm, all variable compensation plans require a significant part of an employee's performance award to be deferred for up to five years and include forfeiture provisions.

In 2012, we simplified and at the same time strengthened our compensation framework by eliminating a number of plans and introducing two universal plans that apply to all employees with a total compensation above CHF/USD 250,000 – the revised Equity Ownership Plan (EOP) and the new Deferred Contingent Capital Plan (DCCP). We have also extended the deferral period for our performance award plans. The introduction of the DCCP and changes to vesting conditions for the EOP have resulted in the average deferral period for the GEB increasing to 4.5 years (from 2.7 years for 2011) and to 3.8 years for other employees (from 2.0 years for 2011). The previous plans for members of the GEB, namely the Cash Balance Plan (CBP), Senior Executive Equity Ownership Plan (SEEOP) and the Performance Equity Plan (PEP) have been discontinued.

The forfeiture provisions in our deferred variable compensation plans, which have been enhanced, enable the firm to forfeit some, or all, of the unvested deferred portion if an employee commits certain harmful acts.
Generally, we regard the following as harmful acts:

- contributing substantially to a significant downward restatement of the Group's or a business division's results or to the Group incurring significant financial losses
- engaging in conduct and/or failing to discharge supervisory or managerial responsibilities that results in detriment to UBS, including reputational harm
- engaging in conduct that materially violates legal and regulatory requirements or internal policies and procedures
- disclosing confidential or proprietary information
- soliciting UBS employees or clients

As a result of the changes described above we believe we have the largest proportion of deferred compensation in our peer group, and that our employees would have more deferred compensation at risk than at any other competitor firm. Thus we provide greater protection to our stakeholders in the event of poor performance or harmful acts.

➔ **Refer to "Note 31 Equity participation and other compensation plans" in the "Financial Information" section of this report for more information on valuation principles and valuation of the awards granted**

Overview of variable compensation plans

Compensation is closely linked to longer-term sustainable performance. All of our variable compensation plans feature performance conditions for certain employees. A substantial part of variable compensation is deferred and at risk of forfeiture for several years.

		Equity Ownership Plan	Deferred Contingent Capital Plan
Beneficiaries		GEB members, Key Risk Takers and all employees with total compensation greater than CHF/USD 250,000	GEB members, Key Risk Takers and all employees with total compensation greater than CHF/USD 250,000
Vesting schedule		Vests in equal installments in years 3 to 5 for GEB members and in equal installments in years 2 and 3 for all other employees[1]	Vests in full in year 5
Conditions influencing payout	**Share price[2]**	●	
	Forfeiture clauses	●	●
	Harmful acts	●	●
	Performance conditions	For GEB members, GMDs, Key Risk Takers and Highly Paid Employees, the number of UBS shares delivered at vesting depends on the achievement of both Group and divisional performance conditions	Depends on whether a trigger event or viability event has occurred Awards for GEB members are also subject to 20% forfeiture for any year where UBS does not achieve an adjusted pre-tax profit
Profitability as funding driver		●	●
Instrument		UBS shares or notional shares[2]	Notional bond and interest

1 Except for Global Asset Management employees, whose awards vest in equal installments in years 2, 3 and 5, and employees in certain locations subject to specific local plans with different deferral provisions.
2 Cash-settled notional funds for Global Asset Management employees.

Equity Ownership Plan (EOP)

We have extended the vesting period and revised the performance conditions for the EOP. Awards granted for the performance year 2012 and onwards will vest in two equal installments in years 2 and 3 for all employees other than GEB members, and in three equal installments in years 3 to 5 for GEB members. For GMDs, Key Risk Takers and Highly Paid Employees, vesting is now also subject to multi-year performance conditions. In addition, the harmful act provisions have been enhanced to better ensure that awards can also be forfeited in the event that an employee fails to discharge his or her supervisory or managerial responsibilities. Up to 100% of the award due to vest may be forfeited. This plan provides no leverage.

Description

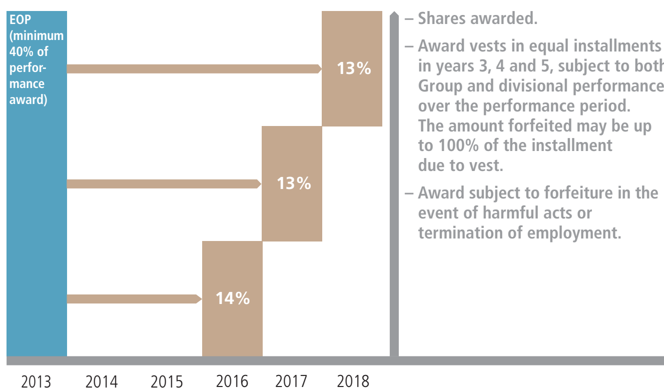
The EOP is a mandatory performance award deferral plan for all employees with total compensation of CHF/USD 250,000 or more. Such employees receive 30% of their performance award above that level in deferred UBS shares or notional shares under the EOP. GEB members receive at least 40% of their performance awards under the EOP. Global Asset Management employees receive 45% of their performance awards above the total compensation threshold under the EOP, the amount of which is linked to the value of designated underlying Global Asset Management funds (notional funds) at the time of vesting. Their EOP awards vest in three equal installments in years 2, 3 and 5. The EOP installments vesting in years 2 and 3 which were granted to Global Asset Management employees who are GMDs, Key Risk Takers or Highly Paid Employees are subject to the same performance conditions as those for other such employees.

For 2012, an estimated 6,372 employees received EOP awards. EOP awards are granted annually. Although the forfeiture provisions are the same for all EOP awards, the other terms of these awards vary depending on the category an employee falls into, as summarized in the table on the right.

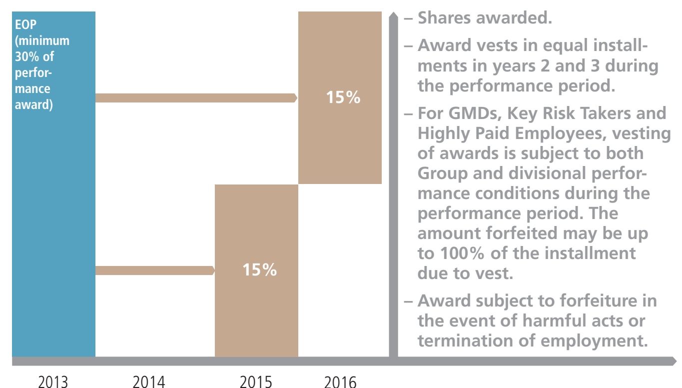
Employee categories[1]	Minimum percentage of performance award deferred under EOP	EOP vesting period	EOP performance conditions
GEB members	40%	Vests in equal installments in years 3 to 5	●
Group Managing Directors, Key Risk Takers and Highly Paid Employees[2]	30%	Vests in equal installments in years 2 and 3	●
All other employees with total compensation of more than CHF/USD 250,000	30%[3]	Vests in equal installments in years 2 and 3	

1 Excluding Global Asset Management employees and employees subject to different plans in certain locations. 2 Employees with a performance award of more than CHF/USD 2 million. 3 At least 30% of the performance award that is above CHF/USD 250,000 is deferred under the EOP.

EOP vesting schedule for GEB members



EOP vesting schedule for all employees except GEB members



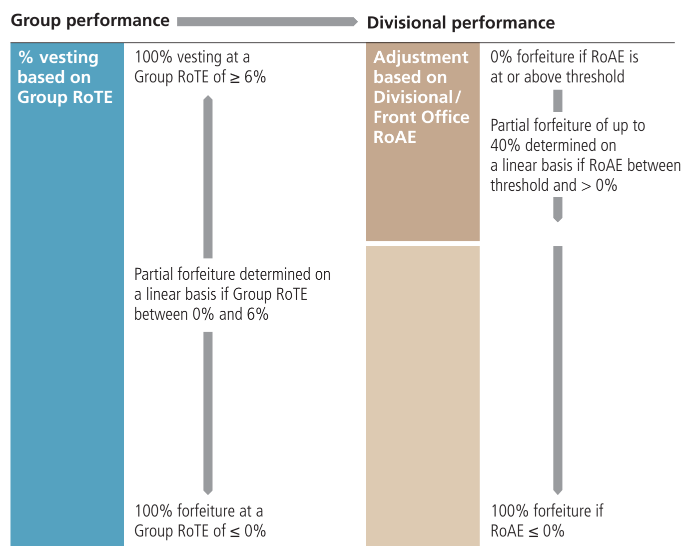
EOP performance conditions for GEB members, GMDs, Key Risk Takers and Highly Paid Employees: The vesting of an EOP award depends on both Group performance and divisional performance. Group performance is measured by the average adjusted Group return on tangible equity (RoTE) and divisional performance by the average adjusted divisional return on attributed equity (RoAE), or, for Corporate Center employees, the average of the RoAE for all business divisions, which excludes Corporate Center (Front Office RoAE). The percentage of an EOP award that vests is determined as follows.

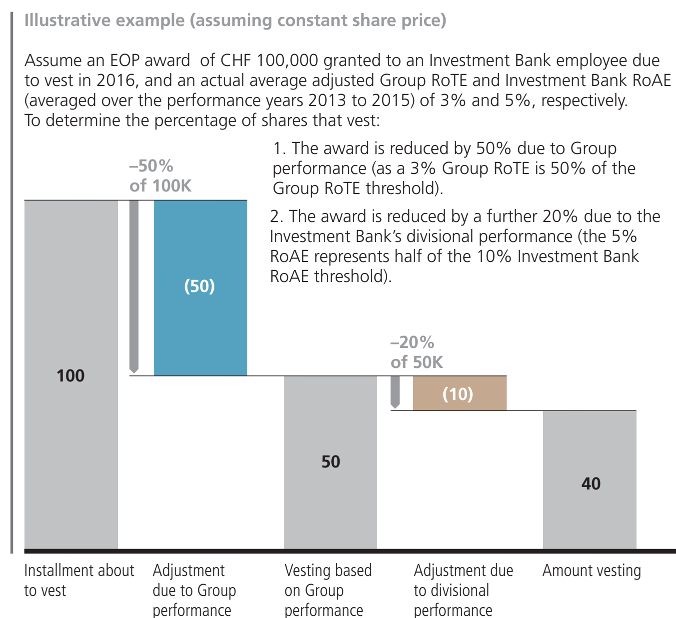
If the average adjusted Group RoTE achieved is greater than or equal to the 6% threshold, the award will vest in full, subject to the relevant divisional threshold also being met. If the Group RoTE is 0% or negative, the installment will be fully forfeited for the entire Group regardless of any division's particular performance. If the Group RoTE falls between 0% and 6%, the award will vest on a linear basis between 0% and 100%, again subject to the relevant divisional threshold being met.

The purpose of the divisional threshold is to reduce the amount of the EOP award that vests for any division that does not meet its divisional performance target. Therefore, if the divisional RoAE threshold (see table below) is met, no adjustment is made to the EOP award. If, however, the RoAE falls below the threshold but is above 0% for any division, a downward adjustment will be applied to the percentage of shares that would otherwise vest for that division. The extent of this downward adjustment depends on how much the actual RoAE falls below the threshold for that division, and will be up to 40%. If the actual RoAE for a division is 0% or negative, the installment will be fully forfeited for that division. The achievement of the performance conditions will be assessed by the HRCC.

An illustrative example of how we determine the percentage of shares that vest is provided below.

GEB members, GMDs, Key Risk Takers and Highly Paid Employees: EOP performance conditions





Divisional RoAE thresholds (or, for Corporate Center employees, Front Office RoAE thresholds)

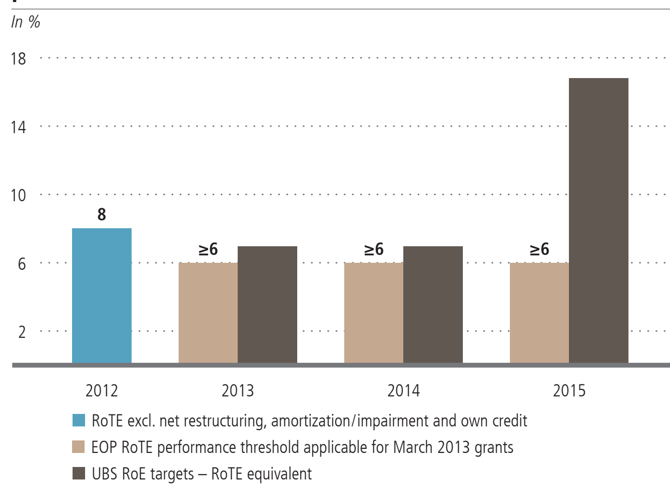
Wealth Management	≥ 40%	Investment Bank	≥ 10%
Retail & Corporate	≥ 15%	Global Asset Management	≥ 20%
Wealth Management Americas	≥ 20%	Corporate Center	≥ 10%

Performance periods for EOP awards granted in March 2013

	Installment vesting after	Applicable performance period
GEB	3 years	2013, 2014 and 2015
	4 years	2014, 2015 and 2016
	5 years	2015, 2016 and 2017
GMDs, Key Risk Takers and Highly Paid Employees	2 years	2013 and 2014
	3 years	2013, 2014 and 2015

Return on tangible equity – comparison with EOP performance thresholds

In %



The objective of linking the vesting of EOP awards with a return on equity over a two- to five-year time horizon is to focus our employees on developing and managing the business in a way that delivers sustainable returns. We believe that Group return on tangible equity (RoTE) is a better performance measure than the Group's return on total equity (RoE). The difference between the two is that tangible equity includes only shareholders' equity and excludes goodwill and intangibles and thus provides a more consistent basis to measure performance.

The Group's published RoE targets can be converted into RoTE targets by deducting the current balance of goodwill and intangibles from the Group's total equity base. On this basis, the Group's reported RoE target of mid-single digits for 2013 and 2014 would be approximately 1–2 percentage points higher in terms of RoTE. Our 2015 RoE target of more than 15% is the equivalent of RoTE of more than 17%, calculated based on our estimated tangible equity.

UBS began to report Group RoTE in its fourth-quarter 2012 report and will continue to do so on a quarterly and annual basis. UBS has reported RoAE for each business division (except the Corporate Center) for some time. This information is available in this report and will be included in subsequent quarterly and annual reports.

In determining the RoTE performance threshold for any year it will be important to set the threshold such that employees do not have to earn a performance award twice (once when granted and again during the vesting period). In establishing a threshold of 6% for the Group RoTE for the 2012 performance year we acknowledge that the bank is still in a transformational phase and take into consideration the financial effects of restructuring the bank during 2013 and 2014.

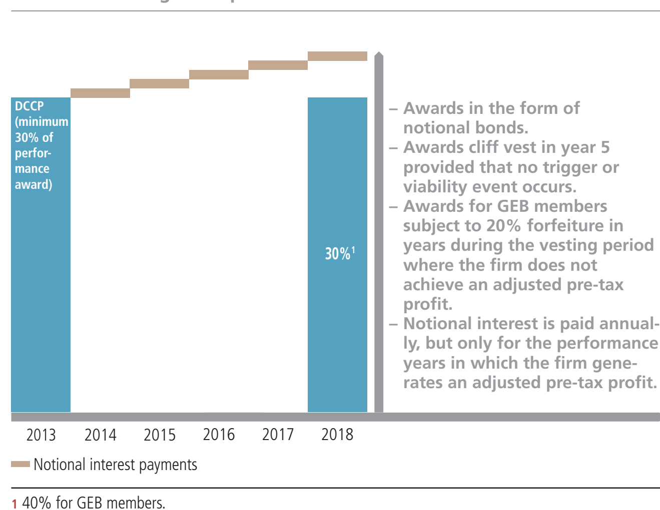
Deferred Contingent Capital Plan (DCCP)

The introduction of the DCCP as a key component of our compensation framework better aligns the interests of our senior employees with those of our stakeholders as the plan replicates many of the features of the loss-absorbing bonds that we issued to investors in 2012. It is subject to standard forfeiture and harmful acts provisions and provides no leverage.

We anticipate that over the next five years, we could build up to 100 basis points of high-trigger loss-absorbing capital from this program, which would act as an additional buffer against declines in capital.

Eligible employees: The DCCP is a mandatory performance award deferral plan for all employees with total compensation of CHF/USD 250,000 or more. Such employees receive 30% of their performance award above that level under the DCCP, with the exception of Global Asset Management employees, who receive 15% of their performance awards under the plan. GEB members receive 40% of their performance awards under the DCCP. For 2012, an estimated 6,317 employees received DCCP awards. DCCP awards are intended to be granted annually.

Deferred Contingent Capital Plan



1 40% for GEB members.

Description: Employees are awarded notional bonds with annual interest payments. UBS will only pay interest for the performance years in which the firm generates an adjusted pre-tax profit. For years in which UBS does not achieve an adjusted pre-tax profit no notional interest will be paid. Once paid, notional interest is not subject to clawback. The notional interest rate is set based on the yield to maturity of a market-traded loss-absorbing bond observed from 1 to 15 February 2013 for the awards granted on 15 March 2013. The notional interest rate is 6.25% for awards denominated in USD and 5.40% for awards denominated in CHF. These interest rates are lower than the rates paid to the holders of our loss-absorbing bonds issued in February 2012 and August 2012, which have coupons of 7.25% and 7.625%, respectively. Awards vest in full after five years, subject to the restrictions outlined in the following paragraph.

Restrictions: Awards granted under the DCCP forfeit if our Basel III common equity tier 1 (CET1) ratio falls below 7%. This is a higher trigger than for our bondholders who would only see their bonds written down if our Basel III CET1 ratio falls to 5%. In addition, awards are also forfeited if a viability event occurs, that is, if FINMA provides a written notice to UBS that the DCCP must be written down to prevent the insolvency, bankruptcy or failure of UBS, or if UBS receives a commitment of extraordinary support from the public sector that is necessary to prevent such insolvency, bankruptcy or failure.

Furthermore, DCCP awards for GEB members are subject to an additional performance condition. In any years during the vesting period where UBS does not achieve an adjusted pre-tax profit, GEB members would forfeit 20% of the award. As such, 100% of GEB DCCP awards are at additional risk of forfeiture.

Vesting of outstanding awards granted in prior years impacted by performance conditions

The following provides an overview of the impact of the financial performance in 2012 on the vesting of outstanding awards granted in prior years which were due to vest in 2013.

Vesting of Performance Equity Plan awards granted in 2010

The vesting of awards granted under the Performance Equity Plan (PEP) depends on the cumulative economic profit (EP) over 2010–2012 and the relative total shareholder return (TSR) over the same period as compared to the constituent banks in the Dow Jones Banks Titans 30 Index at the time of grant. Based on the actual cumulative EP and relative TSR ranking over the performance period, and following validation by PricewaterhouseCoopers, the HRCC has determined that 52% of the performance shares granted to GEB members in 2010 have vested, that is, 48% has been forfeited.

Vesting of Senior Executive Equity Ownership Plan and Performance Equity Ownership Plan 2010/11 and 2011/12 awards

The vesting in 2013 of installments of the Senior Executive Equity Ownership Plan (SEEOP) and Performance Equity Ownership Plan (Performance EOP) 2010/11 and 2011/12 awards is dependent on the adjusted operating profit before tax of the business division or, for Corporate Center employees, adjusted Group operating profit before tax. Performance EOP awards vested in full for all business divisions, except for the Investment Bank.

Although the Investment Bank generated an adjusted operating profit in 2012, the HRCC determined that the number of shares due to vest on 1 March 2013 would be reduced by 10% for Investment Bank employees. The HRCC's determination was based on the profitability of the Investment Bank, including adjustments for goodwill impairment, restructuring charges and own credit losses, as defined in the plan rules. The HRCC, at its discretion, took into consideration approximately 50% of the fines and related costs in connection with the LIBOR matter. The HRCC's intention in applying its discretion is to ensure that the mechanistic outcome of performance conditions relating to awards will be subject to review to avoid outcomes which could be seen as contrary to the intention of the plans and to shareholders' interests. Accordingly, Investment Bank employees received 90% of the shares awarded under the Performance EOP that were due to vest on 1 March 2013. The same determination was also made regarding the outstanding SEEOP award in the Investment Bank for Carsten Kengeter, that is, 10% of the second installment of the SEEOP award granted to him in 2011 was forfeited.

Vesting of Cash Balance Plan 2011 and 2012 awards

The outstanding unvested amounts of Cash Balance Plan (CBP) awards granted in February 2011 and February 2012 are adjusted based on the Group RoE during the financial years prior to vesting. If Group RoE is below 0%, the actual Group RoE determines the extent of the downward adjustment. If Group RoE is between 0% and 6%, no adjustment will be made. Should Group RoE exceed 6%, the unvested amount is adjusted upwards in line with the actual Group RoE, up to a maximum of 20% (that is, any upside adjustment is capped at 20%).

For Cash Balance Plan (CBP) awards granted in February 2011, the last installment which vested in 2013 was adjusted in line with the actual Group RoE over 2011 and 2012. As such, the award was adjusted upwards by 9.1% (reflecting 2011 performance) and then downwards by 5.2% (reflecting 2012 performance). For the CBP awards granted in February 2012, the first installment that vested in 2013 was adjusted downwards by 5.2% (reflecting 2012 performance). The last installment which is due to vest in 2014 will be adjusted based on the actual Group RoE over 2012 and 2013.

Discontinued deferred compensation plans

The following table sets out the details of discontinued compensation plans, including those under which stock options, stock appreciation rights and other instruments were granted in the past. UBS has not granted any options since 2009. The strike price for stock options awarded under prior compensation plans has not been reset. No grants were made for the 2012 performance year under the discontinued plans (see below).

➔ **Refer to "Note 31 Equity participation and other compensation plans" in the "Financial Information" section of this report for more information**

Plan	Cash Balance Plan (CBP)	Performance Equity Plan (PEP)	Senior Executive Equity Ownership Plan (SEEOP)	Special Plan Award Program (SPAP)	Deferred Cash Plan (DCP)	Incentive Performance Plan (IPP)	Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP)	Senior Executive Stock Appreciation Rights Plan (SESAP) and Senior Executive Stock Option Plan (SESOP)
Years granted	2010–2012	2010–2012	2010–2012	2012 only	2011 only	2010 only	2002–2009	2002–2009
Eligible employees	GEB members	GEB members	GEB members and Group Managing Board	Selected Managing Directors and Group Managing Directors in the Investment Bank	Investment Bank employees whose total compensation exceeded CHF 1 million	GEB members and other senior employees (approximately 900 employees)	Selected employees (approximately 17,000 employees between 2002 and 2009)	GEB members and Group Managing Board
Instrument	Cash	Performance shares	Shares	Shares	Cash	Performance shares	Share-settled stock appreciation rights (SAR) or stock options with a strike price not less than the fair market value of a UBS share on the date of grant	Share-settled stock appreciation rights (SAR) or stock options with a strike price not less than the fair market value of a UBS share on the date of grant
Performance conditions	CBP 2011 and 2012: dependent on the return on equity CBP 2010: dependent on UBS being profitable	The number of UBS shares delivered can be between zero and two times the number of performance shares granted, depending on whether performance targets relating to economic profit (EP) and relative total shareholder return (TSR) have been achieved	Dependent on whether the business division makes a loss (the amount forfeited depends on the extent of the loss and generally ranges from 10% – 50% of the award portion due to vest)	Dependent on the level of reduction in risk-weighted assets achieved and the average published return on risk-weighted assets in the Investment Bank in 2012, 2013 and 2014	None	Dependent on share price at the end of the five-year period	None	None
Restrictions / other conditions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment and harmful act provisions	Subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information	Subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information
Vesting period	Vests in equal installments over a two-year period	Vests in full three years after grant	Vests in equal installments over a five-year period	Vests in full three years after grant	Vests in one-third installments over a three-year period	Vests in full at the end of five years. Number of shares that vest can be between one and three times the number of performance shares initially granted	Vests in full three years after grant. SAR and options expire 10 years from the date of grant	Vests in full three years after grant. SAR and options expire 10 years from the date of grant

2012 performance summary

The Group reported an overall loss last year, in part reflecting our decision to accelerate the firm's strategy, which contributed to a significant goodwill impairment and restructuring costs. The results were also impacted by legal and regulatory costs, including the costs of the LIBOR settlement. However, we made substantial progress towards achieving our strategic objectives, including building our capital ratios, reducing costs and remediating operational risk events. Further progress was made in many areas of the business as we continued to address the challenges of the past.

As a Swiss bank, UBS is subject to the most stringent regulatory requirements in the world. In 2012, we exceeded the capital targets we set ourselves for the year and enhanced our position as one of the world's best capitalized banks. On a fully applied basis, our Basel III common equity tier 1 (CET1) capital ratio rose by 310 basis points to 9.8%, meaning we have almost achieved our regulator's minimum 2019 requirement of 10%. Our Basel III phase-in CET1 capital ratio increased by 460 basis points to finish the year at 15.3%. We achieved these increases primarily through reductions in risk-weighted assets, with total reductions of over CHF 120 billion, or 32% for the year. We also made good progress in relation to our balance sheet, which was reduced by CHF 158 billion over the year. Our Basel III funding and liquidity ratios remain above our regulator's 100% requirements and place us ahead of our peers.

We firmly believe that capital strength is the foundation of our success. It allows us the flexibility to execute our strategy and it reinforces client confidence while allowing us to address the challenges of the past. As a sign of that strength and of our confidence in our continued ability to execute our strategy in a disciplined manner, the BoD is recommending a 50% increase in the dividend for shareholders for the year to CHF 0.15 per share.

On costs, we experienced higher than expected legal costs and adverse foreign exchange movements, but our underlying progress on cost reduction is on track.

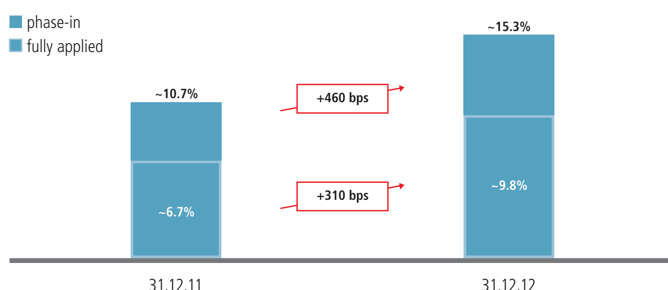
Our performance in 2012

We made solid progress across all businesses in 2012. Notably, our Wealth Management business continued to see success in the fastest growing global markets while adapting to the new cross-border paradigm. Together, our wealth management businesses attracted strong net new money inflows totaling almost CHF 47 billion, an increase of over CHF 11 billion on 2011 and a demonstration of our clients' continued trust. Wealth Management Americas continued to make strong progress and achieved a record pre-tax profit of USD 873 million, an increase of 40% on 2011. Our Retail & Corporate business delivered a resilient pre-tax performance in difficult markets and continued to regain market share. It performed exceptionally well in relation to net new business volume growth, which reached almost 5%, and recorded deposit inflows of CHF 14 billion, including the highest net new client assets for retail clients in Switzerland since 2001. Global Asset Management recorded an increased pre-tax profit as it delivered stronger investment performance to its clients. The Investment Bank beat our targets in relation to risk-weighted asset and balance-sheet reduction, allowing the firm to reach its current industry-leading capital ratios. It performed well in many of its traditional areas of competitive strength, expanding in equity and debt capital markets and global syndicated finance where revenues increased 16%. Its foreign exchange business continued to benefit from the investments we made in cutting edge e-trading systems, enabling it to grow volumes significantly.

Overall for 2012, the Group reported a disappointing pre-tax loss of CHF 1,774 million, a net loss attributable to UBS shareholders of CHF 2,511 million and diluted earnings per share of negative CHF 0.67. The result includes a number of items relating to the acceleration of our strategy, which we announced in October 2012. We recorded CHF 3.1 billion of goodwill impairments

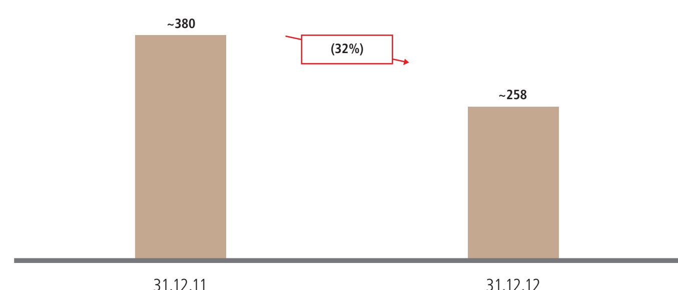
Basel III CET1 ratio

CHF billion Phase-in Basel III CET1 ratio up ~460 bps



Basel III RWA

CHF billion Basel III RWA reduced by ~32%



Corporate governance, responsibility and compensation

and CHF 0.4 billion of restructuring costs. In addition we recorded own credit charges of CHF 2.2 billion which resulted from the tightening of our credit spreads as the perceived creditworthiness of our debt improved, partly in reaction to the accelerated implementation of our strategy. We also had positive effects of CHF 846 million related to changes to our Swiss pension plan and to our retiree medical and life insurance plan in the US. Adjusting for the items listed above (all of which are outside the control of divisional management or result from strategic decisions), one can get a clearer picture of our underlying performance. On this basis, the Group would have recorded a pre-tax profit of CHF 3.0 billion, which includes fines and disgorgements of CHF 1.4 billion in relation to LIBOR.

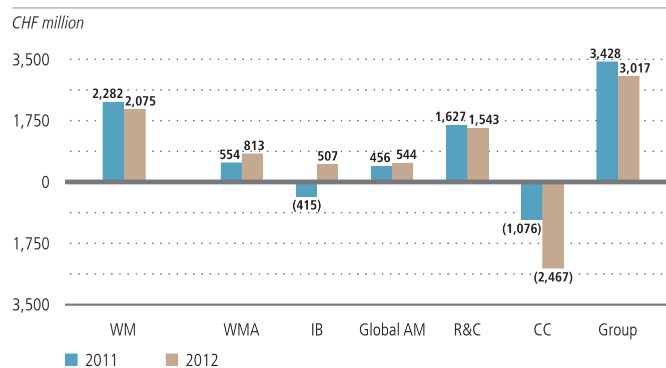
UBS's performance award pool was reduced to CHF 2.5 billion, a 7% decrease compared with 2011, and a 42% decrease compared with 2010. The overall decrease in the performance award pool year-on-year puts it at the lowest level since the financial crisis. The reduction in the pool must also be viewed in the context of the wide-ranging changes we have made to our new compensation plans, including increased deferral periods, the elimination of leveraged plans, the introduction of the Deferred Contingent Capital Plan, which has a five-year vesting period, and the halving of the maximum immediate cash component of any performance award. Taken in conjunction with the firm's achievements in building its industry-leading capital ratios and the proposed 50% increase in dividend payments to shareholders for 2012, it illustrates the continuing shift in the relationship between compensation, capital and dividends.

Summary of financial performance for 2012 and 2011

CHF billion	2012	2011
Pre-tax profit/(loss) as reported	**(1.8)**	5.3
Impairment of goodwill, intangibles and PPE	3.1	0.0
Own credit	2.2	(1.5)
Net restructuring charges	0.4	0.4
Other	(0.8)[1]	(0.7)[2]
Adjusted pre-tax profit	**3.0**	3.4

1 Includes credit for changes to a US retiree medical life insurance benefit plan of CHF 116 million and credit for changes to the UBS's Swiss pension plan of CHF 730 million. 2 Includes gain on the sale of our strategic investment portfolio (SIPF).

Adjusted pre-tax performance[1] for the Group and business divisions



1 Each of the following items has been excluded on a Group and relevant business division or Corporate Center level: own credit loss on financial liabilities designated at fair value for the Group CHF 2,202 million for 2012 (own credit gain of CHF 1,537 million in 2011), restructuring charges CHF 371 million for the Group in 2012 (net charge of CHF 380 million in 2011), impairment losses of CHF 3,064 million on goodwill and non-financial assets in the Investment Bank in 3Q12, credit to personnel expenses related to changes to a US retiree medical and life-insurance benefit plan of CHF 116 million in 2Q12, changes to the Swiss pension plan of CHF 730 million for the Group in 1Q12 and the gain on the sale of strategic investment portfolio of CHF 433 million in Wealth Management and CHF 289 million in Retail & Corporate in 3Q11.

Our compensation funding and expenses for 2012

The performance award pool for 2012 is CHF 2.5 billion, 7% lower than for 2011 and 42% lower than 2010.

Business performance is the basis of our compensation funding framework and we measure our business divisions' performance in various ways, including profitability, quality of earnings, contribution before performance award and economic contribution before performance award. The latter is calculated by deducting the cost of capital based on equity allocated to the business and reflects the relative risks of each business.

Funding rates are linked to a division's level of profitability and reflect factors such as changes in performance during the year, affordability and the need to remain attractive as an employer.

If a business division's profits increase, the proportion of profits we allocate to pay performance awards is reduced. This approach has several benefits. In good years it helps to prevent excessive compensation and allows us to return capital to shareholders. In lean years, it provides management with the flexibility to ensure we can make adequate provisions to retain key employees.

We believe it is important that our management can exercise its judgment and make recommendations, which are then reviewed by the HRCC. If management feels a division's performance award pool does not fully reflect its performance, the Group CEO can recommend a change to the size of the pool. For example, if a division is restructuring or investing significantly in its business this would have a material short-term financial impact, but it may also be seen as contributing to the firm's longer term goal of delivering sustainable performance. In the case of variable compensation funding, management may make recommendations to ensure the firm remains attractive as an employer. Such recommendations would take into account the firm's market position from a performance and compensation perspective, and industry compensation trends, including at senior management levels, based on peer comparisons. This year, we have broadened the scope of our peer benchmarking to ensure as far as possible that it provides like-for-like comparisons to aid the decision-making process.

To the extent that discretion is exercised in any year, the HRCC undertakes to UBS's shareholders that it will be applied judiciously and in a manner that is aligned with our strategy to create sustainable shareholder value.

Sustainable profitability is key to compensation funding

The primary basis for funding across UBS is profitability. The following describes how we determine our performance award pools.

Performance awards granted for the 2012 performance year

Our performance award pool for 2012 is CHF 2,522 million, 7% lower than for 2011. This reflects our overall profitability, quality of earnings, and our progress towards achieving our strategic objectives, including strengthening our capital ratios and reducing risk-weighted assets.

The "Total variable compensation" table shows the amount of variable compensation awarded to employees for the performance year 2012, together with the number of beneficiaries for each type of award granted. We define variable compensation as the discretionary, performance-based award pool for the given year. In the case of deferred awards, the final amount paid to an employee is dependent on performance conditions to which these awards are subject and consideration of relevant forfeiture provisions. The deferred share award amount is based on the fair value of these awards on the date of grant.

The "Deferred compensation" table on the following page shows the current intrinsic value of unvested outstanding deferred variable compensation awards subject to ex-post adjustments. For share-based plans, the intrinsic value is determined based on the closing share price on 30 December 2012. For notional funds, it is determined using the latest available market price for the underlying funds, and for cash-settled awards, it is determined based on the outstanding amount of cash owed to award recipients. All awards made under our deferred variable

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Total variable compensation[1]

	Expenses		Expenses deferred to future periods		Adjustments[2]		Total		Number of beneficiaries	
CHF million, except where indicated	2012	2011[3]	2012	2011[3]	2012	2011[3]	2012	2011[3]	2012	2011
Cash performance awards	1,411	1,554	0	0	0	0	1,411	1,554	46,709	50,620
Deferred Contingent Capital Plan	145	0	361	0	0	0	506	0	6,317	0
Deferred cash plans[4]	5	34	10	3	0	0	15	37	58	62
UBS share plans	135	234	383	750	24	54	542	1,038	5,866	6,514
UBS share option plans	0	0	0	0	0	0	0	0	0	0
Equity Ownership Plan – notional funds	28	25	20	69	0	0	48	94	506	515
Total performance award pool	1,724	1,847	774	822	24	54	2,522	2,723	46,732	50,635

	Expenses		Expenses deferred to future periods		Adjustments[2]		Total	
CHF million, except where indicated	2012	2011[3]	2012	2011[3]	2012	2011[3]	2012	2011[3]
Total variable compensation – other[5]	424	295	494	132	(137)[6]	0	781	427

	Expenses		Expenses deferred to future periods		Adjustments[2]		Total		Number of beneficiaries	
CHF million, except where indicated	2012	2011[3]	2012	2011[3]	2012	2011[3]	2012	2011[3]	2012	2011
Total WMA financial advisor compensation[7]	2,087	1,842	706	1,024	0	0	2,793	2,866	7,059	6,967

1 The total "performance award" paid to employees for the performance years 2012 (CHF 2,522 million) and 2011 (CHF 2,723 million). Expenses under "Total variable compensation – other" and "Total WMA financial advisor compensation" are not part of UBS's performance award pool. 2 Adjustments relating to post-vesting transfer restrictions. 3 In 2012, costs related to guarantees for new hires were reclassified from "Total variable compensation – other" to "Total variable compensation – performance award". In addition, costs related to both supplemental severance and certain retention payments were reclassified from "Total variable compensation – performance award" to "Total variable compensation – other". 2011 was restated. 4 Deferred cash plans include specific regional deferred cash plan which is not part of the Group's compensation delivery framework. 5 Replacement payments and retention plan payments including the Special Plan Award Program. 6 Included in expenses deferred to future periods is an amount of CHF 137 million relating to future interest on the Deferred Contingent Capital Plan. As the amount recognized as performance award represents the present value of the award at the date granted to the employee, this interest amount is adjusted out in the analysis. 7 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements.

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Deferred compensation[1,2]

CHF million, except where indicated	Relating to awards for 2012	Relating to awards for prior years[3]	Total	of which exposed to ex-post adjustments	Total deferred compensation year end 2011[4]
Deferred Contingent Capital Plan	506	0	506	100%	0
Equity Ownership Plan	542	3,383	3,925	100%	3,182
Equity Ownership Plan – notional funds	48	534	582	100%	670
Discontinued deferred compensation plans[5]	0	420	420	100%	698
Total	1,096	4,337	5,433		4,550

1 This is based on specific plan vesting which may differ from the accounting expensing. 2 For more information, refer to "Note 31 Equity participation and other compensation plans". 3 This takes into account the ex-post implicit adjustments, given the share price movements since grant. 4 Year 2011 as reported in Annual Report 2011 adjusted for discontinued deferred compensation plans. 5 Cash Balance Plan (CBP), Senior Executive Equity Ownership Plan (SEEOP), Performance Equity Plan (PEP), Incentive Performance Plan (IPP), Deferred Cash Plan (DCP).

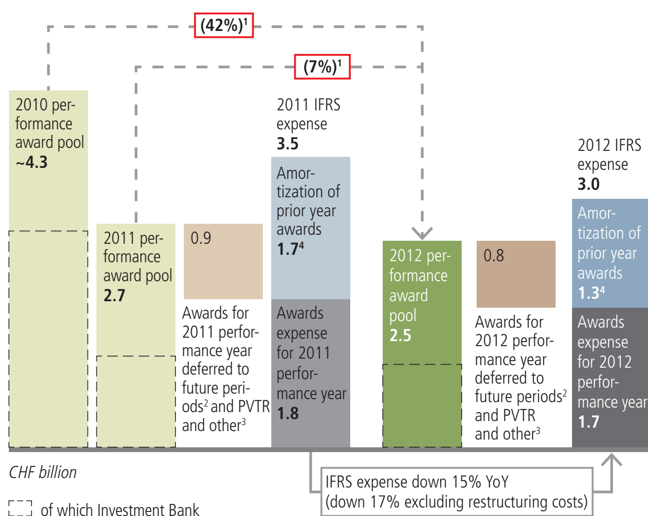
compensation plans listed in the "Deferred compensation" table are subject to ex-post adjustments, whether implicitly, through exposure to share price movements, or explicitly, for example, through forfeitures instigated by the firm. Accordingly, their value can change over time. The amounts shown in the column "Relating to awards for prior years" already takes into account ex-post implicit adjustments that have occurred as a result of share price movements between the respective dates on which these awards were granted and 30 December 2012.

➔ **Refer to "Note 31 Equity participation and other compensation plans" in the "Financial Information" section of the Annual Report 2012 for more information.**

Performance award expenses in the 2012 performance year

The performance award pool includes all discretionary, performance-based variable awards for 2012. Certain awards that form part of the performance award pool, mainly discretionary cash awards, are already expensed in the same year while deferred awards are largely expensed in subsequent years. The "Performance award expenses" chart illustrates how the performance award pool for the 2012 performance year reconciles with the performance award expense in the financial year 2012. The performance award expense includes all immediate expenses related to 2012 compensation awards and expenses related to awards

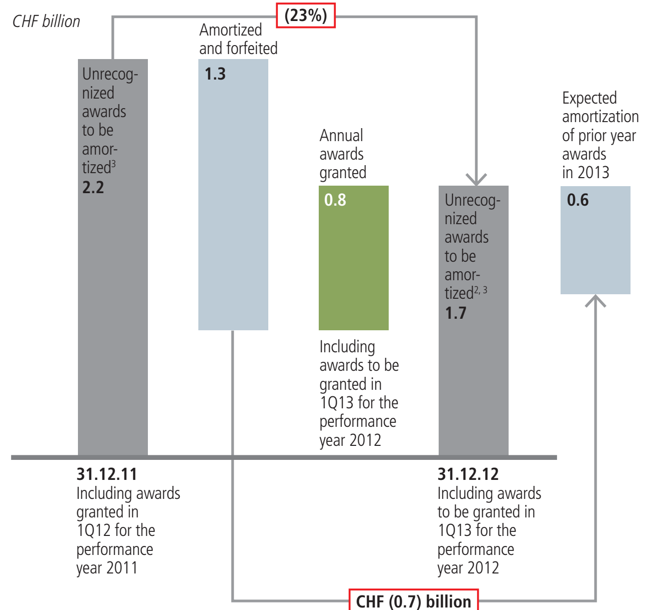
Performance award expenses



1 Excluding add-ons such as social security. 2 Estimate. The actual amount to be expensed in future periods may vary, for example due to forfeitures. 3 Post vesting transfer restrictions and adjustments related to performance conditions of CHF 54 million in 2011 and CHF 24 million in 2012. 4 Includes restructuring costs of CHF 54 million in 2011 and CHF 115 million in 2012.

Amortization of deferred compensation[1]

23% reduction in awards to be amortized over future periods



1 This graph reflects improvements in estimates compared with the numbers included in our fourth quarter 2012 results presentation on 5 February 2013. 2 Estimate. The actual amount to be expensed in future periods may vary, for example due to forfeitures. 3 Related to performance award pool.

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Ex-post explicit and implicit adjustments to deferred compensation in 2012[1]

	Ex-post explicit adjustments[4]		Ex-post implicit adjustments to unvested awards[5]	
CHF million	2012	2011	2012	2011
	31.12.12	31.12.11	31.12.12	31.12.11
UBS shares (EOP, IPP, PEP, SEEOP)[2]	(211)	(171)	(178)	(1,432)
UBS options (KESOP) and SARs (KESAP)[2]	(16)	(22)	0	(290)
UBS notional funds (EOP)[3]	(8)	(11)	52	(50)

1 Compensation (discretionary performance award and other variable compensation) relating to awards for previous performance years. Cash deferred plans (i.e. CBP Cash Balance Plan) are not included in this analysis. 2 IPP, PEP, SEEOP, KESOP and KESAP are discontinued deferred compensation plans. 3 Awards granted under this plan are cash-settled and 100% susceptible to ex-post implicit adjustments. 4 Ex-post explicit adjustments are calculated as units forfeited during the year, valued at the share price on 28 December 2012 (CHF 14.27) and on 30 December 2011 (CHF 11.18) for UBS shares and valued with the fair value at grant for UBS options. For the notional funds awarded to Global Asset Management employees under the EOP, this represents the forfeiture credits recognized in 2012 and 2011. 5 Ex-post implicit adjustments for UBS shares are calculated based on the difference between the weighted average grant date fair value and the share price at year end. For UBS options they are calculated based on the difference between the fair value at grant and the aggregated intrinsic value at year end. The value of notional funds is calculated using the mark-to-market change during 2012 and 2011.

made in prior years. As illustrated in the chart, the performance award pool declined by CHF 201 million or 7% in 2012, while the 2012 performance award expense under the IFRS accounting rules declined by CHF 516 million or 15%.

At the end of 2012, the amount of unrecognized awards to be amortized in subsequent years was CHF 1.7 billion, compared with CHF 2.2 billion at the end of 2011. The "Amortization of deferred compensation" chart shows that this reduction is due to the reduction in unamortized awards and lower new awards granted for 2012 as well as lower unamortized balances from previous years carried forward.

The table above shows the value of actual ex-post explicit and implicit adjustments to outstanding deferred compensation in the 2012 financial year. Ex-post adjustments occur after an award has been granted. Ex-post explicit adjustments occur when we adjust compensation by forfeiting deferred awards. By contrast, ex-post implicit adjustments are unrelated to action taken by the firm and occur as a result of share price movements that impact the value of an award. The total value of ex-post explicit adjustments made to UBS shares in 2012, based on the approximately 15 million shares forfeited during 2012, is negative CHF 211 million. The total value of ex-post explicit adjustments made to UBS options and share-settled stock appreciation rights (SARs) in 2012, based on the approximately 2 million options/SARs forfeited during 2012, is negative CHF 16 million. (The size of implicit adjustments is mainly due to a decline in the share price. The lower share price also means that many of the options previously granted are out of the money. Hence, the majority of outstanding option awards currently hold no intrinsic value).

Total personnel expenses for 2012

The table on the following page shows our total personnel expenses in 2012 for our 62,628 employees and includes salaries, pension and other personnel costs, social security contributions and variable compensation. Variable compensation includes discretionary cash performance awards to be paid in 2013 for the 2012 performance year, the amortization of unvested deferred awards granted in previous years and the cost of deferred awards granted to employees who are eligible for retirement at the date of grant.

The performance award pool reflects the value of discretionary performance awards granted relating to the 2012 performance year, including awards that are paid out immediately and those that are deferred. To determine our variable compensation expense, the following adjustments are required in order to reconcile the performance award pool to the accounting costs recognized in the Group's financial statements prepared under IFRS:

– reduction for the unrecognized future amortization of unvested deferred awards granted in 2013 for the performance year 2012; and
– addition for the amortization of unvested deferred awards granted in previous years.

As a large part of compensation consists of deferred awards, the amortization of unvested deferred awards granted in previous years forms a significant part of both the 2011 and 2012 accounting costs.

➔ **Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information**

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Personnel expenses

	Expenses				
CHF million	Relating to awards for 2012	Relating to awards for prior years	Total 2012	2011	2010
Salaries	**6,814**	0	**6,814**	6,859	7,033
Cash performance awards	**1,411**	(38)	**1,373**	1,466	2,173
Deferred Contingent Capital Plan	**145**	0	**145**	0	0
Deferred cash plans	**5**	149	**154**	343	314
UBS share plans	**135**	1,067	**1,202**	1,490	1,428
UBS share option plans	**0**	14	**14**	100	145
Equity Ownership Plan – notional funds	**28**	84	**112**	118	111
Total variable compensation – performance award[1,2]	**1,724**	1,276	**3,000**	3,516	4,171
of which guarantees for new hire[2]	**15**	119	**134**	173	135
Variable compensation – other[1,2]	**424**	(57)	**367**	191	141
of which replacement payments[3]	**15**	94	**109**	121	107
of which forfeiture credits	**0**	(174)	**(174)**	(215)	(167)
of which severance payments[2,4]	**303**	0	**303**	239	80
of which retention plan and other payments[2]	**107**	21	**128**	46	121
Contractors	**214**	0	**214**	217	232
Social security	**729**	39	**768**	743	826
Pension and other post-employment benefit plans[5]	**18**	0	**18**	831	834
Wealth Management Americas: financial advisor compensation[1,6]	**2,087**	786	**2,873**	2,518	2,667
Other personnel expenses	**659**	23	**682**	758	1,127
Total personnel expenses[7]	**12,670**	2,067	**14,737**	15,634	17,031

1 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 2 In 2012, costs related to guarantees for new hires were reclassified from "Total variable compensation – other" to "Total variable compensation – performance award". In addition, costs related to both supplemental severance and certain retention payments were reclassified from "Total variable compensation – performance award" to "Total variable compensation – other". Prior periods were adjusted for these changes. The combined impact of these changes resulted in a net increase to "Total variable compensation – performance award" of CHF 125 million and CHF 89 million for the year ended 31 December 2011 and for the year ended 31 December 2010, respectively, with a corresponding net decrease to "Total variable compensation – other". 3 Replacement payments are payments made to compensate employees for deferred awards forfeited as a result of joining UBS. This table includes the expenses recognized in the financial year (mainly the amortization of the award). 4 Includes legally obligated and standard severance payments, as well as supplemental severance payments. 5 Refer to "Note 30 Pension and other post-employment benefit plans" of the "Financial information" section of this report for more information. 6 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. 7 Includes restructuring charges of CHF 358 million for the year ended 31 December 2012 and CHF 261 million for the year ended 31 December 2011. Refer to "Note 37 Changes in organization" in the "Financial information" section of this report for more information.

2012 compensation for the Group Executive Board and Board of Directors

How we set compensation levels for our Group Executive Board (GEB)

The HRCC reviews the Group CEO's recommendations for GEB members' compensation. It makes its final compensation recommendations for individual GEB compensation based on an assessment of these management recommendations together with an independent assessment of overall performance of the individual and their respective businesses. The HRCC's recommendations are then reviewed and approved by the BoD.

In setting total compensation levels for GEB members for 2012, the HRCC and the BoD considered the following factors:
- the performance of each individual in the context of each business division's operating performance for 2012 on an absolute and relative basis
- specific key performance indicators for each individual relevant to their role, including risk-adjusted profitability, management of risk-weighted assets, the strengthening of capital ratios, growth in net new money, operating effectiveness and cost efficiency
- the impact each individual and, if applicable, his respective business, has had on our clients globally
- the overall progress of the Group towards our medium and longer-term strategic goals
- each individual's contribution to safeguarding and enhancing our reputation, effecting change, promoting delivery of the integrated bank and building and retaining high-performing teams
- the degree to which the individual anticipates and effectively manages risk
- balancing employee interests with the need to ensure an appropriate return to our shareholders
- our compensation structures and our overall market positioning from a competitiveness perspective

To ensure that overall GEB compensation is sufficiently tied to the firm's profitability, we have introduced a cap on the total GEB performance award pool. The pool will not exceed 2.5% of the firm's adjusted pre-tax profit. As the Group adjusted pre-tax profit for 2012 was CHF 3.0 billion, the GEB performance award pool is capped at CHF 75 million for the 2012 performance year. The actual award pool for 2012 (included in the overall pool) was CHF 52 million, representing 1.7% of the adjusted pre-tax profit. Furthermore, 100% of a GEB member's deferred compensation is subject to performance conditions. Under the Equity Ownership Plan (EOP), GEB awards will be fully forfeited if the Group and/or relevant business division does not make an average adjusted pre-tax profit during the performance period. Further, performance below specific thresholds will also cause partial forfeiture. Awards granted under the new Deferred Contingent Capital Plan (DCCP) will be forfeited if our Basel III CET1 ratio falls below 7% or if a viability event occurs. In addition, 20% of DCCP awards, including the relevant notional interest, will be forfeited for each year in which UBS does not achieve an adjusted pre-tax profit. Thus, GEB members' full DCCP awards are at additional risk of forfeiture.

For GEB members who were in office for both the full year 2011 and 2012, performance awards were down 10% and total compensation was down 7% year on year.

While the firm's compensation framework provides for up to 20% of the performance award to be paid immediately in cash, in light of the firm's overall results for the year, and based on a recommendation from the Group CEO, it was deemed appropriate that performance awards for the firm's most senior leaders be fully deferred. Consequently, the cash component of the award was delivered in the form of deferred equity under the EOP, and makes up 60% of GEB performance awards for 2012. Therefore, 100% of the GEB's 2012 performance award is deferred over three to five years.

We have reserved judgment on the introduction of fixed caps on the proportion of fixed to variable pay as important regulatory debates have not been concluded.

Group Chief Executive Officer (Group CEO)

Sergio P. Ermotti joined UBS in April 2011, initially as Regional CEO for EMEA. In November 2011, he was appointed Group CEO with immediate effect. In determining his compensation for 2012, the HRCC and the BoD considered his performance objectives to implement the firm's strategy, namely driving financial performance, strengthening capital ratios, managing costs and improving the operational risk environment. The Group's overall financial loss for 2012 was disappointing, but was clearly impacted by significant goodwill impairments related to our decision to accelerate the Group's strategy, the LIBOR settlement and own credit. Despite these developments, the Group made significant progress under Mr. Ermotti's leadership. He successfully led the firm in the implementation of its strategy, enabling it to accelerate the implementation of the strategy as announced in October 2012 (see 2012 performance summary for more details on the firm's success in 2012). Mr. Ermotti has also navigated the challenges the firm faced during the year, while still achieving strong results in many business divisions. The firm continued to strengthen its industry-leading capital ratios and is on

track to achieve its capital targets. Risk-weighted assets on a Basel III fully applied basis were reduced 32% compared to the end of 2011. The firm's wealth management businesses attracted net new money inflows of approximately CHF 47 billion, an increase of over CHF 11 billion and a sign of clients' continued trust in the firm. The firm also continues its efforts to reduce costs and drive efficiencies and delivered underlying reductions in the run rate of costs compared to mid-2011. UBS has also strengthened its operational risk control framework, which allows it to better manage and deploy risk to serve our clients. These achievements, particularly in relation to capital, have allowed the BoD to recommend a 50% increase in the Group's dividend for 2012 to CHF 0.15 per share. Overall, the progress made by the firm during the year is reflected in the 28% increase in its share price, up from CHF 11.18 at the end of 2011 to CHF 14.27 at the end of 2012.

For the performance year 2012, reflecting his achievements in his first full year as Group CEO and at the firm, Mr. Ermotti was granted a performance award of CHF 6.1 million, making his total compensation for the year CHF 8.9 million. Consistent with other GEB members, for the performance year 2012, 100% of his performance award was deferred, with 40% under the DCCP and 60% under the EOP. (For 2011, in which Mr. Ermotti joined the firm, the HRCC and BoD determined his overall compensation for the eight months he was at the firm by deciding the appropriate compensation for each of the two roles he performed during that year. The table "Total compensation for GEB members" shows his compensation for 2011.)

➔ **Refer to the "2012 performance summary" section of this report for more information**

Highest paid GEB member

The highest paid GEB member in 2012, apart from the Group CEO, was Robert J. McCann, with total compensation of CHF 8.6 million. As shown in the "Total compensation for GEB members" table, 100% of his performance award for 2012 is deferred, with 40% under the DCCP and 60% under the EOP.

In 2012, Mr. McCann continued to drive the successful development of. Wealth Management Americas. The business made strong progress throughout 2012 and achieved a record pre-tax profit for the year of USD 873 million, an increase of 40% on 2011. The improved performance resulted from a 9% increase in revenues compared with 2011. Clients have recognized the business's achievements and continued to entrust it with their assets, with full year net new money inflows of over USD 22 billion, the highest recorded since 2007. Low advisor attrition rates illustrate the continued confidence that industry professionals have in the business and the progress it is making, and its financial advisor force delivered record levels of productivity in 2012. The business has also made strong progress in its lending initiatives. It performed well in relation to its cost/income ratio, gross margin and annualized net new money growth rate performance targets.

➔ **Refer to the table "Total compensation for GEB members for the performance years 2011 and 2012" for more information**

Notes on replacement awards

During 2012, Andrea Orcel joined UBS after a 20-year career with Bank of America/Merrill (BAC), and was appointed to the GEB on 1 July 2012 as co-head of the Investment Bank. On 1 November, he became sole CEO of the division. In line with market practice, he received awards as a replacement for deferred compensation and benefits forfeited by his previous employer as a result of his joining UBS. As a general principle, in making such replacement awards, we aim to match the terms and conditions of the awards granted by an employee's previous employer which are forfeited upon the employee joining UBS. Given his most recent roles at BAC, he was subject to high effective deferral rates. Mr. Orcel's replacement award consisted of a deferred cash award in the amount of USD 6.364 million, and an award of 1,755,691 UBS shares (denominated in CHF) deferred under the EOP with a grant date total fair market value of CHF 18.5 million. Both the deferred cash and deferred share awards vest in installments in 2013, 2014 and 2015. All these awards are subject to the firm's harmful acts provisions.

Base salary

Base salaries are fixed for all GEB members and reviewed annually by the HRCC. GEB salaries were not changed from the level set by the BoD in early 2011. Thus the annual level of salary for GEB members, with the exception of the Group CEO, will remain at CHF 1.5 million or the equivalent in the relevant local currency. With respect to the Group CEO, the HRCC reviewed his base salary level upon his appointment and set it at an annual level of CHF 2.5 million. Following a further review at the beginning of 2013, the HRCC determined that the level previously set remains appropriate. Base salaries received over the year by GEB members are fully taken into account when considering their total compensation levels.

Benefits

There were no changes to the terms of GEB benefits.

➔ **Refer to "Note 30 Pension and other post-employment benefit plans" in the "Financial Information" section of this report for details on the various post-employment benefit plans established in Switzerland and other major markets**

➔ **Refer to the "Compensation funding and expenses" and "Overview of our compensation model" sections for information concerning the Human Resources and Compensation Committee's determination of the discretionary performance award for 2012, and to the "Deferred variable compensation plans" section for details of the compensation plans awarded to Group Executive Board members**

Board of Directors compensation

Chairman of the Board of Directors

Our compensation framework provides for the Chairman of the BoD, Axel A. Weber, who was elected at the AGM in May 2012, to receive annually a base salary of CHF 2 million and 200,000 UBS shares, blocked for four years, as well as benefits in kind. Such shares are not designed or intended as variable compensation. The number of shares that Mr. Weber received for 2012 was pro-rated to take into account that he assumed the role of Chairman in May. At grant, the pro-rated number of shares he received (133,333) was valued at CHF 2,003,995. Accordingly, his total compensation, including benefits in kind and pension fund contribution for his services as Chairman from May to December 2012, amounted to CHF 3,568,341.

The share component ensures that the Chairman of the BoD's pay is aligned with the longer-term performance of the firm. The Chairman's employment agreement does not provide for special severance terms, including supplementary contributions to pension plans. Benefits for the Chairman of the BoD are in line with local practices for other employees. Determining the Chairman's compensation is the responsibility of the HRCC, which conducts an annual assessment and takes into consideration fee and/or compensation levels for comparable roles outside of UBS.

Highest paid member of the BoD

As Chairman of the BoD, Mr. Weber is the highest paid BoD member. As previously announced, the BoD approved a one-time payment to Mr. Weber upon his election to the BoD at the 2012 AGM. This payment, equivalent to one year's total compensation, consisted of CHF 2 million in cash and 200,000 UBS shares that are blocked for one year. At grant, these shares were valued at CHF 2,268,000.

Remuneration for the former Chairman of the BoD

Kaspar Villiger, former Chairman of the BoD, did not stand for reelection at the AGM in May 2012, and retired from UBS at the end of May 2012. As in previous years, Mr. Villiger chose to waive a substantial part of his share award and decided to maintain the voluntary reduction in his annual base salary, that is, to only accept CHF 850,000 of the CHF 2 million to which he was entitled. On a pro-rated basis (from 1 January – 31 May), the base salary he received for 2012 consisted of CHF 354,167 in cash, and a limited number of 12,762 UBS shares with a fair value of CHF 200,000.

Independent BoD members

With the exception of the Chairman, all BoD members are deemed to be independent directors and receive fixed base fees for their services, with 50% of their fees in cash and the other 50% in blocked UBS shares that are restricted from sale for four years. Alternatively, they may choose to have 100% of their remuneration paid in blocked UBS shares. In all cases, the number of shares that independent directors are entitled to receive is calculated using a discount of 15% below the prevailing market price. In addition to the base fee, independent BoD members receive fees known as committee retainers that reflect their workload in serving on the firm's various board committees. The Senior Independent Director and the Vice Chairman of the BoD each also receive an additional payment of CHF 250,000. In accordance with their role, independent BoD members do not receive performance awards, severance payments or benefits. Base fees, committee retainers and any other payments received by independent BoD members are subject to an annual review: a proposal is submitted by the Chairman of the BoD to the HRCC, which then submits a recommendation to the BoD.

The "Remuneration details and additional information for independent BoD members" table shows the remuneration received by independent BoD members between the 2012 and 2013 AGM. Fees for 2012 to 2013 remained unchanged. Remuneration levels for BoD members, other than the Chairman, ranged from CHF 525,000 to CHF 1,075,000. Total remuneration for the independent BoD members for the period between the 2012 to 2013 AGM was CHF 7.6 million, up from CHF 7.0 million for the prior period. This increase is due to the number of BoD members, which increased from 11 to 12, and also due to increasing the membership of the Audit Committee by two new BoD members.

Compensation for former Board of Directors and Group Executive Board members

Generally, no compensation or benefits in kind were paid to former BoD and GEB members for 2012. The only exception was a payment to compensate one former GEB member for benefits agreed in his original employment agreement. The value of this payment amounts to CHF 25,465.

Transactions in 2012

In accordance with the applicable rules and regulations, management transactions in UBS shares by BoD and GEB members are publicly disclosed.

From 1 January until 31 December 2012, no share sales were disclosed.

In accordance with normal practice, two BoD members chose to receive 100% of their fees in UBS shares. These shares, representing a value of CHF 625,000, will be allocated in March 2013.

Loans

BoD and GEB members may be granted loans, fixed advances and mortgages. Such loans are made in the ordinary course of business on substantially the same terms as those granted to other employees, including interest rates and collateral, and do not involve more than the normal risk of collectability or contain other unfavorable features.

➔ **Refer to "Note 32 Related parties" in the "Financial information" section of this report for information concerning loans granted to current and former key management personnel**

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Total compensation for GEB members for the performance years 2011 and 2012

CHF, except where indicated[a]

Name, function	For the year	Base salary	Immediate cash (for 2011 under CBP)[b]	Annual performance award under EOP[c]	Annual performance award under DCCP[d]	Deferred cash under CBP[1, b]	Annual performance award under PEP[e]	Annual performance award under SEEOP[f]	Benefits in kind[g]	Contribu-tions to retirement benefit plans[h]	Total
Sergio P. Ermotti, Group CEO	2012	2,500,000	0	3,660,000	2,440,000	–	–	–	69,500	201,088	8,870,588
Sergio P. Ermotti, Group CEO[2]	2011	1,394,445	553,200	–	–	1,290,800	922,000	1,844,000	195,450	150,816	6,350,711
Oswald J. Grübel, former Group CEO[3]	2011	2,191,667	0	–	–	0	0	0	35,971	0	2,227,638
Robert J. McCann, CEO Wealth Management Americas (highest-paid after Group CEO)	2012	1,373,130	0	4,278,673	2,852,449	–	–	–	45,004	6,110	8,555,366
Robert J. McCann, CEO Wealth Management Americas (highest-paid)	2011	1,321,538	1,869,233	–	–	1,246,155	1,557,694	3,115,388	67,053	6,264	9,183,325
Aggregate of all GEB members who were in office at the end of the year[4]	2012	16,273,460	0	31,355,592	20,903,728	–	–	–	640,683	1,233,719	70,407,181
	2011	15,962,737	11,929,365	–	–	8,874,910	10,402,137	20,804,274	1,165,601	995,290	70,134,314
Aggregate of all GEB members who stepped down during the year[5]	2012	1,593,288	0	0	0	–	–	–	105,865	14,799	1,713,952
	2011	4,155,602	509,201	–	–	1,166,759	0	962,768	171,954	80,499	7,046,783

1 In 2011, for Sergio P. Ermotti, due to applicable UK FSA regulations, deferred cash includes blocked shares. 2 Sergio P. Ermotti was appointed on 1 April 2011 as GEB member and Regional CEO of Europe, Middle East and Africa. He was appointed as the new Group CEO ad interim on 24 September 2011 and confirmed as Group CEO on 15 November 2011. 3 Oswald J. Grübel stepped down on 24 September 2011 as Group CEO. 4 Number and distribution of GEB members: 11 GEB members were in office on 31 December 2012 and 12 GEB members were in office on 31 December 2011. 5 Number and distribution of former GEB members: 2012: includes three months in office as a GEB member for Alexander Wilmot-Sitwell and 10 months in office as a GEB member for Carsten Kengeter. 2011: includes five months in office as a GEB member for John Cryan, nine months for Oswald J. Grübel and 11 months for Maureen Miskovic.

Explanation of the tables outlining compensation details for GEB and BoD members

a. Local currencies are converted into CHF using the exchange rates as detailed in Note 38 "Currency translation rates" in the "Financial information" section in this report.

b. For performance year 2012, no immediate cash was paid. For performance year 2011, 40% of the 2011 performance award was granted in the form of Cash Balance Plan awards, of which 60% is paid out immediately (representing 24% of a GEB member's performance award). The balance is paid out in equal installments of 20%, each over the subsequent two years, and is subject to performance adjustments.

c. For EOP awards for the performance year 2012, the number of shares allocated at grant will be determined by dividing the amount communicated with the average price of UBS shares over the 10 trading days prior to and including the grant date (15 March 2013), which for notional shares is adjusted for the estimated value of dividends paid on UBS shares over the vesting period. As the grant date occurs after publication, no share price is yet available at the time of publication.

d. DCCP awards vest in full after year 5 of the five-year vesting period. The amount reflects the amount of the notional bond excluding future notional interest. The notional interest rate is set at 6.25% for awards denominated in USD and 5.40% for awards denominated in CHF.

e. For PEP awards for the performance year 2011, the number of performance shares allocated at grant has been determined by dividing the amount communicated with CHF 12.52 or USD 13.75 (based on the average price of UBS shares over the last 10 trading days of February 2012 adjusted for the estimated value of dividends paid on UBS shares over the vesting period).

f. For SEEOP awards for the performance year 2011, the number of shares allocated at grant has been determined by dividing the amount communicated with CHF 12.92 or USD 14.19 (for actual shares) and with CHF 12.52 or USD 13.75 (notional shares), based on the average closing price of UBS shares over the last 10 trading days of February 2012, which for notional shares is adjusted for the estimated value of dividends paid on UBS shares over the vesting period.

g. Benefits in kind are all valued at market price, for example, health and welfare benefits and general expense allowances.

h. Swiss executives participate in the same pension plan as all other employees. Under this plan, UBS makes contributions to the plan, which covers compensation of up to CHF 835,200 (CHF 842,400 as from 1 January 2013). The retirement benefits consist of a pension, a bridging pension and a one-off payout of accumulated capital. Employees must also contribute to the plan. This figure excludes the mandatory employer's social security contributions (AHV, ALV), but includes the portion attributed to the employer's portion of the legal BVG requirement. The employee contribution is included in the base salary and annual incentive award components. In both the US and the UK, senior management participates in the same pension plans as all other employees. In the US, there are separate pension plans for Wealth Management Americas compared with the other business divisions. There are generally two different types of pension plans: grandfathered plans and principal plans. The grandfathered plans, which are no longer open to new hires, operate (depending on the abovementioned distinction by business division) either on a cash balance basis or a career average salary basis. Participants accrue a pension based on their annual compensation limited to USD 250,000 (or USD 150,000 for Wealth Management Americas employees). The principal plans for new hires are defined contribution plans. In the defined contribution plans, UBS makes contributions to the plan based on compensation and limited to USD 250,000 (USD 255,000 as from 1 January 2013). US management may also participate in a 401(k) defined contribution plan (open to all employees), which provides a limited company matching contribution for employee contributions. In 2012, Wealth Management Americas employees with a compensation in excess of USD 250,000 did not receive a company match. Effective 1 January 2013, the match was reinstated for these employees. In the UK, management participates in either the principal pension plan, which operates on a defined contribution basis and is limited to an earnings cap of GBP 100,000, or a grandfathered defined benefit plan which provides a pension upon retirement based on career average base salary (individual caps introduced as of 1 July 2010).

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Share and option ownership / entitlements of GEB members on 31 December 2011 / 2012[1]

Name, function	For the year	Number of unvested shares / at risk[2]	Number of vested shares	Total number of shares	Potentially conferred voting rights in %	Number of options[3]	Potentially conferred voting rights in %[4]
Sergio P. Ermotti, Group Chief Executive Officer	2012	220,928	41,960	262,888	0.013	0	0.000
	2011	0	0	0	0.000	0	0.000
	2012	506,132	126,098	632,230	0.030	0	0.000
Markus U. Diethelm, Group General Counsel	2011	358,042	91,506	449,548	0.021	0	0.000
John A. Fraser, Chairman and CEO Global Asset Management	2012	617,529	315,270	932,799	0.045	884,531	0.042
	2011	460,707	280,414	741,121	0.034	1,088,795	0.050
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate	2012	412,199	95,537	507,736	0.024	0	0.000
	2011	252,293	37,517	289,810	0.013	0	0.000
Carsten Kengeter, former co-CEO Investment Bank[5]	2012	–	–	–	–	–	–
	2011	971,575	556,016	1,527,591	0.070	905,000	0.041
Ulrich Körner, Group Chief Operating Officer, CEO Corporate Center and CEO Group EMEA	2012	605,284	121,837	727,121	0.035	0	0.000
	2011	389,090	95,597	484,687	0.022	0	0.000
Philip J. Lofts, Group Chief Risk Officer	2012	542,402	169,789	712,191	0.034	536,173	0.026
	2011	377,614	150,772	528,386	0.024	577,723	0.026
Robert J. McCann, CEO Group Americas and CEO Wealth Management Americas	2012	658,470	18,112	676,582	0.032	0	0.000
	2011	330,047	0	330,047	0.015	0	0.000
Tom Naratil, Group Chief Financial Officer	2012	340,757	233,603	574,360	0.027	935,291	0.045
	2011	221,238	193,836	415,074	0.019	1,046,122	0.048
Andrea Orcel, CEO Investment Bank	2012	1,755,691	0	1,755,691	0.084	0	0.000
		–	–	–	–	–	–
Alexander Wilmot-Sitwell, former co-Chairman and co-CEO Group Asia Pacific[5]	2012	–	–	–	–	–	–
	2011	495,553	220,955	716,508	0.033	353,807	0.016
Chi-Won Yoon, CEO Group Asia Pacific	2012	478,986	370,760	849,746	0.041	578,338	0.028
	2011	306,515	350,311	656,826	0.030	623,253	0.029
Jürg Zeltner, CEO UBS Wealth Management	2012	522,500	38,329	560,829	0.027	203,093	0.010
	2011	306,487	11,756	318,243	0.015	205,470	0.009

1 This table includes all vested and unvested shares and options of GEB members, including related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Deferred variable compensation plans" section in this report for more information on the plans. 3 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 No conversion rights are outstanding. 5 GEB members who stepped down during 2012.

Audited

Compensation details and additional information for non-independent BoD members

CHF, except where indicated[a]

Name, function[1]	For the year	Base salary	Annual performance award (cash)	Annual share award	Benefits in kind[g]	Contributions to retirement benefit plans[h]	Total
Axel A. Weber, Chairman	2012	1,322,581	–	2,003,995[2]	69,867	171,898	3,568,341
	2011	–	–	–	–	–	–
Kaspar Villiger, former Chairman	2012	354,167	–	200,000[2]	54,926	–	609,093
	2011	850,000	0	500,000[2]	144,568	0	1,494,568

1 Axel A. Weber was the only non-independent member in office on 31 December 2012; Kaspar Villiger did not stand for reelection at the AGM on 3 May 2012. Kaspar Villiger was the only non-independent member in office on 31 December 2011. 2 These shares are blocked for four years.

Audited

Remuneration details and additional information for independent BoD members

CHF, except where indicated[a]

Name, function[1]	Audit Committee	Human Resources & Compensation Committee	Governance & Nominating Committee	Corporate Responsibility Committee	Risk Committee	For the period AGM to AGM	Base fee	Committee retainer(s)	Benefits in kind	Additional payments	Total	Share percentage[2]	Number of shares[3, 4]
Michel Demaré, Vice Chairman	M		M			2012/2013	325,000	300,000		250,000[5]	875,000	50	34,233
	M		M			2011/2012	325,000	300,000		250,000[5]	875,000	50	39,845
David Sidwell, Senior Independent Director			M		C	2012/2013	325,000	500,000		250,000[5]	1,075,000	50	42,057
			M		C	2011/2012	325,000	500,000		250,000[5]	1,075,000	50	48,952
Rainer-Marc Frey, member		M			M	2012/2013	325,000	300,000			625,000	100	46,367
	M				M	2011/2012	325,000	400,000			725,000	100	62,635
Bruno Gehrig, former member						2012/2013	–	–			–		
		M	M			2011/2012	325,000	200,000			525,000	50	23,907
Ann F. Godbehere, member	M	C				2012/2013	325,000	500,000			825,000	50	32,276
	M	C		M		2011/2012	325,000	550,000			875,000	50	39,845
Axel P. Lehmann, member			M		M	2012/2013	325,000	300,000			625,000	100	46,367
			M		M	2011/2012	325,000	250,000			575,000	100	49,632
Wolfgang Mayrhuber, member		M		C		2012/2013	325,000	200,000			525,000	50	20,539
		M		C		2011/2012	325,000	200,000			525,000	50	23,907
Helmut Panke, member		M			M	2012/2013	325,000	300,000			625,000	50	24,452
		M			M	2011/2012	325,000	300,000			625,000	50	28,460
William G. Parrett, member	C			M		2012/2013	325,000	350,000			675,000	50	26,408
	C					2011/2012	325,000	300,000			625,000	50	28,460
Isabelle Romy, member	M		M			2012/2013	325,000	300,000			625,000	50	24,452
						2011/2012	–	–			–		
Beatrice Weder di Mauro, member	M			M		2012/2013	325,000	250,000			575,000	50	22,496
						2011/2012	–	–			–		
Joseph Yam, member				M	M	2012/2013	325,000	250,000			575,000	50	22,496
				M	M	2011/2012	325,000	250,000			575,000	50	26,183
Total 2012											7,625,000		
Total 2011											7,000,000		

Legend: C = Chairperson of the respective Committee; M = Member of the respective Committee

1 There were 11 independent BoD members in office on 31 December 2012. Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012 and Bruno Gehrig did not stand for reelection at the AGM on 3 May 2012. There were 10 independent BoD members in office on 31 December 2011. Joseph Yam was appointed at the AGM on 28 April 2011 and Sally Bott stepped down on 11 February 2011. 2 Fees are paid 50% in cash and 50% in blocked UBS shares. However, independent BoD members can elect to have 100% of their remuneration paid in blocked UBS shares. 3 For 2012, shares valued at CHF 15.03 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2013), and were granted with a price discount of 15% for a new value of CHF 12.78. These shares are blocked for four years. For 2011, shares valued at CHF 12.92 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2012), and were granted with a price discount of 15% for a new value of CHF 10.98. These shares are blocked for four years. 4 Number of shares is reduced in case of the 100% election to deduct social security contribution. All remuneration payments are subject to social security contributions / withholding tax. 5 This payment is associated with the Vice Chairman or the Senior Independent Director function, respectively.

Audited

Total payments to BoD members

CHF, except where indicated[a]	For the year	Total
Aggregate of all BoD members	2012	11,802,434
	2011	8,494,568

Audited

Number of shares of BoD members on 31 December 2011/2012[1]

Name, function	For the year	Number of shares held	Voting rights in %
Axel A. Weber, Chairman[2]	2012	200,000	0.010
	2011	–	
Kaspar Villiger, former Chairman[3]	2012	–	
	2011	49,440	0.002
Michel Demaré, Vice Chairman	2012	116,179	0.006
	2011	76,334	0.003
David Sidwell, Senior Independent Director	2012	149,199	0.007
	2011	100,247	0.005
Rainer-Marc Frey, member	2012	162,677	0.008
	2011	100,042	0.005
Bruno Gehrig, former member[3]	2012	–	
	2011	54,409	0.002
Ann F. Godbehere, member	2012	81,286	0.004
	2011	41,441	0.002
Axel P. Lehmann, member	2012	139,603	0.007
	2011	89,971	0.004
Wolfgang Mayrhuber, member	2012	38,957	0.002
	2011	15,050	0.001
Helmut Panke, member	2012	137,792	0.007
	2011	109,332	0.005
William G. Parrett, member	2012	91,078	0.004
	2011	62,618	0.003
Isabelle Romy, member[2]	2012	0	0.000
	2011	–	
Beatrice Weder di Mauro, member[2]	2012	0	0.000
	2011	–	
Joseph Yam, member	2012	26,183	0.001
	2011	0	0.000

1 This table includes blocked and unblocked shares held by BoD members, including related parties. No options were granted in 2011 and 2012. 2 Axel A. Weber, Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012. 3 Kaspar Villiger and Bruno Gehrig did not stand for reelection at the AGM on 3 May 2012.

Audited

Compensation paid to former BoD and GEB members[1]

CHF, except where indicated[a]				
Name, function	For the year	Compensation	Benefits in kind	Total
Former BoD members	2012	0	0	0
	2011	0	0	0
Aggregate of all former GEB members[2]	2012	0	25,465	25,465
	2011	0	0	0
Aggregate of all former BoD and GEB members	2012	0	25,465	25,465
	2011	0	0	0

1 Compensation or remuneration that is connected with the former member's activity on the BoD or GEB or that is not at market conditions. 2 Includes one former GEB member in 2012 and no former GEB member in 2011.

Audited

Total of all vested and unvested shares of GEB members[1, 2]

	Total	Of which vested	Of which vesting				
			2013	2014	2015	2016	2017
Shares on 31 December 2012	**3,414,568**	1,531,295	952,668	583,281	347,324	0	0
			2012	2013	2014	2015	2016
Shares on 31 December 2011	**2,863,887**	1,988,680	408,037	290,631	88,269	88,269	0

1 Includes related parties. 2 Excludes shares granted under variable compensation plans with forfeiture provisions.

Audited

Total of all blocked and unblocked shares of BoD members[1]

	Total	Of which unblocked	Of which blocked until			
			2013	2014	2015	2016
Shares on 31 December 2012	**1,142,954**	56,624	302,118	204,792	231,501	347,919
			2012	2013	2014	2015
Shares on 31 December 2011	**698,884**	72,775	9,349	115,690	225,995	275,075

1 Includes related parties.

Audited

Vested and unvested options of GEB members on 31 December 2011 / 2012[1]

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Sergio P. Ermotti, Group Chief Executive Officer						
2012	0					
2011	0					
Markus U. Diethelm, Group General Counsel						
2012	0					
2011	0					
John A. Fraser, Chairman and CEO Global Asset Management						
2012	884,531	127,884	2003	31.01.2006	31.01.2013	USD 22.53
		170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
2011	1,088,795	76,380	2002	31.01.2005	31.01.2012	USD 21.24
		127,884	2002	28.06.2005	28.06.2012	CHF 37.90
		127,884	2003	31.01.2006	31.01.2013	USD 22.53
		170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate						
2012	0					
2011	0					
Carsten Kengeter, former co-CEO Investment Bank[4]						
2012	–					
2011	905,000	905,000	2009	01.03.2012	27.12.2019	CHF 40.00
Ulrich Körner, Group Chief Operating Officer, CEO Corporate Center and CEO Group EMEA						
2012	0					
2011	0					
Philip J. Lofts, Group Chief Risk Officer						
2012	536,173	9,985	2003	01.03.2004	31.01.2013	CHF 27.81
		9,980	2003	01.03.2005	31.01.2013	CHF 27.81
		9,974	2003	01.03.2006	31.01.2013	CHF 27.81
		1,833	2003	01.03.2004	28.02.2013	CHF 26.39
		1,830	2003	01.03.2005	28.02.2013	CHF 26.39
		1,830	2003	01.03.2006	28.02.2013	CHF 26.39
		35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
Philip J. Lofts, Group Chief Risk Officer (continued)						
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74 599	2008	01.03.2011	28.02.2018	CHF 35.66
2011	577,723	11,445	2002	31.01.2003	31.01.2012	CHF 36.49
		11,104	2002	31.01.2004	31.01.2012	CHF 36.49
		11,098	2002	31.01.2005	31.01.2012	CHF 36.49
		1,240	2002	28.02.2003	28.02.2012	CHF 36.65
		5,464	2002	28.02.2004	28.02.2012	CHF 36.65
		1,199	2002	28.02.2005	28.02.2012	CHF 36.65
		9,985	2003	01.03.2004	31.01.2013	CHF 27.81
		9,980	2003	01.03.2005	31.01.2013	CHF 27.81
		9,974	2003	01.03.2006	31.01.2013	CHF 27.81
		1,833	2003	01.03.2004	28.02.2013	CHF 26.39
		1,830	2003	01.03.2005	28.02.2013	CHF 26.39
		1,830	2003	01.03.2006	28.02.2013	CHF 26.39
		35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66
Robert J. McCann, CEO Group Americas and CEO Wealth Management Americas						
2012	0					
2011	0					
Tom Naratil, Group Chief Financial Officer						
2012	935,291	63,942	2003	31.01.2006	31.01.2013	USD 22.53
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
2011	1,046,122	35,524	2002	31.01.2003	31.01.2012	USD 21.24
		35,524	2002	31.01.2004	31.01.2012	USD 21.24
		35,521	2002	31.01.2005	31.01.2012	USD 21.24
		4,262	2002	29.02.2004	28.02.2012	USD 21.70
		63,942	2003	31.01.2006	31.01.2013	USD 22.53
		4,262	2003	28.02.2005	28.02.2013	USD 19.53

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 GEB member who stepped down during 2012.

Audited

Vested and unvested options of GEB members on 31 December 2011 / 2012[1] (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Tom Naratil, Group Chief Financial Officer (continued)						
		145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
Andrea Orcel, CEO Investment Bank						
2012	0					
2011	–					
Alexander Wilmot-Sitwell, former co-Chairman and co-CEO Group Asia Pacific[4]						
2012	–					
2011	353,807	53,282	2005	01.03.2008	28.02.2015	CHF 47.58
		2,130	2005	04.03.2007	04.03.2015	CHF 47.89
		35,524	2006	01.03.2007	28.02.2016	CHF 65.97
		35,524	2006	01.03.2008	28.02.2016	CHF 65.97
		35,521	2006	01.03.2009	28.02.2016	CHF 65.97
		106,570	2007	01.03.2010	28.02.2017	CHF 73.67
		85,256	2008	01.03.2011	28.02.2018	CHF 35.66
Chi-Won Yoon, CEO Group Asia Pacific						
2012	578,338	8,648	2003	01.03.2004	31.01.2013	USD 20.49
		8,642	2003	01.03.2005	31.01.2013	USD 20.49
		8,635	2003	01.03.2006	31.01.2013	USD 20.49
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		3,374	2003	01.03.2004	28.02.2013	USD 19.53
		3,371	2003	01.03.2005	28.02.2013	USD 19.53
		3,371	2003	01.03.2006	28.02.2013	USD 19.53
		6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Chi-Won Yoon, CEO Group Asia Pacific (continued)						
2011	623,253	11,577	2002	31.01.2002	31.01.2012	USD 21.24
		11,229	2002	31.01.2004	31.01.2012	USD 21.24
		11,227	2002	31.01.2005	31.01.2012	USD 21.24
		2,252	2002	28.02.2002	28.02.2012	USD 21.70
		6,446	2002	29.02.2004	28.02.2012	USD 21.70
		2,184	2002	28.02.2005	28.02.2012	USD 21.70
		8,648	2003	01.03.2004	31.01.2013	USD 20.49
		8,642	2003	01.03.2005	31.01.2013	USD 20.49
		8,635	2003	01.03.2006	31.01.2013	USD 20.49
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		3,374	2003	01.03.2004	28.02.2013	USD 19.53
		3,371	2003	01.03.2005	28.02.2013	USD 19.53
		3,371	2003	01.03.2006	28.02.2013	USD 19.53
		6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35
Jürg Zeltner, CEO UBS Wealth Management						
2012	203,093	4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
		230	2006	08.09.2008	08.09.2016	CHF 65.76

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 GEB member who stepped down during 2012.

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Vested and unvested options of GEB members on 31 December 2011 / 2012[1] (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Jürg Zeltner, CEO UBS Wealth Management (continued)						
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35
2011	205,470	809	2002	31.01.2003	31.01.2012	CHF 36.49
		784	2002	31.01.2004	31.01.2012	CHF 36.49
		784	2002	31.01.2005	31.01.2012	CHF 36.49
		4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Jürg Zeltner, CEO UBS Wealth Management (continued)						
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
		230	2006	08.09.2008	08.09.2016	CHF 65.76
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to “Note 31 Equity participation and other compensation plans” in the “Financial information” section of this report for more information.

Audited

Loans granted to GEB members on 31 December 2011 / 2012[1]

CHF, except where indicated

Name, function	For the year	Loans[2]
Markus U. Diethelm, Group General Counsel[3]	2012	5,564,012
Jürg Zeltner, CEO UBS Wealth Management[3]	2011	5,387,500
Aggregate of all GEB members	2012	18,862,820
	2011	17,539,601[4]

1 No loans have been granted to related parties of the GEB members at conditions not customary in the market. 2 All loans granted are secured loans, except for CHF 311,308 in 2012 and CHF 45,435 in 2011. 3 GEB member with the highest loan granted. 4 Includes a forgivable loan of CHF 3.3 million, subject to the GEB member's continued full-time employment with UBS and a performance satisfactory and commensurate with his responsibilities. The loan was fully repaid in 2012, as the GEB member stepped down during the year.

Audited

Loans granted to BoD members on 31 December 2011 / 2012[1]

CHF, except where indicated[a]

Name, function	For the year	Loans[2]
Axel A. Weber, Chairman[3]	2012	0
	2011	–
Kaspar Villiger, former Chairman[4]	2012	–
	2011	0
Michel Demaré, Vice Chairman	2012	500,000
	2011	850,000
David Sidwell, Senior Independent Director	2012	0
	2011	0
Rainer-Marc Frey, member	2012	0
	2011	0
Bruno Gehrig, former member[4,5]	2012	–
	2011	798,000
Ann F. Godbehere, member	2012	0
	2011	0
Axel P. Lehmann, member	2012	0
	2011	0
Wolfgang Mayrhuber, member	2012	0
	2011	0
Helmut Panke, member	2012	0
	2011	0
William G. Parrett, member	2012	0
	2011	0
Isabelle Romy, member[3]	2012	0
	2011	–
Beatrice Weder di Mauro, member[3]	2012	0
	2011	–
Joseph Yam, member	2012	0
	2011	0
Aggregate of all BoD members	**2012**	**500,000**
	2011	1,648,000

1 No loans have been granted to related parties of the BoD members at conditions not customary in the market. 2 All loans granted are secured loans. 3 Axel A. Weber, Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012. 4 Kaspar Villiger and Bruno Gehrig did not stand for reelection at the AGM on 3 May 2012. 5 Secured loan granted prior to his election to the BoD.

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Introduction and accounting principles

The financial information section of UBS's Annual Report 2012 comprises: a) the audited consolidated financial statements of UBS Group for 2012 prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), b) the audited financial statements of UBS AG (Parent Bank) for 2012, prepared in order to meet Swiss regulatory requirements and in compliance with Swiss Federal Banking Law, and c) additional disclosures required under US Securities and Exchange Commission (SEC) regulations.

The basis of accounting of UBS's Group financial statements is described in Note 1 to the financial statements. Except where otherwise explicitly stated in these financial statements, all financial information is in Swiss francs (CHF) and presented on a consolidated basis under IFRS, and all references to "UBS" refer to the UBS Group and not to the Parent Bank. UBS AG (Parent Bank) is incorporated in Switzerland, has branches worldwide and owns all the UBS Group companies, directly or indirectly. All references to 2012, 2011 and 2010 refer to the fiscal years ended 31 December 2012, 2011 and 2010, respectively. The financial statements for the UBS Group and the Parent Bank have been audited by Ernst & Young Ltd.

Consolidated financial statements

Management's report on internal control over financial reporting

Management's responsibility for internal control over financial reporting

The Board of Directors reviews and approves the consolidated financial statements prepared by management in accordance with International Financial Reporting Standards (IFRS). The Board of Directors and management of UBS are also responsible for establishing and maintaining adequate internal control over financial reporting. UBS's internal control over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with IFRS as issued by the International Accounting Standards Board.

UBS's internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation and fair presentation of financial statements, and that receipts and expenditures of the company are being made only in accordance with authorizations of UBS management; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management is required to determine, as of the end of each fiscal year, whether UBS's internal control over financial reporting was effective or whether there was a material weakness in such controls. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a registrant's financial statements will not be prevented or detected on a timely basis.

Management's assessment of internal control over financial reporting at 31 December 2012

Following the discovery in September 2011 of unauthorized and fictitious trading in our Global Synthetic Equity business unit in London, management determined and reported that there was a material weakness in UBS's internal control over financial reporting as certain controls designed to prevent or detect the use of unauthorized and fictitious transactions on a timely basis were not operating effectively, and had not been operating effectively as of 31 December 2010. Specifically (i) the control requiring bilateral confirmation with counterparties of trades within our Investment Bank's equities business with settlement dates of greater than 15 days after trade date was not operating, and when such trades were cancelled, rebooked or amended, the related monitoring control to ensure the validity of these changes ceased to operate effectively, and (ii) the controls in the inter-desk reconciliation process within the Investment Bank's equities and fixed income, currencies and commodities businesses to ensure that internal transactions are valid and accurately recorded in our books and records, including controls over cancellations and amendments of internal trades that require supervisor review, intervention and resolution, did not operate effectively. In its assessment of internal control over financial reporting as of 31 December 2011, contained in the Annual Report 2011, management concluded that, while significant progress had been made, given the relatively brief period since the unauthorized trading incident was discovered, a longer period of operational testing and further refinement would be necessary before it could conclude that the confirmation and reconciliation controls referred to above were operating effectively. Based on this assessment, management assessed UBS's internal control over financial reporting as ineffective as of 31 December 2011.

Remediation of identified control deficiencies

As soon as the control deficiencies referred to above were identified, work was initiated to remediate them. The confirmation control and the monitoring control over the validity of changes to trades have been reactivated and refined, and front-to-back control processes have been extensively modified with a view to ensuring, among other things, that the transactions identified by the inter-desk reconciliation process referred to above are effectively reviewed, investigated and resolved on a timely basis. New monitoring reports and processes have also been developed as part of a broader program initiated to strengthen the effectiveness of supervisory oversight. The confirmation control and the monitoring

control over the validity of changes to trades were placed into operation in the fourth quarter of 2011, and their operational effectiveness was tested in the succeeding months. As a result of these measures, management concluded that the confirmation and reconciliation controls referred to above had been fully remediated. This conclusion was communicated in the Group's first quarter 2012 report issued on 2 May 2012, together with management's conclusion that the material weakness previously identified in UBS's internal control over financial reporting had been remediated.

UBS management has assessed the effectiveness of UBS's internal control over financial reporting as of 31 December 2012 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of 31 December 2012, UBS's internal control over financial reporting was effective.

The effectiveness of UBS's internal control over financial reporting as of 31 December 2012 has been audited by Ernst & Young Ltd, UBS's independent registered public accounting firm, as stated in their report appearing on pages 319 to 320, which expressed an unqualified opinion on the effectiveness of UBS's internal control over financial reporting as of 31 December 2012.

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 7 March 2013

Report of independent registered public accounting firm on internal control over financial reporting

We have audited the internal control over financial reporting of UBS AG and its subsidiaries as of 31 December 2012, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). UBS AG's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control Over Financial Reporting on pages 317 and 318. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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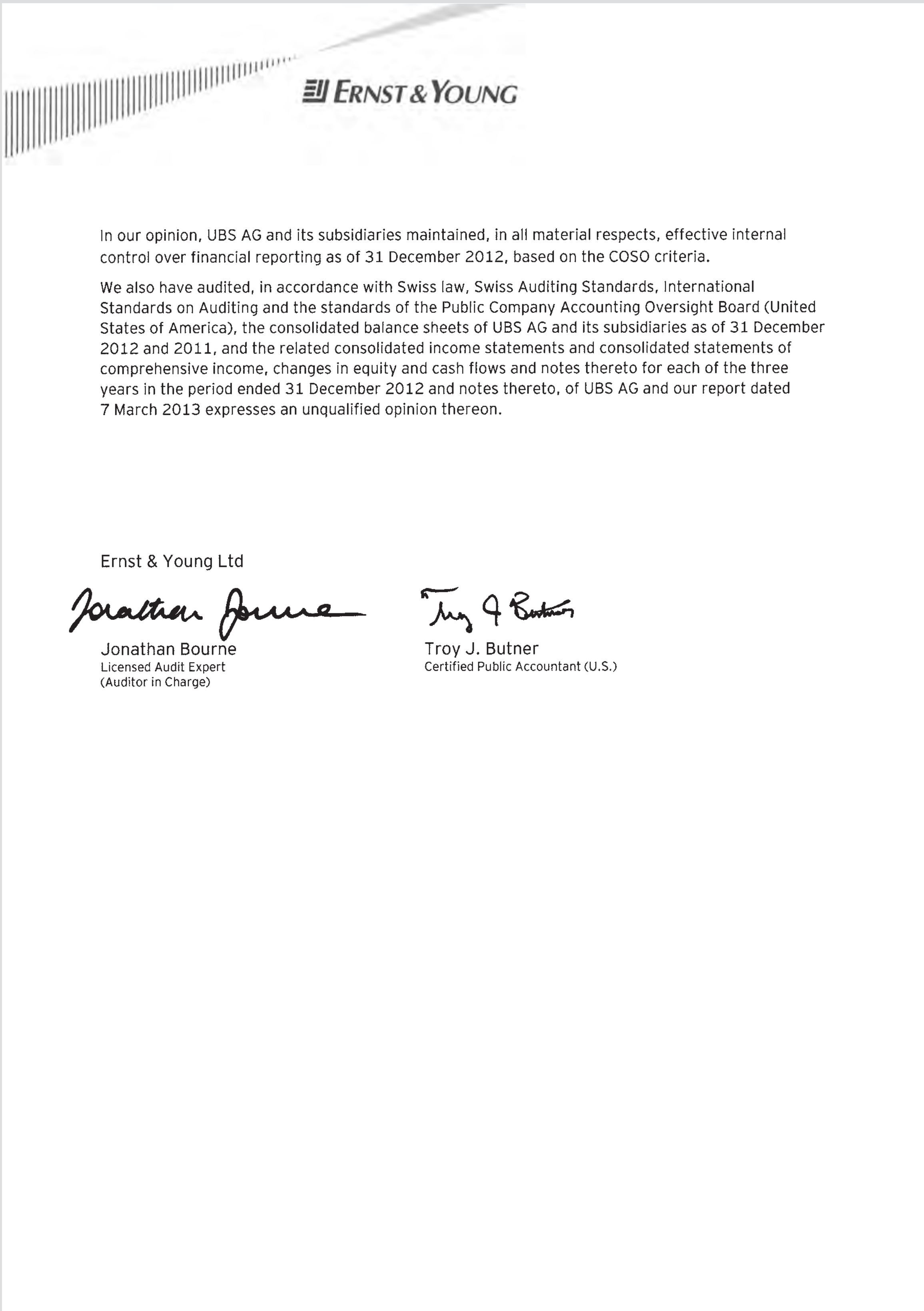

ERNST & YOUNG

In our opinion, UBS AG and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of 31 December 2012, based on the COSO criteria.

We also have audited, in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated balance sheets of UBS AG and its subsidiaries as of 31 December 2012 and 2011, and the related consolidated income statements and consolidated statements of comprehensive income, changes in equity and cash flows and notes thereto for each of the three years in the period ended 31 December 2012 and notes thereto, of UBS AG and our report dated 7 March 2013 expresses an unqualified opinion thereon.

Ernst & Young Ltd

Jonathan Bourne
Licensed Audit Expert
(Auditor in Charge)

Troy J. Butner
Certified Public Accountant (U.S.)

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 7 March 2013

Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of UBS AG and its subsidiaries which are comprised of the consolidated balance sheets as of 31 December 2012 and 2011, and the related consolidated income statements and consolidated statements of comprehensive income, changes in equity and cash flows, and notes thereto, for each of the three years in the period ended 31 December 2012 on pages 323 to 456.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used

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and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UBS AG and its subsidiaries at 31 December 2012 and 2011, and the consolidated results of operations and the cash flows for each of the three years in the period ended 31 December 2012 in accordance with IFRS, as issued by the International Accounting Standards Board, and comply with Swiss law.

Report on other legal and regulatory requirements

We confirm that we meet the Swiss legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements in accordance with the instructions of the Board of Directors.

In accordance with Swiss law, we recommend that the consolidated financial statements submitted to you be approved.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the internal control over financial reporting of UBS AG and its subsidiaries as of 31 December 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated 7 March 2013 expresses an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

Ernst & Young Ltd

Jonathan Bourne
Licensed Audit Expert
(Auditor in Charge)

Troy J. Butner
Certified Public Accountant (U.S.)

Income statement

CHF million, except per share data	Note	For the year ended 31.12.12	31.12.11	31.12.10	% change from 31.12.11
Continuing operations					
Interest income	3	15,968	17,969	18,872	(11)
Interest expense	3	(9,974)	(11,143)	(12,657)	(10)
Net interest income	3	5,994	6,826	6,215	(12)
Credit loss (expense) / recovery	11	(118)	(84)	(66)	40
Net interest income after credit loss expense		5,875	6,742	6,149	(13)
Net fee and commission income	4	15,405	15,236	17,160	1
Net trading income	3	3,480	4,343	7,471	(20)
Other income	5	682	1,467	1,214	(54)
Total operating income		25,443	27,788	31,994	(8)
Personnel expenses	6	14,737	15,634	17,031	(6)
General and administrative expenses	7	8,653	5,959	6,585	45
Depreciation and impairment of property and equipment	16	689	761	918	(9)
Impairment of goodwill	17	3,030	0	0	
Amortization and impairment of intangible assets	17	106	127	117	(17)
Total operating expenses		27,216	22,482	24,650	21
Operating profit / (loss) from continuing operations before tax		(1,774)	5,307	7,345	
Tax expense / (benefit)	24	461	901	(409)	(49)
Net profit / (loss) from continuing operations		(2,235)	4,406	7,754	
Discontinued operations					
Profit from discontinued operations before tax		0	0	2	
Tax expense	24	0	0	0	
Net profit from discontinued operations		0	0	2	
Net profit / (loss)		(2,235)	4,406	7,756	
Net profit attributable to non-controlling interests		276	268	304	3
from continuing operations		276	268	303	3
from discontinued operations		0	0	1	
Net profit / (loss) attributable to UBS shareholders		(2,511)	4,138	7,452	
from continuing operations		(2,511)	4,138	7,451	
from discontinued operations		0	0	1	
Earnings per share (CHF)					
Basic earnings per share	8	(0.67)	1.10	1.97	
Diluted earnings per share	8	(0.67)	1.08	1.94	

Statement of comprehensive income[1]

	For the year ended				
CHF million	31.12.12			31.12.11	31.12.10
	Total	UBS shareholders	Non-controlling interests		
Net profit / (loss)	**(2,235)**	**(2,511)**	**276**	4,406	7,756
Other comprehensive income					
Foreign currency translation					
Foreign currency translation movements, before tax	(395)	(362)	(33)	985	(740)
Foreign exchange amounts reclassified to the income statement from equity	(58)	(58)		8	237
Income tax relating to foreign currency translation movements	(91)	(91)		20	88
Subtotal foreign currency translation movements, net of tax[2]	(544)	(511)	(33)	1,014	(415)
Financial investments available-for-sale					
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	323	323		1,458	(499)
Impairment charges reclassified to the income statement from equity	85	85		39	72
Realized gains reclassified to the income statement from equity	(433)	(433)		(950)	(357)
Realized losses reclassified to the income statement from equity	19	19		24	153
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	20	20		(76)	13
Subtotal net unrealized gains / (losses) on financial investments available-for-sale, net of tax[2]	14	14	0	495	(618)
Cash flow hedges					
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	1,714	1,714		3,093	927
Net realized (gains) / losses reclassified to the income statement from equity	(1,235)	(1,235)		(1,140)	(1,108)
Income tax effects relating to cash flow hedges	(95)	(95)		(417)	38
Subtotal changes in fair value of derivative instruments designated as cash flow hedges, net of tax[2]	384	384	0	1,537	(143)
Defined benefit plans					
Gains / (losses) on defined benefit plans, before tax	1,023	1,023		(2,141)	124
Income tax relating to gains / losses on defined benefit plans	(413)	(413)		321	(3)
Subtotal changes in gains / (losses) on defined benefit plans, net of tax[2]	609	609	0	(1,820)	120
Property revaluation surplus					
Gains on property revaluation, before tax	8	8			
Income tax relating to gains on property revaluation	(2)	(2)			
Subtotal changes in property revaluation surplus, net of tax[2]	6	6	0		
Total other comprehensive income	**469**	**502**	**(33)**	1,226	(1,055)
Total comprehensive income	**(1,766)**	**(2,009)**	**243**	5,632	6,701
Total comprehensive income attributable to non-controlling interests	243			560	609
Total comprehensive income attributable to UBS shareholders	**(2,009)**			5,071	6,092

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS 19R. 2 Other comprehensive income attributable to UBS shareholders related to foreign currency translations was positive CHF 722 million in 2011 and negative CHF 731 million in 2010. Other comprehensive income attributable to UBS shareholders related to financial investments available-for-sale was positive CHF 495 million in 2011 and negative CHF 607 million in 2010. Other comprehensive income related to cash flow hedges, defined benefit plans and property revaluation surplus was wholly attributable to UBS shareholders for all periods presented.

Balance sheet

CHF million	Note	31.12.12	31.12.11	31.12.10	% change from 31.12.11
Assets					
Cash and balances with central banks		**66,383**	40,638	26,939	63
Due from banks	9	**21,230**	23,218	17,133	(9)
Cash collateral on securities borrowed	10	**37,372**	58,763	62,454	(36)
Reverse repurchase agreements	10	**130,941**	213,501	142,790	(39)
Trading portfolio assets	12	**160,861**	181,525	228,815	(11)
of which: assets pledged as collateral which may be sold or repledged by counterparties	28	***44,698***	*39,936*	*61,352*	*12*
Positive replacement values	25	**418,029**	486,584	401,146	(14)
Cash collateral receivables on derivative instruments	10	**30,413**	41,322	38,071	(26)
Financial assets designated at fair value	13	**9,106**	10,336	8,504	(12)
Loans	9	**279,901**	266,604	262,877	5
Financial investments available-for-sale	14	**66,383**	53,174	74,768	25
Accrued income and prepaid expenses		**6,093**	6,327	5,466	(4)
Investments in associates	15	**858**	795	790	8
Property and equipment	16	**6,004**	5,688	5,467	6
Goodwill and intangible assets	17	**6,461**	9,695	9,822	(33)
Deferred tax assets	24	**8,143**	9,627	10,262	(15)
Other assets	18	**11,055**	9,165	19,506	21
Total assets		**1,259,232**	1,416,962	1,314,813	(11)
Liabilities					
Due to banks	19	**23,024**	30,201	41,490	(24)
Cash collateral on securities lent	10	**9,203**	8,136	6,651	13
Repurchase agreements	10	**37,639**	102,429	74,796	(63)
Trading portfolio liabilities	12	**34,154**	39,480	54,975	(13)
Negative replacement values	25	**395,070**	473,400	393,762	(17)
Cash collateral payables on derivative instruments	10	**71,148**	67,114	58,924	6
Financial liabilities designated at fair value	20	**92,878**	88,982	100,756	4
Due to customers	19	**371,892**	342,409	332,301	9
Accrued expenses and deferred income		**6,881**	6,850	7,738	0
Debt issued	21	**104,656**	140,617	130,271	(26)
Provisions	23	**2,536**	1,626	1,704	56
Other liabilities	22	**59,902**	62,784	62,674	(5)
Total liabilities		**1,208,983**	1,364,027	1,266,042	(11)
Equity					
Share capital		**384**	383	383	0
Share premium		**33,898**	34,614	34,393	(2)
Treasury shares		**(1,071)**	(1,160)	(654)	(8)
Equity classified as obligation to purchase own shares		**(37)**	(39)	(54)	(5)
Retained earnings		**21,231**	23,742	19,604	(11)
Cumulative net income recognized directly in equity, net of tax		**(8,509)**	(9,011)	(9,945)	(6)
Equity attributable to UBS shareholders		**45,895**	48,530	43,728	(5)
Equity attributable to non-controlling interests		**4,353**	4,406	5,043	(1)
Total equity		**50,249**	52,935	48,770	(5)
Total liabilities and equity		**1,259,232**	1,416,962	1,314,813	(11)

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares	Retained earnings
Balance as of 1 January 2010 before the adoption of IAS 19R	**356**	**34,824**	**(1,040)**	**(2)**	**11,910**
Effect of adoption of IAS 19R[1]					242
Balance as of 1 January 2010 after the adoption of IAS 19R	**356**	**34,824**	**(1,040)**	**(2)**	**12,152**
Issuance of share capital	27				
Acquisition of treasury shares			(1,574)		
Disposition of treasury shares			1,960		
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity[2]		(237)			
Premium on shares issued and warrants exercised		(27)			
Employee share and share option plans		(104)			
Tax (expense)/benefit recognized in share premium[2]		186			
Transaction costs related to share issuances, net of tax		(113)			
Dividends					
Equity classified as obligation to purchase own shares – movements				(52)	
Preferred securities					
New consolidations and other increases / (decrease)		(136)			
Deconsolidations and other decreases					
Total comprehensive income for the year recognized in equity					7,452
Balance as of 31 December 2010	**383**	**34,393**	**(654)**	**(54)**	**19,604**
Issuance of share capital					
Acquisition of treasury shares			(2,455)		
Disposition of treasury shares			1,949		
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity[2]		(83)			
Premium on shares issued and warrants exercised		10			
Employee share and share option plans		19			
Tax (expense)/benefit recognized in share premium[2]		280			
Transaction costs related to share issuances, net of tax					
Dividends					
Equity classified as obligation to purchase own shares – movements				15	
Preferred securities					
New consolidations and other increases / (decrease)		(5)			
Deconsolidations and other decreases					
Total comprehensive income for the year recognized in equity					4,138
Balance as of 31 December 2011	**383**	**34,614**	**(1,160)**	**(39)**	**23,742**
Issuance of share capital	**0**				
Acquisition of treasury shares			**(1,398)**[4]		
Disposition of treasury shares			**1,486**		
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		**(9)**			
Premium on shares issued and warrants exercised		**4**			
Employee share and share option plans		**126**			
Tax (expense)/benefit recognized in share premium		**(457)**			
Transaction costs related to share issuances, net of tax					
Dividends		**(379)**[5]			
Equity classified as obligation to purchase own shares – movements				**2**	
Preferred securities					
New consolidations and other increases / (decrease)		**(1)**			
Deconsolidations and other decreases					
Total comprehensive income for the year recognized in equity					**(2,511)**
Balance as of 31 December 2012	**384**	**33,898**	**(1,071)**	**(37)**	**21,231**

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS 19R. 2 Presentational changes have been made in 2012. The line Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity is now shown gross of tax. Previously, this line was shown net of tax. All income tax related to share premium is reported on the line Tax (expense) / benefit recognized in share premium. 3 Includes reclassifications from equity attributable to non-controlling interests to liabilities for preferred securities dividend payment obligations which were accrued in the period. 4 Net acquisitions of 5 million treasury shares (CHF 92 million) related to market making and hedging activities of the Investment Bank are presented as acquisitions. 5 Reflects the payment of CHF 0.10 per share of CHF 0.10 par value out of capital contribution reserve of UBS AG (Parent Bank).

Cumulative net income recognized directly in equity, net of tax	*of which Foreign currency translation*	*of which Financial investments available-for-sale*	*of which Cash flow hedges*	*of which Defined benefit plans*	*of which Property revaluation surplus*	Total equity attributable to UBS shareholders	Non-controlling interests	Total equity
(5,034)	***(6,604)***	***364***	***1,206***	***0***	***0***	**41,013**	**7,620**	**48,633**
(3,551)	*166*			*(3,716)*		(3,309)		(3,309)
(8,585)	***(6,438)***	***364***	***1,206***	***(3,716)***	***0***	**37,704**	**7,620**	**45,324**
						27		27
						(1,574)		(1,574)
						1,960		1,960
						(237)		(237)
						(27)		(27)
						(104)		(104)
						186		186
						(113)		(113)
						0	(305)[3]	(305)
						(52)		(52)
						0	(2,622)	(2,622)
						(136)	6	(130)
						0	(264)	(264)
(1,360)	*(731)*	*(607)*	*(143)*	*120*		6,092	609	6,701
(9,945)	***(7,169)***	***(243)***	***1,063***	***(3,596)***	**0**	**43,728**	**5,043**	**48,770**
						0		0
						(2,455)		(2,455)
						1,949		1,949
						(83)		(83)
						10		10
						19		19
						280		280
						0		0
						0	(269)[3]	(269)
						15		15
						0	(882)	(882)
						(5)	1	(4)
						0	(47)	(47)
934	*722*	*495*	*1,537*	*(1,820)*		5,071	560	5,632
(9,011)	***(6,447)***	***252***	***2,600***	***(5,415)***	**0**	**48,530**	**4,406**	**52,935**
						0		**0**
						(1,398)		**(1,398)**
						1,486		**1,486**
						(9)		**(9)**
						4		**4**
						126		**126**
						(457)		**(457)**
						0		**0**
						(379)	**(277)[3]**	**(656)**
						2		**2**
						0		**0**
						(1)	**(10)**	**(11)**
						0	**(9)**	**(9)**
502	***(511)***	***14***	***384***	***609***	***6***	**(2,009)**	**243**	**(1,766)**
(8,509)	***(6,958)***	***267***	***2,983***	***(4,806)***	***6***	**45,895**	**4,353**	**50,249**

Equity attributable to non-controlling interests

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Preferred securities[1]			
Balance at the beginning of the year	**4,359**	4,907	7,254
Redemptions[2]	**0**	(882)	(2,622)
Foreign currency translation	**(48)**	334	275
Balance at the end of the year	**4,311**	4,359	4,907
Other non-controlling interests at the end of the year	**42**	47	136
Total equity attributable to non-controlling interests	**4,353**	4,406	5,043

1 Increases and offsetting decreases due to dividend payment obligations are excluded from this table. 2 Represents nominal amount translated at the historic currency exchange rate.

	For the year ended			% change from
Number of shares	**31.12.12**	31.12.11	31.12.10	31.12.11
Shares issued				
Balance at the beginning of the year	**3,832,121,899**	3,830,840,513	3,558,112,753	0
Issuance of shares	**3,128,334**	1,281,386	272,727,760	144
Balance at the end of the year	**3,835,250,233**	3,832,121,899	3,830,840,513	0
Treasury shares				
Balance at the beginning of the year	**84,955,551**	38,892,031	37,553,872	118
Acquisitions	**114,292,481**	155,636,639	105,824,816	(27)
Dispositions	**(111,368,431)**	(109,573,119)	(104,486,657)	2
Balance at the end of the year	**87,879,601**	84,955,551	38,892,031	3

Conditional share capital

As of 31 December 2012, 145,510,992 additional shares (31 December 2011: 148,639,326 shares) could have been issued to fund UBS's employee share option programs. Further conditional capital of up to 100,000,000 shares was available in connection with an arrangement with the Swiss National Bank (SNB). The SNB provided a loan to a fund owned and controlled by the SNB (the SNB StabFund), to which UBS transferred certain illiquid securities and other positions. As part of this arrangement, UBS granted warrants on shares to the SNB and these warrants become exercisable if the SNB incurs a loss on its loan to the SNB StabFund.

Further on 14 April 2010, the Annual General Meeting of UBS AG (Parent Bank) shareholders approved the creation of conditional capital to a maximum amount of 380,000,000 shares for conversion rights/warrants granted in connection with the issuance of bonds or similar financial instruments. These positions are shown as conditional share capital in UBS AG's (Parent Bank) disclosure.

Statement of cash flows[1]

CHF million	For the year ended 31.12.12	31.12.11	31.12.10
Cash flow from / (used in) operating activities			
Net profit / (loss)	(2,235)	4,406	7,756
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation and impairment of property and equipment	689	761	918
Impairment of goodwill	3,030	0	0
Amortization and impairment of intangible assets	106	127	117
Credit loss expense / (recovery)	118	84	66
Share of net profits of associates	(88)	(42)	(81)
Deferred tax expense / (benefit)	294	795	(634)
Net loss / (gain) from investing activities	(507)	(996)	(531)
Net loss / (gain) from financing activities	3,717	(5,856)	1,125
Other net adjustments	6,081	3,703	15,298
Net (increase) / decrease in operating assets and liabilities:			
Net due from / to banks	(7,686)	(14,569)	10,046
Reverse repurchase agreements and cash collateral on securities borrowed	102,436	(67,262)	(47,207)
Trading portfolio, net replacement values and financial assets designated at fair value	8,740	17,225	6,635
Loans / due to customers	16,011	6,068	(1,703)
Accrued income, prepaid expenses and other assets	(889)	9,648	(1,994)
Repurchase agreements, cash collateral on securities lent	(66,111)	27,116	17,588
Net cash collateral on derivative instruments	4,399	6,330	5,239
Accrued expenses, deferred income and other liabilities	(794)	(1,430)	1,246
Income taxes paid, net of refunds	(261)	(349)	(498)
Net cash flow from / (used in) operating activities	**67,050**	**(14,241)**	**13,385**
Cash flow from / (used in) investing activities			
Purchase of subsidiaries, associates and intangible assets	(11)	(58)	(75)
Disposal of subsidiaries, associates and intangible assets[2]	41	50	307
Purchase of property and equipment	(1,118)	(1,129)	(541)
Disposal of property and equipment	202	233	242
Net (investment in) / divestment of financial investments available-for-sale	(13,946)[3]	20,281	4,164
Net cash flow from / (used in) investing activities	**(14,831)**	**19,377**	**4,097**
Cash flow from / (used in) financing activities			
Net short-term debt issued / (repaid)	(37,967)	15,338	4,459
Net movements in treasury shares and own equity derivative activity	(1,159)	(1,885)	(1,456)
Capital issuance	0	0	(113)
Dividends paid	(379)	0	0
Issuance of long-term debt, including financial liabilities designated at fair value	55,747	52,590	78,418
Repayment of long-term debt, including financial liabilities designated at fair value	(53,996)	(62,626)	(77,497)
Increase in non-controlling interests	0	1	6
Dividends paid to / decrease in non-controlling interests	(288)	(749)	(2,053)
Net cash flow from / (used in) financing activities	**(38,041)**	**2,670**	**1,764**

1 In 2012, the estimation of the effects of foreign currency translation on the statement of cash flows was refined. This change in estimate resulted in Net cash flows from / (used in) operating activities being higher by CHF 1.8 billion (recorded in Other net adjustments), from / (used in) investing activities being higher by CHF 0.5 billion, from / (used in) financing activities being higher by CHF 1.4 billion and the amounts presented under the line item Effects of exchange rate differences being lower by CHF 3.7 billion. In conjunction with this change in estimate, the presentation of amounts within Net cash flows from / (used in) operating activities has been enhanced by eliminating the estimated foreign currency effects from individual balance sheet movements presented under Net (increase) / decrease in operating assets and liabilities and reflecting these within Other net adjustments, for which comparatives have been restated. 2 Includes dividends received from associates. 3 Includes gross cash inflows from sales and maturities of CHF 8,796 million and gross cash outflows from purchases of CHF 7,422 million related to the Wealth Management Americas' available-for-sale portfolio. Other net cash outflows of CHF 15,320 million almost entirely related to our multi-currency portfolio of unencumbered, high-quality, short-term assets.

Table continues on the next page.

Statement of cash flows (continued)

Table continued from previous page.

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Effects of exchange rate differences	**(673)**	(2,129)	(12,181)
Net increase / (decrease) in cash and cash equivalents	**13,506**	5,678	7,066
Cash and cash equivalents at the beginning of the year	**85,612**	79,934	72,868
Cash and cash equivalents at the end of the year	**99,118**	85,612	79,934
Cash and cash equivalents comprise:			
Cash and balances with central banks	**66,383**	40,638	26,939
Money market paper[1]	**4,382**	3,900	17,110
Due from banks[2]	**28,354**	41,074	35,885
Total	**99,118**	85,612	79,934
Additional information			
Net cash flow from / (used in) operating activities include:			
Cash received as interest	**14,551**	16,669	17,344
Cash paid as interest	**9,153**	9,845	12,606
Cash received as dividends on equity investments, investment funds and associates[3]	**1,430**	1,343	1,395

1 Money market paper is included in the balance sheet under Trading portfolio assets (31 December 2012: CHF 2,192 million, 31 December 2011: CHF 1,783 million) and Financial investments available-for-sale (31 December 2012: CHF 2,190 million, 31 December 2011: CHF 2,117 million). 2 Includes positions recognized in the balance sheet under Due from banks (31 December 2012: CHF 15,961 million, 31 December 2011: CHF 18,733 million) and Cash collateral receivables on derivative instruments with bank counterparties (31 December 2012: CHF 12,393 million, 31 December 2011: CHF 22,341 million, refer to Note 10). 3 Includes dividends received from associates (2012: CHF 37 million, 2011: CHF 28 million, 2010: CHF 29 million) reported within cash flow from / (used in) investing activities.

Significant non-cash investing and financing activities

No significant items for 2012, 2011 and 2010.

Notes to the consolidated financial statements

Note 1 Summary of significant accounting policies

a) Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements of UBS (the "Financial Statements") are described in this note. These policies have been consistently applied in all the years presented unless otherwise stated.

1) Basis of accounting

UBS AG and its subsidiaries ("UBS" or the "Group") provide a broad range of financial services including: advisory services, underwriting, financing, market-making, asset management and brokerage on a global level, and retail banking in Switzerland. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged.

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are presented in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. On 7 March 2013, the Financial Statements were authorized for issue by the Board of Directors. Consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events. Transactions and balances between Group companies are eliminated.

Disclosures incorporated in the "Risk, treasury and capital management" section which are part of these financial statements are marked as audited. These disclosures relate to requirements under IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements* and are not repeated in the "Financial information – consolidated financial statements" section.

2) Use of estimates in the preparation of the Financial Statements

In preparing the Financial Statements in conformity with IFRS, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and the disclosure of contingent assets and liabilities. Assessing available information and the application of judgment are necessary elements in making estimates. Actual results in the future could differ from such estimates, and such differences may be material to the Financial Statements. Estimates and their underlying assumptions are reviewed on an ongoing basis. Any revisions to estimates resulting from these reviews are recognized in the period in which such estimates are revised.

The following notes to the Financial Statements contain information about those areas of estimation uncertainty considered to require critical judgment in applying those accounting policies that have the most significant effect on the amounts recognized in the Financial Statements: Note 11 *Allowances and provisions for credit losses*; Note 17 *Goodwill and intangible assets*; Note 23 *Provisions and contingent liabilities*; Note 24 *Income taxes*; Note 27 *Fair value of financial instruments*; Note 29a *Measurement categories of financial assets and financial liabilities*; Note 30 *Pension and other post-employment benefit plans*; and Note 31 *Equity participation and other compensation plans*.

3) Subsidiaries

The Financial Statements comprise those of the parent company (UBS AG) and its subsidiaries, including controlled special purpose entities (SPEs), presented as a single economic entity. UBS controls an entity when it has the power to govern the financial and operating policies of the entity. Generally this is indicated by a direct shareholding of more than one-half of the voting rights. Subsidiaries, including SPEs that are controlled by the Group, are consolidated from the date control is transferred to the Group and are deconsolidated from the date control ceases.

Equity attributable to non-controlling interests is presented on the consolidated balance sheet within equity, and is separate from equity attributable to UBS shareholders.

Special purpose entities

The Group sponsors the formation of SPEs and interacts with non-sponsored SPEs for a variety of reasons in order to accomplish certain narrow and well-defined objectives. Many SPEs are established as bankruptcy remote, meaning that only the assets in the SPE are available for the benefit of the investors in the SPE and such investors have no other recourse to UBS. SPEs, including trusts, are consolidated when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group. The following circumstances may indicate a relationship in which, in substance, UBS controls and consequently consolidates the SPE:
- the activities of the SPE are being conducted on behalf of UBS according to its specific business needs, so that UBS obtains benefits from the SPE's operations;
- UBS has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, through setting up an "autopilot" mechanism, UBS has delegated these decision-making powers;
- UBS has rights to obtain the majority of the benefits of the SPE and, therefore, may be exposed to risks associated with the activities of the SPE; or

Note 1 Summary of significant accounting policies (continued)

– UBS retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

SPEs that are established to facilitate clients holding investments are structures that allow one or more clients to invest in specific assets or risk and reward profiles. Typically, UBS will receive service and commission fees for the creation of the SPEs, or for its services as investment manager, custodian or in some other capacity. Some of these SPEs are single-investor or family trusts while others allow multiple investors to invest in a diversified asset base through shares, notes or certificates. The majority of UBS's SPEs created for client investment purposes are not consolidated. However, UBS will consolidate such SPEs when a control relationship exists - for example when UBS absorbs the majority of the risks and rewards, or when UBS has unilateral liquidation rights.

SPEs used for securitization are established when UBS sells assets (for example, a portfolio of loans) to an SPE or facilitates the purchase of assets on behalf of an SPE, and the SPE in turn sells interests in the assets as securities to investors. Consolidation of these SPEs depends mainly on whether UBS retains the majority of the risks and rewards of the assets in the SPE. UBS does not consolidate SPEs used for securitization if it has no control over the assets and if it no longer retains any significant gain or loss exposure to the income or investment returns on the assets sold to the SPE, or the proceeds of their liquidation.

SPEs used for credit protection are established so as to transfer the credit risk on single names or portfolios, which may or may not be held by UBS, to one or more investors. UBS generally consolidates SPEs that are used for credit protection when, for instance, UBS receives funding from the SPE or has unilateral liquidation rights.

Employee benefit trusts are used in connection with share-based payment arrangements and deferred compensation schemes. Such trusts are consolidated when the substance of the relationship between UBS and the entity indicates that the entity is controlled by UBS.

UBS continuously evaluates whether triggering events require the reconsideration of consolidation decisions that were first made at inception of its involvement with any particular SPE. This is especially relevant for securitization vehicles. Triggering events are usually caused by restructuring, the vesting of potential rights and the acquisition, disposal or expiration of interests in the SPE. SPEs may be consolidated or deconsolidated depending on the facts and circumstances of any change.

Business combinations

Business combinations are accounted for using the acquisition method. As of the acquisition date, UBS recognizes the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. For each business combination, UBS measures the non-controlling interests in the acquiree (being present ownership interests providing entitlement to a proportionate share of the net assets of the acquiree in the event of liquidation) either at fair value or at their proportionate share of the acquiree's identifiable net assets.

The cost of an acquisition is the aggregate of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity instruments issued, measured at acquisition-date fair values. Acquisition-related costs are expensed as incurred. Any contingent consideration that may be transferred by UBS is recognized at fair value at the acquisition date. If the contingent consideration is classified as an asset or liability, subsequent changes in the fair value of the contingent consideration are recognized in the income statement. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled.

Any excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed is considered goodwill and is recognized as a separate asset on the balance sheet, initially measured at cost. If the fair value of the net assets of the subsidiary acquired exceeds the aggregate of the consideration transferred and the amount recognized for non-controlling interests, the difference is recognized in the income statement on the acquisition date.

4) Associates and jointly controlled entities

Investments in entities in which UBS has significant influence, but not control, over the financial and operating policies of the entity are classified as *investments in associates* and accounted for under the equity method of accounting. Normally, significant influence is indicated when UBS owns between 20% and 50% of a company's voting rights. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased after the date of acquisition to recognize the Group's share of the investee's net profit or loss (including net profit or loss recognized directly in equity). Interests in jointly controlled entities also are accounted for under the equity method of accounting. A jointly controlled entity is subject to a contractual agreement between UBS and one or more third parties, which establishes joint control over its economic activities. Interests in jointly controlled entities are classified as *investments in associates* on the balance sheet and for disclosure purposes.

If the reporting date of an associate or joint venture is different to UBS's reporting date, the most recently available financial statements of the associate or joint venture are used to apply the equity method. Adjustments are made for effects of significant transactions or events that may occur between that date and the UBS reporting date.

Investments in associates and interests in jointly controlled entities are classified as "held for sale" if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – refer to item 29.

Note 1 Summary of significant accounting policies (continued)

5) Recognition and derecognition of financial instruments

UBS recognizes financial instruments on its balance sheet when the Group becomes a party to the contractual provisions of the instruments. UBS acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Unless the recognition criteria for the assets are satisfied, these assets and the related income are excluded from UBS's financial statements, as they are not assets of UBS.

Financial assets

UBS enters into certain transactions where it transfers financial assets recognized on its balance sheet but retains either all or a portion of the risks and rewards of the transferred financial assets. If all or substantially all risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transactions where transfers of financial assets result in UBS retaining all or substantially all risks and rewards include securities lending and repurchase transactions described under items 13) and 14). They also include transactions where financial assets are sold to a third party together with a total return swap that results in UBS retaining all or substantially all risks and rewards of the transferred assets. These types of transactions are accounted for as secured financing transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS derecognizes the financial asset if control over the asset is surrendered. The rights and obligations retained in the transfer are recognized separately as assets and liabilities, respectively. In transfers where control over the financial asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Examples of such transactions include written put options, acquired call options, or other instruments linked to the performance of the asset.

For the purposes of the Group's disclosures of transferred financial assets, a financial asset is typically considered to have been transferred when the Group a) transfers the contractual rights to receive the cash flows of the financial asset or b) retains the contractual rights to receive the cash flows of that asset, but assumes a contractual obligation to pay the cash flows.

Where financial assets have been pledged as collateral or in similar arrangements, they are considered to have been transferred if the counterparty has received the contractual right to the cash flows of the pledged assets, as may be evidenced, for example by the counterparty's right to sell or re-pledge the assets. Where the counterparty to the pledged financial assets has not received the contractual right to the cash flows, the assets are considered pledged, but not transferred.

Financial liabilities

UBS derecognizes a financial liability from its balance sheet when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is exchanged for a new one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability with any difference in the respective carrying amounts being recognized in the income statement.

6) Determination of fair value

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Determination of fair value is considered a critical accounting policy for the Group and further details are disclosed in Note 27.

7) Trading portfolio assets and liabilities

Non-derivative financial assets and liabilities are classified at acquisition as held for trading and presented in the trading portfolio if they are a) acquired or incurred principally for the purpose of selling or repurchasing in the near term; or b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The trading portfolio includes non-derivative financial instruments (including those with embedded derivatives) and commodities. Financial instruments which are considered derivatives in their entirety generally are presented on the balance sheet as *Positive replacement values* or *Negative replacement values* (refer to item 15)). The trading portfolio includes recognized assets and liabilities relating to proprietary-, hedging- and client-related business (refer to Note 12 for more details).

Trading portfolio assets include debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans); equity instruments, assets held under unit-linked contracts and precious metals and other commodities owned by the Group ("long" positions). Trading portfolio liabilities include obligations to deliver financial instruments such as debt and equity instruments which the Group has sold to third parties, but does not own ("short" positions).

Assets and liabilities in the trading portfolio are measured at fair value. Gains and losses realized on disposal or redemption of these assets and liabilities and unrealized gains and losses from changes in the fair value of these assets and liabilities are reported as Net trading income. Interest and dividend income and expense on these assets and liabilities are included in *Interest and dividend income* or *Interest and dividend expense.*

The Group uses settlement date accounting when recognizing assets and liabilities in the trading portfolio. From the date a purchase transaction is entered into (trade date) until settlement date, UBS recognizes any unrealized profits and losses arising from remeasuring the transaction to fair value in *Net trading income.* The corresponding receivable or payable is presented on

Note 1 Summary of significant accounting policies (continued)

the balance sheet as a *Positive replacement value* or *Negative replacement value,* respectively. On settlement date, the resulting financial asset is recognized on the balance sheet at the fair value of the consideration given or received plus or minus the change in fair value of the contract since the trade date. From the trade date of a sales transaction, unrealized profits and losses are no longer recognized and, on settlement date, the asset is derecognized.

Trading portfolio assets transferred to external parties that do not qualify for derecognition (refer to item 5)) and where the transferee has obtained the right to sell or re-pledge the assets are classified on the UBS balance sheet as *Trading portfolio assets* and identified as *Trading portfolio assets pledged as collateral.* Such assets continue to be measured at fair value.

8) Financial assets and Financial liabilities designated at fair value through profit or loss ("Fair Value Option")

A financial instrument may be designated at fair value through profit or loss only at inception and this designation cannot be changed subsequently. Financial assets (refer to Note 13) and financial liabilities (refer to Note 20) designated at fair value are presented on separate lines on the face of the balance sheet. There are restrictions as to when the fair value option can be applied. The conditions for applying the fair value option are met when:
- the financial instrument is a hybrid instrument which includes an embedded derivative; or
- the financial instrument is part of a portfolio which is risk managed on a fair value basis and reported to senior management on that basis; or
- the application of the fair value option eliminates or significantly reduces an accounting mismatch that would otherwise arise.

UBS has used the fair value option to designate most of its issued hybrid debt instruments as *Financial liabilities designated at fair value* through profit or loss, on the basis that such financial instruments include embedded derivatives or are managed on a fair value basis. Such hybrid debt instruments predominantly include the following:
- *Credit-linked bonds or notes:* linked to the performance (coupon and/or redemption amount) of single names (such as a company or a country) or a basket of reference entities
- *Equity-linked bonds or notes:* linked to a single stock, a basket of stocks or an equity index
- *Rates-linked bonds or notes:* linked to a reference interest rate, interest rate spread or formula

The fair value option is applied to certain loans and loan commitments, otherwise accounted for at amortized cost, which are hedged predominantly with credit derivatives. The application of the fair value option to the loans and loan commitments reduces an accounting mismatch, as the credit derivatives are accounted for as derivative instruments at fair value through profit or loss.

In order to reduce an accounting mismatch, UBS has applied the fair value option to certain structured loans and reverse repurchase and securities borrowing agreements which are part of portfolios managed on a fair value basis.

Similarly, the fair value option is applied to assets held to hedge deferred cash-settled employee compensation awards, in order to reduce an accounting mismatch that would arise due to the liability being measured on a fair value basis.

Fair value changes related to financial instruments designated at fair value through profit or loss are recognized in *Net trading income.* Interest income and interest expense on financial assets and liabilities designated at fair value through profit or loss are recognized in *Interest income on financial assets designated at fair value* or *Interest expense on financial liabilities designated at fair value, respectively* (refer to Note 3).

UBS applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments in the trading portfolio (refer to items 5) and 7)).

9) Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets that are not classified as held for trading, designated at fair value through profit or loss, or loans and receivables. They are recognized on a settlement date basis.

Financial investments available-for-sale include debt securities held as part of the liquidity reserve (mainly issued by government and government-controlled institutions); strategic equity investments; certain investments in real estate funds; certain equity instruments, including private equity investments; and debt instruments and non-performing loans acquired in the secondary market.

Financial investments available-for-sale are recognized initially at fair value less direct transaction costs and are measured subsequently at fair value. Unrealized gains and losses are reported in *Equity*, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains before tax are presented separately from unrealized losses before tax in Note 14.

For monetary instruments (such as debt securities), foreign exchange translation gains and losses determined by reference to the instrument's amortized cost basis are recognized in *Net trading income.* Foreign exchange translation gains and losses related to other changes in fair value are recognized in *Other comprehensive income.* Foreign exchange translation gains and losses associated with non-monetary instruments (such as equity securities) are part of the overall fair value change of the instruments and are recognized directly in *Other comprehensive income*.

Interest and dividend income on financial investments available-for-sale are included *in Interest and dividend income from financial investments available-for-sale;* interest income is determined by reference to the instrument's amortized cost basis using the effective interest rate (EIR).

Note 1 Summary of significant accounting policies (continued)

On disposal of an investment, any related accumulated unrealized gains or losses included in Equity are transferred to the Income statement and reported in *Other income;* gains or losses on disposal are determined using the average cost method.

At each balance sheet date, UBS assesses whether there are indicators of impairment of an available-for-sale investment. An available-for-sale investment is impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the investment, the estimated future cash flows from the investment have decreased. A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its original cost is considered objective evidence of an impairment. In the event of a significant decline in fair value below its original cost (20%) or a prolonged decline (six months), an impairment is recorded unless facts and circumstances clearly indicate that this information, on its own, is not evidence of an impairment.

For debt investments, objective evidence of impairment includes significant financial difficulty for the issuer or counterparty; default or delinquency in interest or principal payments; or probability that the borrower will enter bankruptcy or financial reorganization. If a financial investment available-for-sale is determined to be impaired, the related cumulative net unrealized loss previously recognized in Equity is included in the income statement within *Other income.* For equity instruments, any further loss is recognized directly in the income statement, whereas for debt instruments, any further loss is recognized in the income statement only if there is additional objective evidence of impairment. After the recognition of an impairment on a financial investment available-for-sale, increases in the fair value of equity instruments are reported in *Equity* and increases in the fair value of debt instruments up to amortized cost in original currency are recognized in *Other income,* provided that the fair value increase is related to an event occurring after the impairment loss was recorded.

UBS applies the same recognition and derecognition principles to financial assets available-for-sale as to financial instruments in the trading portfolio (refer to items 5) and 7)), except that unrealized gains and losses between trade date and settlement date are recognized in Equity rather than in the income statement.

10) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as held-for-trading, not designated as at fair value through profit and loss or available-for-sale, and are not assets for which the Group may not recover substantially all of its initial net investment, other than because of a credit deterioration. Financial assets classified as loans and receivables include:

- originated loans where funding is provided directly to the borrower; participation in a loan from another lender and purchased loans;
- securities which are classified as loans and receivables at acquisition date, such as auction rate securities;
- securities previously in the trading portfolio and reclassified to loans and receivables (refer to Note 29b);
- loans such as leverage finance loans previously in the trading portfolio and reclassified to loans and receivables (refer to Note 29b).

For an overview of the accounting for financial assets classified as loans and receivables, refer to the measurement category Financial assets at amortized cost presented in Note 29.

Loans and receivables are recognized when UBS becomes a party to the contractual provisions of the instrument, which is when funding is advanced to borrowers. They are recorded initially at fair value, based on the amount provided to originate or purchase the loan or receivable, together with any transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost using the EIR method, less allowances for impairment (refer to item 11)).

Interest on loans and receivables is included in *Interest earned on loans and advances* and is recognized on an accrual basis. Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments are generally deferred and amortized to *Interest earned on loans and advances* over the life of the loan using the EIR method. Where no loan is expected to be advanced, any fees are recognized as follows:

- For loan commitments that are not expected to result in a loan being advanced, the fees are recognized in *Commission income* over the commitment period.
- For loan syndication fees where UBS does not retain a portion of the syndicated loan, or where UBS does retain a portion of the syndicated loan at the same effective yield for comparable risk as other participants, fees are credited to *Commission income* when the services have been provided.

Presentation of receivables from central banks

Deposits with central banks which are available on demand are presented on the balance sheet as *Cash and balances with central banks.* All longer dated receivables with central banks are presented under *Due from banks.*

Financial assets reclassified to loans and receivables

When a financial asset is reclassified from held for trading to loans and receivables, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss recognized in the income statement before reclassification is not reversed. The fair value of a financial asset on the date of reclassification becomes its cost basis going forward. In 2008 and 2009, UBS determined that certain financial assets classified as held for trading were no longer held for the purpose of selling or repurchasing in the near term and that the Group had the intention and ability to hold these assets for the foreseeable future, considered to be a period

Note 1 Summary of significant accounting policies (continued)

of approximately twelve months from the reclassification. Therefore, these assets were reclassified from held for trading to loans and receivables. (Refer to Notes 12 and 29b).

Renegotiated loans

A renegotiated loan is defined as a loan that has been subject to restructuring, or for which additional collateral has been requested that was not contemplated in the original contract.

Typical key features of terms and conditions granted through renegotiation to avoid default include the provision of special interest rates, postponement of interest or amortization payments, modification of the schedule of repayments or amendment of loan maturity. There is no change in the EIR following a renegotiation.

If a loan is renegotiated with concessionary conditions (i.e. new terms and conditions are agreed which do not meet the normal market criteria for the quality of the obligor and the type of loan) the position is still classified as non-performing and is rated as being in counterparty default. It will remain so until the loan is collected or written off and will be assessed for impairment on an individual basis.

If a loan is renegotiated on a non-concessionary basis (e.g. additional collateral is provided by the client, or new terms and conditions are agreed which meet the normal market criteria, for the quality of the obligor and the type of loan), the loan will be re-rated using the Group's regular rating scale. In these circumstances, the loan is removed from impaired status and therefore included in our collective assessment of loan loss allowances. For the purposes of measuring credit losses, within the collective loan loss assessment these loans are not segregated from other loans which have not been renegotiated. Management regularly reviews all loans to ensure that all criteria according to the loan agreement continue to be met and that future payments are likely to occur.

A restructuring of a loan could lead to a fundamental change in the terms and conditions of a loan resulting in the original loan being derecognized and a new loan being recognized. A change is considered fundamental if the present value of the contractual cash flows (as a proportion of notional) have been changed by 10% or more, or there has been a significant change in the risk profile of the instrument.

If a loan is derecognized in these circumstances, the new loan is measured at fair value at initial recognition. Any allowance taken to date against the original loan is eliminated and is not attributed to the new loan. Consequently, the new loan is not considered impaired and is included within the general collective loan assessment for the purpose of measuring credit losses.

11) Allowances and provisions for credit losses

An allowance or provision for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due (or the equivalent value thereof) on a claim based on the original contractual terms (refer to Note 9b). A "claim" means a loan or receivable carried at amortized cost, or a commitment such as a letter of credit, a guarantee, or another similar instrument. Objective evidence of impairment includes significant financial difficulty for the issuer or counterparty; default or delinquency in interest or principal payments; or probability that the borrower will enter bankruptcy or financial reorganization.

An allowance for credit losses is reported as a reduction of the carrying value of a claim on the balance sheet. For an off-balance-sheet item, such as a commitment, a provision for credit loss is reported in *Other liabilities*. Changes to allowances and provisions for credit losses are recognized as a *Credit loss expense*.

Allowances and provisions for credit losses are evaluated at both a counterparty-specific level and collectively based on the following principles:

Counterparty-specific: A loan is considered impaired when management determines that it is probable that the Group will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value, using the claim's original EIR, of expected future cash flows including amounts that may result from restructuring or the liquidation of collateral. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. Impairment is measured and allowances for credit losses are established based on the difference between the carrying amount and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the loan is discontinued. The increase of the present value of the impaired loan due to the passage of time is reported as *Interest income.*

All impaired loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with prior estimates result in a change in the allowance for credit losses and are charged or credited to *Credit loss expense / recovery.* An allowance for impairment is reversed only when the credit quality has improved to such an extent that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim, or the equivalent value thereof. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses or, if no allowance has been established previously, directly to *Credit loss expense / recovery.* Recoveries, in part or in full, of amounts previously written off are credited to *Credit loss expense / recovery.*

A loan is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that it will be made good by later pay-

Note 1 Summary of significant accounting policies (continued)

ments or the liquidation of collateral; when insolvency proceedings have commenced against the firm; or when obligations have been restructured on concessionary terms. Loans are evaluated individually for impairment when amounts have been overdue by more than 90 days, or sooner if other objective evidence indicates that a loan may be impaired.

Collectively: All loans for which no impairment is identified at a counterparty-specific level are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors, to collectively assess whether impairment exists within a portfolio. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions of the group of financial assets on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently in the portfolio. Estimates of changes in future cash flows for the group of financial assets reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows for the group of financial assets are reviewed regularly to reduce any differences between loss estimated and actual loss experience. Allowances from collective assessment of impairment are recognized as *Credit loss expense / recovery* and result in an offset to the aggregated loan position. As the allowance cannot be allocated to individual loans, the loans are not considered to be impaired and interest is accrued on each loan according to its contractual terms. If objective evidence becomes available that indicates that an individual financial asset is impaired, it is removed from the group of financial assets assessed for impairment on a collective basis and is assessed separately as a counterparty-specific claim.

Reclassified securities and acquired securities carried at amortized cost: Estimated cash flows associated with financial assets reclassified from the held for trading category to loans and receivables in accordance with the requirements in item 10) above and other similar assets acquired subsequently, are revised periodically. Adverse revisions in cash flow estimates related to credit events are recognized in the income statement as *Credit loss expense*. For reclassified securities, increases in estimated future cash receipts as a result of increased recoverability are recognized as an adjustment to the EIR on the loan from the date of change (refer to Notes 12 and 29b).

12) Securitization structures set up by UBS

UBS securitizes certain financial assets, mostly in the form of sales of these assets to special purpose entities which issue securities to investors. UBS applies the policies set out in item 3) in determining whether the respective special purpose entity must be consolidated and those set out in item 5) in determining whether derecognition of transferred financial assets is appropriate. The following statements mainly apply to transfers of financial assets which qualify for derecognition.

Gains or losses related to the sale of financial assets involving a securitization are generally recognized when the derecognition criteria are satisfied and the gain or loss is classified in *Net trading income*.

Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in *Trading portfolio assets* and are carried at fair value. Synthetic securitization structures typically involve derivative financial instruments for which the principles set out in item 15) apply.

UBS acts as structurer and placement agent in various mortgage-backed securities (MBS) and other asset-backed securities (ABS) securitizations. In such capacity, UBS may purchase collateral on its own behalf or on behalf of clients during the period prior to securitization. UBS then typically sells the collateral into designated trusts upon closing of the securitization. In other securitizations, UBS may only provide financing to a designated trust in order to fund the purchase of collateral by the trust prior to securitization. UBS underwrites the offerings to investors, earning fees for its placement and structuring services. Consistent with the valuation of similar inventory, fair value of retained tranches is initially and subsequently determined using market price quotations where available or internal pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. Where possible, assumptions based on observable transactions are used to determine the fair value of retained interests, but for some interests substantially no observable information is available.

13) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis. In such transactions, UBS typically borrows or lends equity and debt securities in exchange for securities or cash collateral. Additionally, UBS borrows securities from its clients' custody accounts in exchange for a fee. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors on a daily basis the market value of the securities received or delivered and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

Cash collateral received is recognized with a corresponding obligation to return it *(Cash collateral on securities lent)* and cash collateral delivered is derecognized and a corresponding receivable reflecting UBS's right to receive it back is recorded *(Cash collateral on securities borrowed)*. The securities which have been transferred

Note 1 Summary of significant accounting policies (continued)

are not recognized on or derecognized from the balance sheet unless the risks and rewards of ownership are also transferred (refer to item 5)). In those transactions where UBS transfers owned securities and where the borrower is granted the right to sell or re-pledge the transferred securities, the securities are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral.* Securities received in a borrowing transaction are disclosed as off-balance-sheet items if UBS has the right to resell or re-pledge them, with additional disclosure for securities that UBS has actually re-sold or re-pledged (refer to Note 28). The sale of securities which is settled by delivering securities received in a borrowing or lending transaction generally triggers the recognition of a trading liability (short sale). Where securities are either received or paid in lieu of cash ("securities for securities" transactions), neither the securities received (paid) nor the obligation to return (right to receive) the securities are recognized on the balance sheet.

Interest receivable or payable for financing transactions is recognized in the income statement on an accrual basis and is *recorded as Interest income or Interest expense.*

14) Repurchase and reverse repurchase transactions

Securities purchased under agreements to resell *(Reverse repurchase agreements)* and securities sold under agreements to repurchase *(Repurchase agreements)* are treated as collateralized financing transactions. Nearly all reverse repurchase and repurchase agreements involve debt instruments, such as bonds, notes or money market paper. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors on a daily basis the market value of the securities received or delivered and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

In a reverse repurchase agreement, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded in the balance sheet line *Reverse repurchase agreements,* recognizing UBS's right to receive the cash back. In a repurchase agreement, the cash received is recognized and a corresponding obligation, including accrued interest, is recorded in the balance sheet line *Repurchase agreements.* Securities received under *reverse repurchase agreements* and securities delivered under repurchase agreements are not recognized on or derecognized from the balance sheet, unless the risks and rewards of ownership are transferred. In repurchase agreements where UBS transfers owned securities and where the recipient is granted the right to resell or re-pledge them, the securities are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral.* Securities received in reverse repurchase agreements are disclosed as off-balance-sheet items if UBS has the right to resell or re-pledge them, with additional disclosure for securities that UBS has actually resold or re-pledged (refer to Note 28). Additionally, the sale of securities which is settled by delivering securities received in reverse repurchase transactions generally triggers the recognition of a trading liability (short sale).

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

The Group offsets reverse repurchase agreements and repurchase agreements with the same counterparty, maturity, currency and Central Securities Depository (CSD) in accordance with the relevant accounting requirements.

15) Derivative instruments and hedge accounting

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are remeasured subsequently to fair value. The method of recognizing fair value gains or losses depends on whether derivatives are held for trading or are designated and effective as hedging instruments. If designated as hedging instruments, the method of recognizing gains or losses depends on the nature of the risk being hedged.

Derivative instruments are generally reported on the balance sheet as *Positive replacement values* or *Negative replacement values.* Derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivables on derivative instruments or Cash collateral payables on derivative instruments.* They are not classified within replacement values because the change in fair value of these instruments is settled each day through the cash payment of variation margin. Products that receive this treatment are futures contracts, 100% daily margined exchange traded options, interest rate swaps transacted with the London Clearing House and certain credit derivative contracts. Changes in the fair values of derivatives are recorded in *Net trading income*, unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships.

Hedge accounting

The Group uses derivative instruments as part of its asset and liability management activities to manage exposures particularly to interest rate and foreign currency risks, including exposures arising from forecast transactions. If derivative and non-derivative instruments meet certain criteria specified below, they may be designated as hedging instruments in hedges of the change in fair value of recognized assets or liabilities ("fair value hedges"); hedges of the variability in future cash flows attributable to a recognized asset or liability, or highly probable forecast transactions ("cash flow hedges"); or hedges of a net investment in a foreign operation ("net investment hedges").

At the time a financial instrument is designated in a hedge relationship, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction and the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group assesses, both at the inception of the hedge and on an ongoing

Note 1 Summary of significant accounting policies (continued)

basis, whether the hedging instruments, primarily derivatives, have been "highly effective" in offsetting changes in the fair value or cash flows associated with the designated risk of the hedged items. A hedge is considered highly effective if the following criteria are met: a) at inception of the hedge and throughout its life, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and b) actual results of the hedge are within a range of 80% to 125%. In the case of hedging forecast transactions, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that could ultimately affect the reported net profit or loss. The Group discontinues hedge accounting voluntarily, or when the Group determines that a hedging instrument is not, or has ceased to be, highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedged item matures, is sold or repaid; or when forecast transactions are no longer deemed highly probable.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item attributable to the hedged risk, or the amount by which changes in the present value of future cash flows of the hedging instrument exceed changes (or expected changes) in the present value of future cash flows of the hedged item. Such ineffectiveness is recorded in current period earnings in *Net trading income.* Interest income and expense on derivatives designated as hedging instruments in effective hedge relationships is included in *Net interest income.*

Fair value hedges

For qualifying fair value hedges, the change in the fair value of the hedging instrument is recognized in the income statement along with the change in the fair value of the hedged item that is attributable to the hedged risk. In fair value hedges of interest rate risk, the fair value change of the hedged item attributable to the hedged risk is reflected in the carrying value of the hedged item. If the hedge accounting relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortized fair value adjustment") is amortized to the income statement over the remaining term of the original hedge accounting relationship.

For a portfolio hedge of interest rate risk, the equivalent change in fair value is reflected within *Other assets* or *Other liabilities.* If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the amount included in *Other assets* or *Other liabilities* is amortized to the income statement over the remaining term to maturity of the hedged items.

Cash flow hedges

Fair value gains or losses associated with the effective portion of derivatives designated as cash flow hedges for cash flow repricing risk are recognized initially in *Equity*. When the hedged forecast cash flows affect profit or loss, the associated gains or losses on the hedging derivatives are reclassified from Equity to profit or loss.

If a cash flow hedge for forecasted transactions is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gains or losses on the hedging derivatives previously reported in *Equity* remain there until the committed or forecasted transactions occur. If the forecasted transactions are no longer expected to occur, the deferred gains or losses are reclassified immediately to profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in *Equity* (and presented in the statement of changes in equity and statement of comprehensive income under *Foreign currency translation),* while any gains or losses relating to the ineffective and/or undesignated portion (for example, the interest element of a forward contract) are recognized in the income statement. On loss of control of the foreign operation, the cumulative value of any such gains or losses associated with the entity and recognized directly in *Equity,* is reclassified to the income statement.

Economic hedges which do not qualify for hedge accounting

Derivative instruments which are transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments used for trading purposes (i.e. realized and unrealized gains and losses are recognized in *Net trading income),* except for the forward points on short duration foreign exchange contracts, which are reported in *Net interest income.* Refer to Note 25 for more information on "economic hedges".

Embedded derivatives

Derivatives may be embedded in other financial instruments ("host contracts"); for instance, the conversion feature embedded in a convertible bond. Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. An embedded derivative is generally required to be separated from the host contract and accounted for as a standalone derivative instrument at fair value through profit or loss, if a) the host contract is not carried at fair value with changes in fair value reported in the income statement, b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and c) the terms of the embedded derivative would meet the definition of a stand-alone derivative were they contained in a separate contract. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract, and are shown in Note 28 in the "Held for trading" category, reflecting the measurement and recognition principles applied.

Note 1 Summary of significant accounting policies (continued)

Typically, UBS applies the fair value option to hybrid instruments (refer to item 8), in which case bifurcation of an embedded derivative component is not required.

16) Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Loan commitments that can be cancelled by UBS at any time (without giving a reason) according to their general terms and conditions, are not recognized on the balance sheet and are not included in the off-balance-sheet disclosures. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with *Loans and receivables* (refer to item 10)).

Irrevocable loan commitments (where UBS has no right to withdraw the loan commitment once communicated to the beneficiary, or which are revocable only due to automatic cancellation upon deterioration in a borrower's creditworthiness) are classified into the following categories:

– Derivative loan commitments, being loan commitments that can be settled net in cash or by delivering or issuing another financial instrument, or loan commitments for which there is evidence of selling loans resulting from similar loan commitments before or shortly after origination (refer to item 15)).
– Loan commitments designated at fair value through profit and loss ("Fair value option") (refer to item 8)).
– All other loan commitments. These are not recorded in the balance sheet, but a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made. Other loan commitments include irrevocable forward starting reverse repurchase and irrevocable securities borrowing agreements. Any change in the liability relating to these other loan commitments is recorded in the income statement in *Credit loss expense / recovery.* (Refer to items 11) and 27))

17) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for an incurred loss because a specified debtor fails to make payments when due in accordance with the terms of a specified debt instrument. UBS issues such financial guarantees to banks, financial institutions and other parties on behalf of clients to secure loans, overdrafts and other banking facilities.

Certain written financial guarantees that are managed on a fair value basis are designated at fair value through profit or loss (refer to item 8)). Financial guarantees that are not managed on a fair value basis are initially recognized in the financial statements at fair value. Subsequent to initial recognition, these financial guarantees are measured at the higher of the amount initially recognized less cumulative amortization, and to the extent a payment under the guarantee has become probable, the present value of the expected payment. Any change in the liability relating to probable expected payments resulting from guarantees is recorded in the income statement in *Credit loss expense / recovery.*

18) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an original maturity of three months or less including cash, money market paper and balances with central and other banks.

19) Physical commodities

Physical commodities (precious metals, base metals, energy and other commodities) held by UBS as a result of its broker-trader activities are accounted for at fair value less costs to sell and recognized within *Trading portfolio assets.* Changes in fair value less costs to sell are recorded in *Net trading income.*

20) Property and equipment

Property and equipment includes own-used properties, investment properties, leasehold improvements, IT hardware, externally purchased and internally developed software and communication and other similar equipment. With the exception of investment properties, *Property and equipment* is carried at cost, less accumulated depreciation and impairment losses, and is reviewed periodically for impairment.

Classification of own-used property

Own-used property is defined as property held by the Group for use in the supply of services or for administrative purposes, whereas investment property is defined as property held to earn rental income and / or for capital appreciation. Where a property of the Group includes an own-used portion and an investment portion which can be sold separately, they are separately accounted for as own-used property and investment property. If the portions cannot be sold separately, the whole property is classified as own-used unless the portion used by the Group is minor. The classification of property is reviewed on a regular basis. When the use of a property changes from own-used to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognized immediately in profit or loss. When an investment property is reclassified as own-used property, its fair value at the date of reclassification becomes its cost basis for subsequent measurement purposes.

Investment property

Investment property is carried at fair value with changes in fair value recognized in the income statement in *Other income* in the

Note 1 Summary of significant accounting policies (continued)

period of change. UBS uses internal or external real estate experts to determine the fair value of investment property by applying recognized valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions.

Leasehold improvements

Leasehold improvements are investments made to customize buildings and offices occupied under operating lease contracts to make them suitable for their intended purpose. The present value of estimated reinstatement costs required to bring a leased property back into its original condition at the end of the lease is capitalized as part of total leasehold improvements with a corresponding liability recognized to reflect the obligation incurred. Reinstatement costs are recognized in profit and loss through depreciation of the capitalized leasehold improvements over their estimated useful lives and the liability is relieved as cash payments are applied.

Property held for sale

Where UBS has decided to sell non-current assets such as property or equipment and the sale of these assets is highly probable to happen within twelve months, these assets are classified as non-current assets held for sale and are reclassified to *Other assets*. Upon classification as held for sale, they are no longer depreciated and are carried at the lower of book value or fair value less cost to sell.

Software

Software development costs are recognized only when the costs can be measured reliably and it is probable that future economic benefits will arise. Internally generated software that meets these criteria is classified within IT hardware, software and communication assets, together with purchased software.

Estimated useful life of property and equipment

Property and equipment is depreciated on a straight-line basis over its estimated useful life as follows:

Properties, excluding land	Not exceeding 67 years
Leasehold improvements	Residual lease term
Other machines and equipment	Not exceeding 10 years
IT hardware, software and communication equipment	Not exceeding 5 years

21) Goodwill and intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition. Goodwill is not amortized; it is tested annually for impairment and, additionally, when an indication of impairment exists at the end of each reporting period. For goodwill impairment testing purposes, UBS considers the segments reported in Note 2a as separate cash-generating units, since this is the level at which the performance of investments is reviewed and assessed by management. The recoverable amount of a segment is determined on the basis of its value in use. Refer to Note 17 for details.

Intangible assets comprise separately identifiable intangible items arising from business combinations and certain purchased trademarks and similar items. Intangible assets are recognized at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized. In nearly all cases, identified intangible assets have a definite useful life. At each balance sheet date, intangible assets are reviewed for indications of impairment. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

Intangible assets are classified into two categories: a) infrastructure, and b) customer relationships, contractual rights and other. Infrastructure consists of a branch network intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Client relationships, contractual rights and other includes mainly intangible assets for client relationships, non-compete agreements, favorable contracts, trademarks and trade names acquired in business combinations.

22) Income taxes

Income tax payable on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as a deferred tax asset if it is probable that future taxable profit (based on profit forecast assumptions) will be available against which those losses can be utilized.

Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Tax assets and liabilities of the same type (current or deferred) are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Note 1 Summary of significant accounting policies (continued)

Current and deferred taxes are recognized as income tax benefit or expense in the income statement except for current and deferred taxes recognized (i) upon the acquisition of a subsidiary, (ii) for unrealized gains or losses on financial investments available-for-sale, for changes in fair value of derivative instruments designated as cash flow hedges, for remeasurements of defined benefit plans, and for certain foreign currency translations of foreign operations, (iii) for certain tax benefits on deferred compensation awards, and (iv) for gains and losses on the sale of treasury shares. Deferred taxes recognized in a business combination (point (i)) are considered when determining goodwill. Amounts relating to points (ii), (iii) and (iv) are recorded in *Net income recognized directly in equity.*

23) Debt issued

Debt issued is carried at amortized cost. In cases where, as part of the Group's asset and liability management activity, fair value hedge accounting is applied to fixed-rate debt instruments carried at amortized cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure – refer to item 15) for further details on hedge accounting. In most cases, structured notes issued are designated at fair value through profit or loss using the fair value option, on the basis that they are managed on a fair value basis and/or that the structured notes contain an embedded derivative – refer to item 8) for further details on the fair value option. The fair value option is not applied to certain structured notes that contain embedded derivatives that reference foreign exchange rates and precious metal prices. For these instruments, the embedded derivative component is measured on a fair value basis and the related underlying debt host component is measured on an amortized cost basis, with both components presented together within *Debt issued*.

Debt issued and subsequently repurchased in relation to market making or other activities is treated as redeemed. A gain or loss on redemption is recorded in *Other income* depending on whether the repurchase price of the bond is lower or higher than its carrying value. A subsequent sale of own bonds in the market is treated as a reissuance of debt. Interest expense on debt instruments measured at amortized cost is included in *Interest on debt issued*. Refer to Note 21 for further details on debt issued.

24) Pension and other post-employment benefit plans

UBS sponsors a number of post-employment benefit plans for its employees worldwide, which include defined benefit and defined contribution pension plans, and other post-employment benefits such as medical and life insurance benefits that are payable after the completion of employment.

Defined benefit pension plans

Defined benefit pension plans specify an amount of benefit that an employee will receive, which is usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit liability recognized in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets at the balance sheet date. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. UBS applies the projected unit credit method to determine the present value of its defined benefit obligations, the related current service cost and, where applicable, past service cost. These amounts, which take into account the specific features of each plan including risk sharing between the employee and employer, are calculated periodically by independent qualified actuaries. Further information on the plans and the principal actuarial assumptions used are set out in Note 30.

Defined contribution plans

A defined contribution plan is a pension plan under which UBS pays fixed contributions into a separate entity from which post-employment and other benefits are paid. UBS has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. UBS's contributions are expensed when the employees have rendered services in exchange for such contributions; this is generally in the year of contribution. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Other post-retirement benefits

UBS also provides post-retirement medical and life insurance benefits to certain retirees in the US and the UK. The expected costs of these benefits are recognized over the period of employment using the same accounting methodology used for defined benefit pension plans.

25) Equity participation and other compensation plans

Equity participation plans

UBS has established several equity participation plans in the form of share plans, option plans and share-settled stock appreciation right (SAR) plans. UBS's equity participation plans include mandatory, discretionary, and voluntary plans. UBS recognizes the fair value of share, option and SAR awards, determined at the date of grant, as compensation expense over the period that the employee is required to provide services in order to earn the award.

Awards that do not require the employee to provide future service to become entitled to the award, such as those granted to retirement eligible employees, including those employees who meet full career retirement criteria, are considered vested at the grant date. Compensation expense is fully recognized on the

grant date, or in a period prior to the grant date if it is attributable to past service, and the amount of the award can be reasonably and reliably estimated. Such awards remain forfeitable until the legal vesting date if certain conditions are not met. Where no future service is required, forfeiture events occurring after the grant date do not result in a reversal of compensation expense because the related services have been received.

Plans requiring future service have either a tiered vesting structure, which vest in increments over a specified period or a cliff vesting structure, which vest at the end of a specified period. Compensation expense is recognized over the service period on a tiered basis for awards that have a tiered vesting structure and on a straight-line basis for awards with a cliff vesting structure. Plans may contain provisions that shorten the required service period due to achievement of retirement eligibility or upon termination due to redundancy. In such instances, compensation expense is recognized over the period from grant date to the retirement eligibility or redundancy date. Forfeiture of these awards that occurs during the service period results in a reversal of compensation expense.

Awards settled in UBS shares or options are classified as equity instruments. The fair value of an equity-settled award is determined at the date of grant and is not subsequently remeasured, unless its terms are modified such that the fair value immediately after modification exceeds the fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognized as compensation expense, either over the remaining service period or, for vested awards, immediately.

Cash-settled awards are classified as liabilities and are remeasured to fair value at each balance sheet date as long as the award is outstanding. Changes in fair value are reflected in compensation expense and, on a cumulative basis, no compensation expense is recognized for awards that expire worthless or remain unexercised.

Details of the determination of fair value for equity participation plans are disclosed in Note 31.

Other compensation plans

UBS has established other fixed and variable deferred compensation plans, the values of which are not linked to UBS's own equity. Deferred cash compensation plans are either mandatory or discretionary plans and include awards based on a notional cash amount, where ultimate payout is fixed or may vary based on achievement of performance conditions. Compensation expense is recognized over the period that the employee is required to provide services in order to earn the award. If the employee is not required to provide future services, such as for awards granted to employees who are retirement eligible, including those employees who meet full career retirement criteria, compensation expense is recognized on or prior to the grant date. The amount recognized during the service period is based on an estimate of the amount expected to be paid out under the plan, such that cumulative expense recognized ultimately equals the cash distributed to employees. For awards in the form of alternative investment vehicles or similar structures, which provide employees with a payout based on the value of specified underlying assets, the initial value is based on the fair value on the grant date of the underlying assets (e.g. money market funds, UBS and non-UBS mutual funds and other UBS-sponsored funds). This initial value is recognized over the period that the employee provides service to become entitled to the award. These awards are remeasured to fair value at each reporting date until the award is distributed. Changes in fair value, including increases and decreases in value, are recognized proportionate to the elapsed service period. Forfeiture of these awards results in the reversal of compensation expense.

➔ **Refer to "Note 31 Equity participation and other compensation plans" for more information**

26) Amounts due under unit-linked investment contracts

Financial liabilities from unit-linked investment contracts are presented as *Other liabilities* on the balance sheet (refer to Note 22). These contracts allow investors to invest in a pool of assets through issued investment units. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amounts due to unit holders and is equal to the fair value of the reference asset pool. Assets held under unit-linked investment contracts are presented as *Trading portfolio assets* (refer to Note 12).

27) Provisions

Provisions are liabilities of uncertain timing or amount, and are recognized when UBS has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The majority of UBS's provisions relate to litigation, regulatory and similar matters, restructuring costs, employee benefits, real estate and loan commitments and guarantees. Provisions that are similar in nature are aggregated to form a class, while the remaining provisions, including those of less significant amounts, are presented under *Other provisions*. Provisions are presented separately on the balance sheet and, when they are no longer considered uncertain in timing or amount, are reclassified to *Other liabilities-Other* (refer to Note 22).

The Group recognizes provisions for litigation, regulatory and similar matters when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated.

Restructuring provisions are recognized when a detailed and formal restructuring plan has been approved and a valid expectation has been raised that the restructuring will be carried out, either through commencement of the plan or announcements to affected employees.

Note 1 Summary of significant accounting policies (continued)

Provisions are recognized for lease contracts if the unavoidable costs of a contract exceed the benefits expected to be received under it (onerous lease contracts). For example, this may occur when a significant portion of leased property is expected to be vacant for an extended period.

Provisions for employee benefits are recognized mainly in respect of service anniversaries and sabbatical leave.

Provisions are recognized at the best estimate of the consideration required to settle the present obligation at the balance sheet date. Such estimates are based on all available information and are revised over time as more information becomes available. If the effect of the time value of money is material, provisions are discounted and measured at the present value of the expenditure expected to settle or discharge the obligation, using a rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

A provision is not recognized when UBS has a present obligation that has arisen from past events but it is not probable that an outflow of resources will be required to settle it, or a sufficiently reliable estimate of the amount of the obligation cannot be made. Instead, a contingent liability is disclosed. Contingent liabilities are also disclosed for possible obligations that arise from past events whose existence will be confirmed only by uncertain future events not wholly within the control of UBS (refer to Note 23).

28) Equity, treasury shares and contracts on UBS AG shares

Transaction costs related to share issuances
Incremental transaction costs directly attributable to the issue of new shares or contracts with mandatory gross physical settlement classified as equity instruments are recognized in and deducted from *Equity* as "Transaction costs related to share issuances, net of tax".

Non-controlling interests
Net profit and *Equity* are presented including non-controlling interests. *Net profit* is split into *Net profit attributable to UBS shareholders* and *Net profit attributable to non-controlling interests*. *Equity* is split into *Equity attributable to UBS shareholders* and *Equity attributable to non-controlling interests*.

UBS AG shares held ("treasury shares")
UBS AG shares held by the Group are presented in *Equity* as Treasury shares at their acquisition cost which includes transaction costs. Treasury shares are deducted from *Equity* until they are cancelled or reissued. The difference between the proceeds from sales of Treasury shares and their weighted average cost (net of tax, if any) is reported as *Share premium.*

Net cash settlement contracts
Contracts on UBS AG shares that require net cash settlement, or provide the counterparty or UBS with a settlement option which includes a choice of settling net in cash, are classified as held for trading, with changes in fair value reported in the income statement as *Net trading income.*

Contracts with mandatory gross physical settlement
UBS issues contracts with mandatory gross physical settlement in UBS AG shares where a fixed amount of shares is exchanged against a fixed amount of cash or another financial asset.

Written put options and forward share purchase contracts with gross physical settlement, including contracts where gross physical settlement is a settlement alternative, result in the recognition of a financial liability booked against *Equity.* The financial liability is subsequently accreted, using the EIR method, over the life of the contract to the nominal purchase obligation with the amount recognized in *Interest expense*. Upon settlement of the contract, the liability is derecognized against the consideration paid, and the amount of equity originally recognized as a liability is reclassified within *Equity* to *Treasury shares.* The premium received for writing such put options is recognized directly in *Share premium.* All other contracts with mandatory gross physical settlement in UBS AG shares are presented in *Equity* as *Share premium* and accounted for at cost, which is added to or deducted from *Equity* as appropriate. Upon settlement of such contracts, the difference between the proceeds received and their cost (net of tax, if any) is reported as *Share premium.*

Trust preferred securities issued
UBS has issued trust preferred securities through consolidated preferred funding trusts which hold debt or equity issued by UBS AG. UBS AG has fully and unconditionally guaranteed all contractual payments on these securities. UBS's obligations under these guarantees are subordinated to the full prior payment of the deposit liabilities of UBS and all other liabilities of UBS. The trust preferred securities represent equity instruments which are held by third parties and treated as non-controlling interests in UBS's consolidated financial statements. Once a coupon payment becomes mandatory, i.e., when it is triggered by a contractually defined event, the full dividend payment obligation on these trust preferred securities issued is reclassified from *Equity* to a corresponding liability. In the income statement the full dividend payment is reclassified from *Net profit attributable* to *UBS shareholders to Net profit attributable to non-controlling interests* at that time.

29) Discontinued operations and non-current assets held for sale

UBS presents discontinued operations in a separate line in the income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale (e.g. certain private equity investments). Net profit from discontinued

Note 1 Summary of significant accounting policies (continued)

operations includes the net total of operating profit and loss before tax from discontinued operations (including net gain or loss on sale before tax or measurement to fair value less costs to sell) and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of UBS's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, UBS restates prior periods in the income statement.

UBS classifies individual non-current assets and disposal groups as held for sale if such assets or disposal groups are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups and their sale is considered highly probable. For a sale to be highly probable, management must be committed to a plan to sell such assets and must be actively looking for a buyer. Furthermore, the assets must be actively marketed at a reasonable sales price in relation to their fair value and the sale must be expected to be completed within one year. These assets (and liabilities in the case of disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell and are presented in *Other assets* and *Other liabilities*. Non-current assets and liabilities of subsidiaries are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

30) Leasing

UBS enters into lease contracts, or contracts that include lease components, predominantly of premises and equipment, primarily as lessee. Leases that transfer substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. All other leases are classified as operating leases.

Assets leased pursuant to finance leases are recognized on the balance sheet in *Property and equipment* and are amortized over the lesser of the useful life of the asset or the lease term, with corresponding amounts payable included in *Due to banks/customers*. Finance charges payable are recognized in *Net interest income* over the period of the lease based on the interest rate implicit in the lease on the basis of a constant yield.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 26. These contracts include non-cancellable long-term leases of office buildings in most UBS locations. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences with control of the physical use of the property. Lease incentives are treated as a reduction of rental expense and are recognized on a consistent basis over the lease term.

Certain arrangements do not take the legal form of a lease but convey a right to use an asset in return for a payment or series of payments. For such arrangements, UBS determines at the inception of the arrangement whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and, if so, the arrangement is accounted for as a lease.

31) Fee income

UBS earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories: fees earned from services that are provided over a certain period of time (for example, investment fund fees, portfolio management and advisory fees) and fees earned from providing transaction-type services (for example, underwriting fees, corporate finance fees and brokerage fees). Fees earned from services that are provided over a certain period of time are recognized ratably over the service period, with the exception of performance-linked fees or fee components with specific performance criteria. Such fees are recognized when the performance criteria are fulfilled and when collectability is reasonably assured. Fees earned from providing transaction-type services are recognized when the service has been completed.

Loan commitment fees on lending arrangements, where there is an initial expectation that the facility will be drawn down, are deferred until the loan is drawn down and are then recognized as an adjustment to the effective yield over the life of the loan. If the commitment expires and the loan is not drawn down, the fees are recognized as revenue when the commitment expires. Where the initial expectation that the facility will be drawn down is remote, the loan commitment fees are recognized on a straight line basis over the commitment period. If, subsequently, the commitment is actually exercised, the unamortized component of the loan commitment fees are amortized as an adjustment to the effective yield over the life of the loan.

32) Foreign currency translation

Transactions denominated in foreign currency are translated into the functional currency of the reporting unit at the spot exchange rate on the date of the transaction. At the balance sheet date, all monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the closing exchange rate. Non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction. Foreign exchange differences on financial investments available-for-sale are recorded directly in *Equity* until the asset is sold or becomes impaired, with the exception of translation differences on the amortized cost of monetary financial investments available-for-sale which are reported in *Net trading income*, along with *all other foreign exchange differences on monetary assets and liabilities.*

Upon consolidation, assets and liabilities of foreign operations are translated into Swiss francs (CHF) – UBS's presentation currency – at the closing exchange rate on the balance sheet date, and income and expense items are translated at the average rate for the period. The resulting foreign exchange differences are recognized directly in *Foreign currency translation* within *Equity.*

Note 1 Summary of significant accounting policies (continued)

When a foreign operation is disposed of such that control, significant influence or joint control is lost, or the operation is liquidated, the cumulative amount in *Foreign currency translation* within *Equity* related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When UBS disposes of a portion of its interest in a subsidiary that includes a foreign operation but retains control, the related portion of the cumulative currency translation balance is reclassified to *Non-controlling interests.* When UBS disposes of a portion of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the related portion of the cumulative currency translation balance is reclassified to profit or loss.

33) Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated using the same method as for basic EPS and adjusting the net profit or loss for the period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding to reflect the potential dilution that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

34) Segment reporting

UBS's businesses are organized globally into five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate, supported by the Corporate Center. The five business divisions qualify as reportable segments for the purpose of segment reporting and, together with the Corporate Center and its components, reflect the management structure of the Group. Additionally, Legacy Portfolio and Core Functions are disclosed separately under the Corporate Center. Legacy Portfolio meets the definition of an operating segment and is disclosed as a reportable segment. Financial information about the five business divisions and the Corporate Center (with its components) is presented separately in internal management reports to the Group Executive Board, which is considered the "chief operating decision maker" within the context of IFRS 8 *Operating Segments.*

Fee arrangements between the Corporate Center – Core Functions and the reportable segments are adjusted on a periodic basis and differences may arise between actual costs incurred and amounts recharged. These differences, together with own credit gains and losses on financial liabilities designated at fair value which are excluded from the measurement of performance of the business divisions, are considered reconciling differences to UBS Group results and are reported collectively under Corporate Center – Core Functions. To increase transparency, the costs from Corporate Center – Core Functions are allocated to the direct cost lines of personnel expenses, general and administrative expenses and depreciation in the respective reportable segment income statements, based on internally determined allocation bases. UBS's internal accounting policies, which include management accounting policies and service level agreements, determine the revenues and expenses directly attributable to each reportable segment. Internal charges and transfer pricing adjustments are reflected in operating results of the reportable segments.

Revenue-sharing agreements are used to allocate external client revenues to reportable segments where several reportable segments are involved in the value-creation chain. Commissions are credited to the reportable segments based on the corresponding client relationship.

Net interest income is allocated to the reportable segments based on their balance sheet positions. Assets and liabilities of the reportable segments are funded through and invested with Group Treasury, and the net interest margin is reflected in the results of each reportable segment. Interest income earned from managing UBS's consolidated equity is allocated to the reportable segments based on average attributed equity.

In line with internal management reporting, segment assets are reported without intercompany balances on a third-party view basis. Refer to Note 2a for further details. For the purpose of segment reporting under IFRS 8, the non-current assets consist of investments in associates and joint ventures, goodwill, other intangible assets and plant, property and equipment.

35) Netting

UBS nets financial assets and liabilities on its balance sheet if it has a currently enforceable legal right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Netted positions include, for example, OTC interest rate swaps transacted with the London Clearing House, netted by currency and across maturity dates, repurchase and reverse repurchase transactions entered into with the both the London Clearing House and the Fixed Income Clearing Corporation, netted by counterparty, currency, central securities depository and maturity, as well as transactions with various other counterparties, exchanges and clearinghouses.

Note 1 Summary of significant accounting policies (continued)

b) Changes in accounting policies, comparability and other adjustments

Effective in 2012

IAS 19 (revised) Employee Benefits

In June 2011, the IASB issued revisions to IAS 19 *Employee Benefits* ("IAS 19R" or "the revised standard"). During 2012, UBS adopted IAS 19R retrospectively in accordance with the transitional provisions set out in the standard. The revised standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. IAS 19R eliminates the "corridor method", under which the recognition of actuarial gains and losses was deferred. Instead, the full defined benefit obligation net of plan assets is now recorded on the balance sheet, with changes resulting from remeasurements recognized immediately in other comprehensive income. The measurement of the defined benefit obligation takes into account risk sharing features, such as those within our Swiss pension plan. In addition, IAS 19R requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognizing an expected return on plan assets. The revised standard also enhances the disclosure requirements for defined benefit plans, requiring more information about the characteristics of such plans and the risks to which entities are exposed through participation in those plans, as set out in Note 30.

The opening balance sheet as of 1 January 2010 and the comparative figures have been presented as if IAS 19R had always been applied. The effect of adoption on prior periods is shown in the tables below. Had UBS not adopted IAS 19R, total equity would have been higher by CHF 3,948 million as of 31 December 2012, the amounts in other comprehensive income would not have been recognized, and for the year ended 31 December 2012 profit before tax would have been CHF 320 million lower and basic and diluted earnings per share would have been CHF 0.08 lower.

Effect on total comprehensive income

	Effect on the income statement			Effect on other comprehensive income					
CHF million	Personnel expenses	Tax expense/(benefit)	**Net profit/(loss)**	Gains/(losses) on defined benefit plans, before tax	Income tax relating to gains/losses on defined benefit plans	Foreign currency translation movements, before tax	Income tax relating to foreign currency translation movements	**Other comprehensive income**	**Total comprehensive income**
Amount previously reported for the year 2010	16,920	(381)	7,838	0	0	(951)	121	(1,354)	6,484
Change in reported figures for the year	111	(29)	(82)	124	(3)	211	(33)	299	217
Restated amount for the year 2010	17,031	(409)	7,756	124	(3)	(740)	88	(1,055)	6,701
Amount previously reported for the year 2011	15,591	923	4,427	0	0	995	(6)	3,030	7,457
Change in reported figures for the year	43	(22)	(21)	(2,141)	321	(10)	26	(1,804)	(1,825)
Restated amount for the year 2011	15,634	901	4,406	(2,141)	321	985	20	1,226	5,632

Effect on earnings per share

	Basic earnings per share			Diluted earnings per share		
CHF	As originally reported	Effect on basic earnings per share	Restated basic earnings per share	As originally reported	Effect on diluted earnings per share	Restated diluted earnings per share
For the year ended 31 December 2010	1.99	(0.02)	1.97	1.96	(0.02)	1.94
For the year ended 31 December 2011	1.10	0.00	1.10	1.08	0.00	1.08

Note 1 Summary of significant accounting policies (continued)

Effect on the balance sheet

CHF million	Other assets	Deferred tax assets	Other liabilities[1]	Total equity
Balance previously reported as of 31 December 2009 / 1 January 2010	23,682	8,868	69,943	48,633
Cumulative effect for prior periods	(3,040)	741	1,010	(3,309)
Restated balance as of 31 December 2009 / 1 January 2010	**20,642**	**9,609**	**70,954**	**45,324**
Balance previously reported as of 31 December 2010	22,681	9,522	62,015	51,863
Cumulative effect for prior periods	(3,040)	741	1,010	(3,309)
Change in reported figures for the year	(134)	(1)	(352)	217
Restated balance as of 31 December 2010	**19,506**	**10,262**	**62,674**	**48,770**
Balance previously reported as of 31 December 2011	12,465	8,526	60,066	57,852
Cumulative effect for prior periods	(3,174)	740	658	(3,092)
Change in reported figures for the year	(126)	361	2,060	(1,825)
Restated balance as of 31 December 2011	**9,165**	**9,627**	**62,784**	**52,935**

1 "Balances previously reported" differ from those originally published in annual reports as provisions are now separately presented on the balance sheet and no longer as part of other liabilities.

Effect on personnel expense by business division and Corporate Center[1]

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center	UBS Group
Amount previously reported for the year 2010	3,153	4,225	6,623	1,096	1,625	197	16,920
Change in reported figures for the year	75	(9)	(18)	1	62	0	111
Restated amount for the year 2010	**3,228**	**4,216**	**6,605**	**1,097**	**1,687**	**197**	**17,031**
Amount previously reported for the year 2011	3,258	3,840	5,740	955	1,666	132	15,591
Change in reported figures for the year	43	(10)	(24)	(2)	35	0	43
Restated amount for the year 2011	**3,300**	**3,830**	**5,716**	**954**	**1,702**	**132**	**15,634**

1 "Amounts previously reported" differ from those originally published in annual reports (for example due to organizational changes) as provisions are now separately presented on the balance sheet and no longer as part of Other liabilities.

Amendments to IFRS 7 Financial instruments: Disclosures

In October 2010, the IASB issued revised IFRS 7 *Financial Instruments: Disclosures* to provide additional disclosures regarding transfers of financial assets, including those transfers in which an entity retains a continuing interest in the transferred asset(s) at the reporting date. The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The effective date for mandatory adoption is for annual periods beginning on or after July 2011, with early adoption permitted.

UBS adopted the revisions to IFRS 7 as of 1 January 2012 in accordance with the transitional provisions set out in the standard, and these disclosures are reflected in Note 28 of the financial statements. In conjunction with the implementation of the revised standard, the Group has refined its definition of the term "transfer" for disclosure purposes to exclude pledges and similar arrangements where the counterparty does not receive rights to sell or re-pledge the financial asset. As a result, the comparative 2011 figures have been restated for transferred financial assets in Note 28b from CHF 118.5 billion to CHF 39.9 billion.

In Notes 28a and 28d, we have modified our presentation of pledged assets in order to differentiate those which are executed in association with liabilities and contingent liabilities and those that are not. Additionally, financial assets held by the Group and reserved for purposes of securing liquidity facilities from central banks, but which are not associated with existing liabilities or contingent liabilities, have been excluded from pledged financial assets in Note 28a and 28d. As a result, the comparative figures presented in Note 28a have been restated downwards by CHF 31 billion and the comparative figures in Note 28d have been restated downwards by CHF 6 billion.

Annual Improvements to IFRSs 2009–2011

In May 2012, the IASB issued six amendments to five IFRS as part of its annual improvements project. Of these amendments, the amendment to IAS 1 clarifies the requirements for the presenta-

Note 1 Summary of significant accounting policies (continued)

tion of comparative information when an entity presents an additional comparative period. The Group has adopted the amendment to IAS 1 in 2012, ahead of its mandatory effective date of 1 January 2013 in accordance with the transitional provisions of the standard. Accordingly, due to the adoption of IAS 19R on a retrospective basis, UBS has presented an additional comparative period for the balance sheet as at the beginning of 2011, but there is no information in the notes to the balance sheet for this additional comparative period.

The remaining amendments will be adopted as of 1 January 2013. These amendments are not expected to have a material effect on the financial statements.

Amendments to IAS 12 Income Taxes

In December 2010, the IASB issued amendments to IAS 12 *Income Taxes* which incorporate the principles of previous guidance in the now withdrawn SIC *Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets*.

IAS 12 generally requires an entity to measure the deferred tax related to assets reflecting the tax consequences that would follow from the manner in which the entity expects to recover their carrying amount (e.g. sale or use). However, under the amendments, there is a rebuttable presumption that investment property will be recovered through sale. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model.

The amendments are effective for annual periods beginning on or after 1 January 2012, with early adoption permitted. UBS adopted the amendments effective 1 January 2012 in accordance with the transitional provisions of the standard. The adoption did not have a material impact on the financial statements.

Interests in non-consolidated funds

In 2012, UBS changed its accounting policy for the recognition of foreign currency translation gains and losses arising from certain financial investments available-for-sale. All investments in funds that are considered debt instruments under the requirements of IAS 32 are now treated as monetary items and foreign currency translation gains and losses on such investments are recorded in the income statement, rather than in other comprehensive income as would be the case for non-monetary items. This revised accounting policy is considered more relevant as it aligns the definition of debt instruments in IAS 32 with the definition of monetary items in IAS 21. The change in accounting policy was applied retrospectively and due to the prior application of fair value hedges of foreign currency risk, had no effect on prior period amounts.

Changes to reporting segments

Wealth Management & Swiss Bank

Wealth Management & Swiss Bank's two reportable segments – Wealth Management and Retail & Corporate – became separate business divisions at the start of 2012. As these new business divisions were already considered separate reportable segments, no adjustments were required to segmental results.

Investment Bank

On 30 December 2011, a portfolio of legacy positions was transferred from the Investment Bank to the Corporate Center. Commencing in the first quarter of 2012, this portfolio, together with the option to buy the equity of the SNB StabFund, has been considered a separate reportable segment within the Corporate Center and designated as the Legacy Portfolio. Prior periods have been restated.

In conjunction with the accelerated implementation of UBS's strategy announced in October 2012, the Asset Liability Management unit was transferred from the Investment Bank to Group Treasury within the Corporate Center in the fourth quarter of 2012. Prior periods have been restated to reflect this transfer, and profit and loss amounts associated with the ongoing business activities of Asset Liability Management have been fully allocated back to the Investment Bank.

Own credit

Effective 2012, the measurement of the performance of the business divisions excludes own credit gains and losses on financial liabilities designated at fair value. This reflects the fact that these gains and losses are not managed at a business division level and are not necessarily indicative of any business division's performance. In line with these internal reporting changes, own credit gains and losses are now reported as part of Corporate Center – Core Functions. Prior periods have been restated to conform to this presentation.

Group Treasury managed assets

In 2012, management changed the methodology used to allocate certain financial assets and their corresponding costs managed by Group Treasury. Prior periods were not restated for this change and the impact from the change in cost allocation methodology was not material to the reporting segment results.

Centralization of operations units in the Corporate Center

In 2012, operations units from the business divisions were centralized in the Corporate Center as part of UBS's ongoing efforts to improve our operational effectiveness and heighten our cost efficiency across the firm. Prior to this centralization, charges for operations support provided from one division to another were shown in the respective division's income statement as services to/from other business divisions without any allocation of the related headcount. With effect from 1 July 2012 on a prospective basis, charges from the centralized operations units have been allocated to the business divisions and shown in the respective expense lines of the reportable segments and the related headcount has been allocated to the business divisions. Prior to the transfer to the Corporate Center, Retail & Corporate operations

Note 1 Summary of significant accounting policies (continued)

staff provided significant support to other business divisions in Switzerland. Accordingly, the transfer had the effect of increasing personnel and non-personnel expenses as well as decreasing charges for services from other business divisions at Wealth Management, the Investment Bank and Global Asset Management, and of decreasing personnel and non-personnel expenses as well as income from services provided to other divisions at Retail & Corporate. As a result of the centralization, as of 1 July 2012, allocations of personnel increased by approximately 800 in Wealth Management, 250 in the Investment Bank and 50 in Global Asset Management, with a corresponding decrease of 1,100 in Retail & Corporate.

c) International Financial Reporting Standards and Interpretations to be adopted in 2013 and later

IFRS 9 Financial Instruments

In November 2009, the IASB issued IFRS 9 *Financial Instruments,* which includes revised guidance on the classification and measurement of financial assets. In October 2010, the IASB updated IFRS 9 to include guidance on financial liabilities and derecognition of financial instruments. The publication of IFRS 9 represented the completion of the first part of a multi-stage project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

The standard requires all financial assets to be classified as fair value through profit or loss or at amortized cost on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option if doing so would significantly reduce or eliminate an accounting mismatch. Equity instruments that are not held for trading may be accounted for at fair value through other comprehensive income (OCI).

The accounting guidance for financial liabilities is unchanged with one exception: changes in fair value due to changes in an entity's own credit risk associated with financial liabilities designated at fair value through profit or loss are directly recognized in OCI instead of in profit and loss. There is no subsequent recycling of realized gains or losses from OCI to profit or loss.

In December 2011, the IASB issued amendments to IFRS 9 *Financial Instruments* that defer the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide relief from the requirement to restate comparative information for the effect of applying IFRS 9. Early adoption of IFRS 9 is still permitted.

In 2012, the IASB issued additional exposure drafts, amending IFRS 9 for hedge accounting and proposing extensive changes to the classification and measurement model described including the introduction of a new measurement category for financial assets that are managed both in order to collect contractual cash flows and for sale. This new measurement category will require the asset to be measured at fair value, with fair value changes being recognized in OCI. Additionally, the amendments propose that entities may early adopt the own credit risk guidance discussed above.

UBS is currently assessing the impact of the new standard and the related proposed amendments on the financial statements.

IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which establishes a single control-based model for assessing whether one entity should consolidate another. IFRS 10 applies to all types of entities and will replace SIC-12 *Consolidation – Special Purpose Entities*, and portions of IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 is based on the existing principle that an entity should consolidate all other entities that it controls. The definition of control in IFRS 10 focuses on the presence of power, exposure to variable returns and the ability to utilize power to affect an entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed. IFRS 10 provides additional guidance to assist in the determination of control in circumstances in which this assessment is difficult to make. For example, IFRS 10 introduces guidance on assessing whether an entity with decision-making rights is a principal or an agent.

In October 2012, the IASB issued an amendment to IFRS 10, providing an exception to consolidation for certain "investment entities". Investment entities are those whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. As UBS Group does not itself meet the definition of an investment entity, the amendments will have no impact on UBS's consolidated financial statements.

UBS will adopt IFRS 10 on its mandatory effective date of 1 January 2013 on a limited retrospective basis, as permitted by the standard. At this time UBS will also early adopt the October 2012 amendments. Upon adoption, UBS will adjust its opening equity as of 1 January 2012 and the reported figures for 2012 will be presented as if IFRS 10 had always been applied. The reported figures for 2011 will not be adjusted and will continue to be presented in accordance with IAS 27 and SIC 12.

Under IFRS 10, UBS expects a change in consolidation status associated with certain entities. The Group will now consolidate certain investment funds where UBS's exposure to variability indicates that its power as fund manager is in a principal capacity. UBS will deconsolidate certain entities that were previously consolidated due to exposure to a majority of risk and rewards, but where UBS does not have power over the relevant activities. We will also deconsolidate certain entities where UBS's involvement does not expose it to variable returns from the entity. This includes

Note 1 Summary of significant accounting policies (continued)

entities associated with the issuance of trust preferred securities. As a result, we estimate that had UBS applied IFRS 10 to its 2012 financial report, total assets would have been higher by approximately CHF 0.6 billion, and total liabilities would have been higher by approximately CHF 1.8 billion. Total equity would have been lower by approximately CHF 1.2 billion. The effect on net profit is not expected to be material.

IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint arrangements*, which supersedes IAS 31 *Interests in Joint Ventures*, and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The classification of a joint arrangement under IFRS 11 depends upon the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by eliminating the proportionate consolidation approach and requiring the equity method to account for interests in jointly controlled entities. UBS currently applies the equity method to account for it interests in joint ventures under IAS 31. As a result, the new standard will not have an impact on the financial statements. UBS will adopt IFRS 11 on its mandatory effective date of 1 January 2013.

IFRS 12 Disclosure of Interest in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which provides new and comprehensive guidance on the annual disclosure requirements about entities with which a reporting entity is involved. This includes specific disclosures for investment entities. IFRS 12 replaces the disclosure requirements currently included in IAS 28 *Investment in Associates*. The standard requires entities to disclose information that helps users to evaluate the nature, risks and financial effects associated with a reporting entity's interests in subsidiaries, associates, joint arrangements and, in particular, unconsolidated structured entities. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. UBS will provide disclosures under IFRS 12 in its 2013 Annual Report.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*, which establishes a single source of guidance for all fair value measurements under IFRS. It 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; i.e., an exit price. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies that the unit of measurement is generally a particular asset or liability unless an entity manages and reports its net risk exposures on a portfolio basis, in which case it may elect to apply portfolio-level price adjustments under limited circumstances. It also introduces new disclosure requirements and enhancements to existing disclosures.

The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. IFRS 13 is required to be applied prospectively from the effective date. UBS does not anticipate that adoption of the standard will have a material impact on its financial statements.

IAS 1 Presentation of Financial Statements

In June 2011, the IASB issued the revised IAS 1 *Presentation of Financial Statements*. The revised standard requires the grouping together for presentation purposes of items within other comprehensive income (OCI) into those that may be reclassified to profit or loss in subsequent periods and those that may not be. The revised standard reaffirms existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. Historically, all items in our OCI could be recycled to profit or loss, but this has changed with the adoption of IAS 19 (revised) *Employee Benefits* and will also be affected by IFRS 9 *Financial Instruments*, as both of these accounting standards will generate OCI items that will not be recycled to profit or loss in subsequent periods. UBS will adopt the revised standard on its mandatory effective date of 1 January 2013, resulting in revised presentation in the statement of comprehensive income.

IAS 32 Financial Instruments: Presentations and IFRS 7 Financial Instruments: Disclosures

In December 2011, the IASB amended the presentation guidelines and disclosures related to offsetting financial assets and financial liabilities by issuing amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*.

The amendments to IAS 32 change current practice by requiring that, to achieve offsetting on the balance sheet, an arrangement must be unconditional and legally enforceable, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all counterparties. The amendments also provide incremental guidance for determining when gross settlement systems achieve the functional equivalent of net settlement.

The IASB simultaneously issued disclosure requirements intended to enable users to assess the effect (or potential effect) of offsetting arrangements on an entity's financial position. The amendments to IFRS 7 *Financial Instruments: Disclosures* require that entities disclose both gross and net amounts associated with master netting agreements and similar arrangements, including the effects of financial collateral, whether or not presented net on the face of the balance sheet.

UBS is currently assessing the impact of the revised standards on its financial statements. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted. The amendments to IFRS 7 are effective from 1 January 2013. Both amendments are required to be adopted retrospectively.

Note 2a Segment reporting

UBS AG is the parent company of the UBS Group (Group). The operational structure of the Group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate. The five business divisions qualify as reportable segments for the purpose of segment reporting and, together with the Corporate Center and its components, reflect the management structure of the Group. Additionally, Legacy Portfolio and Core Functions are disclosed separately under the Corporate Center. Legacy Portfolio meets the definition of an operating segment and is disclosed as a reportable segment.

Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services. An open product platform provides clients with access to a wide array of products from third-party providers that complement UBS's product lines.

Wealth Management Americas

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US business, the domestic Canadian business and international business booked in the US.

Investment Bank

The Investment Bank provides a range of products and services in equities, fixed income, foreign exchange and commodities to corporate and institutional clients, sovereign and government bodies, financial intermediaries, alternative asset managers and UBS's wealth management clients. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities. It provides financial solutions to its clients, and offers advisory and analytics services in all major capital markets.

Global Asset Management

Global Asset Management is a large-scale asset manager with businesses diversified across regions, capabilities and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services, including fund set-up, accounting and reporting for traditional investment funds and alternative funds.

Retail & Corporate

Retail & Corporate provides comprehensive financial products and services to UBS's retail, corporate and institutional clients in Switzerland and maintains a leading position in these client segments. It constitutes a central building block of UBS's universal bank model in Switzerland, delivering growth to UBS's other businesses. It supports them by cross-selling products and services provided by UBS's asset-gathering and investment banking businesses, by referring clients to them and by transferring clients to Wealth Management due to increased client wealth.

Corporate Center

The Corporate Center provides control functions for the business divisions and the Group in such areas as risk control, legal and compliance as well as finance including treasury services, funding, balance sheet and capital management. The Corporate Center – Core Functions provides all logistics and support functions including information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical and information security, offshoring as well as Group-wide operations. It allocates most of its treasury income, operating expenses and personnel associated with these activities to the businesses based on capital and service consumption levels. The Corporate Center also encompasses certain centrally managed positions, including the SNB StabFund option and the Legacy Portfolio.

Note 2a Segment reporting[1] (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center – Core Functions	Corporate Center – Legacy Portfolio	UBS
For the year ended 31 December 2012								
Net interest income	1,951	792	1,141	(21)	2,186	(171)	116	5,994
Non-interest income	5,089	5,319	7,422	1,905	1,569	(2,003)	265	19,567
Income[2, 3, 4]	7,040	6,110	8,564	1,884	3,756	(2,173)	381	25,561
Credit loss (expense) / recovery	1	(14)	34	0	(27)	0	(112)	(118)
Total operating income	7,041	6,097	8,598	1,884	3,728	(2,173)	268	25,443
Personnel expenses	2,865	4,252	5,141	885	1,287	240	68	14,737
General and administrative expenses	1,360	893	2,730	395	857	1,648[5]	771	8,653
Services (to) / from other business divisions	243	(15)	132	(10)	(370)	2	19	0
Depreciation and impairment of property and equipment	159	100	257	37	128	6	2	689
Impairment of goodwill[6]	0	0	3,030	0	0	0	0	3,030
Amortization and impairment of intangible assets[6]	7	51	41	8	0	0	0	106
Total operating expenses[7]	4,634	5,281	11,331	1,314	1,901	1,895	861	27,216
Performance before tax	**2,407**	**816**	**(2,734)**	**570**	**1,827**	**(4,068)**	**(592)**	**(1,774)**
Tax expense / (benefit)								461
Net profit / (loss)								**(2,235)**
Additional Information								
Total assets[8]	104,666	63,511	672,329	13,322	145,320	222,500	37,584	1,259,232
Additions to non-current assets	4	1	62	12	45	1,032	0	1,158

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information on the adoption of IAS 19R and changes to reporting segments. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2012 were as follows: Investment Bank CHF 56 million; Global Asset Management CHF 4 million; Corporate Center – Core Functions CHF 2 million; Corporate Center – Legacy Portfolio CHF 24 million. 3 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. 4 Refer to "Note 27 Fair value of financial instruments" for further information on own credit in Corporate Center – Core Functions. 5 Includes charges of approximately CHF 1.4 billion arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. Refer to "Note 23 Provisions and contingent liabilities" for more information. 6 Refer to "Note 17 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 7 Refer to "Note 37 Changes in organization" for information on restructuring charges. 8 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances. Certain assets managed centrally by the Corporate Center (including property and equipment and certain financial assets) are allocated to the segments on a basis different to which the corresponding costs are allocated. Specifically, certain assets are reported in the Corporate Center whereas the corresponding costs are entirely or partially allocated to the segments based on various internally determined allocations.

Note 2a Segment reporting[1] (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center		UBS
CHF million						Core Functions	Legacy Portfolio	
For the year ended 31 December 2011								
Net interest income	1,968	729	1,460	(15)	2,328	(118)	474	6,826
Non-interest income	5,666	4,571	6,521	1,817	1,858	1,702	(1,090)	21,046
Income[2, 3, 4]	7,634	5,300	7,981	1,803	4,186	1,584	(616)	27,872
Credit loss (expense) / recovery	11	(6)	(13)	0	(101)	(1)	25	(84)
Total operating income	7,645	5,295	7,968	1,803	4,085	1,583	(591)	27,788
Personnel expenses	3,300	3,830	5,716	954	1,702	64	68	15,634
General and administrative expenses	1,192	783	2,490	375	834	137	148	5,959
Services (to) / from other business divisions	318	(9)	108	(1)	(470)	(1)	56	0
Depreciation and impairment of property and equipment	165	99	251	38	136	70	3	761
Amortization and impairment of intangible assets[5]	37	48	34	8	0	0	0	127
Total operating expenses[6]	5,012	4,750	8,599	1,373	2,201	271	276	22,482
Performance before tax	**2,633**	**544**	**(631)**	**430**	**1,884**	**1,313**	**(866)**	**5,307**
Tax expense / (benefit)								901
Net profit / (loss)								**4,406**
Additional Information								
Total assets[7]	100,352	53,870	896,160	15,239	147,117	148,129	56,096	1,416,962
Additions to non-current assets	5	25	109	18	22	1,013	1	1,192

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information on the adoption of IAS 19R and changes to reporting segments. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2011 were as follows: Wealth Management CHF 28 million; Investment Bank CHF 4 million; Corporate Center – Legacy Portfolio CHF 8 million. 3 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. 4 Refer to "Note 27 Fair value of financial instruments" for further information on own credit in Corporate Center – Core Functions. 5 Refer to "Note 17 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 6 Refer to "Note 37 Changes in organization" for information on restructuring charges. 7 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2a Segment reporting[1] (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center – Core Functions	Corporate Center – Legacy Portfolio	UBS
For the year ended 31 December 2010								
Net interest income	1,737	695	1,554	(17)	2,422	(858)	681	6,215
Non-interest income	5,608	4,870	10,393	2,075	1,524	700	675	25,845
Income[2, 3, 4]	7,345	5,565	11,947	2,058	3,946	(158)	1,356	32,060
Credit loss (expense) / recovery	11	(1)	155	0	(76)	0	(155)	(66)
Total operating income	7,356	5,564	12,102	2,058	3,870	(158)	1,201	31,994
Personnel expenses	3,228	4,216	6,605	1,097	1,687	78	119	17,031
General and administrative expenses	1,264	1,223	2,486	400	836	167	209	6,585
Services (to) / from other business divisions	449	(6)	(27)	(5)	(509)	8	91	0
Depreciation and impairment of property and equipment	163	198	273	43	146	89	5	918
Amortization and impairment of intangible assets[5]	19	55	34	8	0	0	0	117
Total operating expenses[6]	5,123	5,685	9,371	1,543	2,160	342	424	24,650
Performance from continuing operations before tax	**2,233**	**(121)**	**2,731**	**515**	**1,710**	**(500)**	**777**	**7,345**
Performance from discontinued operations before tax	0	0	0	0	0	2	0	2
Performance before tax	**2,233**	**(121)**	**2,731**	**515**	**1,710**	**(498)**	**777**	**7,346**
Tax expense / (benefit) on continuing operations								(409)
Tax expense / (benefit) on discontinued operations								0
Net profit / (loss)								**7,756**
Additional Information								
Total assets[7]	93,847	49,777	797,497	15,787	151,563	134,574	71,768	1,314,813
Additions to non-current assets	25	48	27	8	12	467	5	593

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information on the adoption of IAS 19R and changes to reporting segments. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2010 were as follows: Wealth Management CHF 44 million; Investment Bank CHF 1 million; Global Asset Management CHF 2 million; Corporate Center – Core Functions CHF (16) million; Corporate Center – Legacy Portfolio CHF 40 million. 3 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. 4 Refer to "Note 27 Fair value of financial instruments" for further information on own credit in Corporate Center – Core Functions. 5 Refer to "Note 17 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 6 Refer to "Note 37 Changes in organization" for information on restructuring charges. 7 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2b Segment reporting by geographic location

The geographic analysis of operating income and non-current assets is based on the location of the entity in which the transactions and assets are recorded. The divisions of the Group are managed on an autonomous basis worldwide, with a focus on cross-divisional collaboration and the interest of our clients to yield the maximum possible profitability by product line for the Group. The geographic analysis of operating income and non-current assets is provided in order to comply with IFRS.

For the year ended 31 December 2012

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	9,668	38	6,171	46
of which: USA	*9,214*	*36*	*5,752*	*43*
Asia Pacific	3,094	12	367	3
Europe, Middle East and Africa	1,639	6	1,494	11
of which: United Kingdom	*118*	*0*	*647*	*5*
of which: Rest of Europe	*1,456*	*6*	*840*	*6*
of which: Middle East and Africa	*66*	*0*	*7*	*0*
Switzerland	11,041	43	5,292	40
Total	**25,443**	**100**	**13,324**	**100**

For the year ended 31 December 2011

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	9,491	34	9,038	56
of which: USA	*9,324*	*34*	*8,617*	*53*
Asia Pacific	3,689	13	407	3
Europe, Middle East and Africa	3,115	11	1,687	10
of which: United Kingdom	*1,385*	*5*	*653*	*4*
of which: Rest of Europe	*1,638*	*6*	*1,026*	*6*
of which: Middle East and Africa	*92*	*0*	*8*	*0*
Switzerland	11,494	41	5,045	31
Total	**27,788**	**100**	**16,177**	**100**

For the year ended 31 December 2010

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	11,205	35	9,082	56
of which: USA	*10,752*	*34*	*8,673*	*54*
Asia Pacific	3,796	12	394	2
Europe, Middle East and Africa	4,323	14	1,682	10
of which: United Kingdom	*2,791*	*9*	*594*	*4*
of which: Rest of Europe	*1,514*	*5*	*1,078*	*7*
of which: Middle East and Africa	*17*	*0*	*10*	*0*
Switzerland	12,670	40	4,922	31
Total	**31,994**	**100**	**16,080**	**100**

Income statement notes

Note 3 Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Net interest and trading income				
Net interest income	**5,994**	6,826	6,215	(12)
Net trading income	**3,480**	4,343	7,471	(20)
Total net interest and trading income	**9,474**	11,169	13,686	(15)
Wealth Management	**2,728**	2,846	2,384	(4)
Wealth Management Americas	**1,265**	1,179	1,266	7
Investment Bank	**4,872**	4,010	6,847	21
of which: investment banking	***16***	*44*	*11*	*(64)*
of which: equities	***1,263***	*149*	*2,521*	*748*
of which: fixed income, currencies and commodities	***3,593***	*3,817*	*4,315*	*(6)*
Global Asset Management	**12**	8	22	50
Retail & Corporate	**2,467**	2,661	2,670	(7)
Corporate Center	**(1,870)**	465	497	
of which: own credit on financial liabilities designated at fair value[1]	***(2,202)***	*1,537*	*(548)*	
Total net interest and trading income	**9,474**	11,169	13,686	(15)
Net interest income				
Interest income				
Interest earned on loans and advances[2]	**9,323**	9,925	10,603	(6)
Interest earned on securities borrowed and reverse repurchase agreements	**1,413**	1,716	1,436	(18)
Interest and dividend income from trading portfolio	**4,482**	5,466	6,015	(18)
Interest income on financial assets designated at fair value	**369**	248	262	49
Interest and dividend income from financial investments available-for-sale	**381**	615	557	(38)
Total	**15,968**	17,969	18,872	(11)
Interest expense				
Interest on amounts due to banks and customers	**1,413**	2,040	1,984	(31)
Interest on securities lent and repurchase agreements	**1,206**	1,352	1,282	(11)
Interest expense from trading portfolio[3]	**2,391**	2,851	3,794	(16)
Interest on financial liabilities designated at fair value	**1,762**	1,993	2,392	(12)
Interest on debt issued	**3,202**	2,907	3,206	10
Total	**9,974**	11,143	12,657	(10)
Net interest income	**5,994**	6,826	6,215	(12)

1 For more information on own credit refer to "Note 27 Fair value of financial instruments". 2 Includes interest income on impaired loans and advances of CHF 16 million for 2012, CHF 20 million for 2011 and CHF 37 million for 2010. 3 Includes expense related to dividend payment obligations on trading liabilities.

Note 3 Net interest and trading income (continued)

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Net trading income				
Investment Bank investment banking	**69**	61	27	13
Investment Bank equities	**1,032**	173	2,556	497
Investment Bank fixed income, currencies and commodities	**2,629**	2,316	2,709	14
Other business divisions and Corporate Center	**(250)**	1,793	2,179	
Net trading income	**3,480**	4,343	7,471	(20)
of which: net gains / (losses) from financial assets designated at fair value	***420***	*419*	*465*	*0*
of which: net gains / (losses) from financial liabilities designated at fair value[1, 2]	***(6,492)***	*7,437*	*(1,001)*	

1 For more information on own credit refer to "Note 27 Fair value of financial instruments". 2 Fair value changes of hedges related to financial liabilities designated at fair value are also reported in Net trading income.

Net trading income in 2012 included a gain of CHF 526 million from the valuation of the option to acquire the SNB StabFund's equity, reflected on the line Other business divisions and Corporate Center, compared with a CHF 133 million loss in 2011.

➔ **Refer to the "Risk management and control" section of this report for more information on the valuation of the option to acquire the SNB StabFund's equity**

Net trading income in 2011 included a loss of CHF 1,849 million due to the unauthorized trading incident reflected in Investment Bank equities.

Note 4 Net fee and commission income

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Equity underwriting fees	**807**	626	1,157	29
Debt underwriting fees	**732**	554	755	32
Total underwriting fees	**1,539**	1,180	1,912	30
M&A and corporate finance fees	**679**	992	857	(32)
Brokerage fees	**3,836**	4,169	4,930	(8)
Investment fund fees	**3,626**	3,577	3,898	1
Portfolio management and advisory fees	**5,892**	5,551	5,959	6
Insurance-related and other fees	**451**	368	361	23
Total securities trading and investment activity fees	**16,023**	15,837	17,918	1
Credit-related fees and commissions	**414**	438	448	(5)
Commission income from other services	**833**	827	850	1
Total fee and commission income	**17,270**	17,102	19,216	1
Brokerage fees paid	**871**	933	1,093	(7)
Other	**994**	933	964	7
Total fee and commission expense	**1,865**	1,866	2,057	0
Net fee and commission income	**15,405**	15,236	17,160	1
of which: net brokerage fees	***2,965***	*3,236*	*3,837*	*(8)*

Note 5 Other income

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Associates and subsidiaries				
Net gains / (losses) from disposals of subsidiaries[1]	**(7)**	(18)	(7)	(61)
Net gains / (losses) from disposals of investments in associates	**0**	20	256	(100)
Share of net profits of associates	**88**	42	81	110
Total	**81**	44	331	84
Financial investments available-for-sale				
Net gains / (losses) from disposals	**414**	926	204	(55)
Impairment charges	**(85)**	(39)	(72)	118
Total	**329**	887	132	(63)
Net income from properties[2]	**35**	38	53	(8)
Net gains / (losses) from investment properties[3]	**4**	9	8	(56)
Other	**234**	490	690	(52)
Total other income	**682**	1,467	1,214	(54)

1 Includes foreign exchange gains / losses reclassified from other comprehensive income related to disposed or dormant subsidiaries. 2 Includes net rent received from third parties and net operating expenses. 3 Includes unrealized and realized gains / losses from investment properties at fair value and foreclosed assets.

Net gains from disposals of financial investments available-for-sale in 2012 includes gains of CHF 219 million in Wealth Management Americas' available-for-sale portfolio as well as a gain of CHF 88 million on the sale of an equity investment in the Investment Bank. 2011 included a gain of CHF 722 million from the sale of the strategic investment portfolio, of which CHF 433 million was allocated to Wealth Management and CHF 289 million to Retail & Corporate, as well as gains of CHF 81 million in Wealth Management Americas' available-for-sale portfolio.

The line Other included net losses of CHF 11 million on sales of loans and receivables in 2012, compared with net gains of CHF 344 million in 2011 and CHF 324 million in 2010. Additionally, it included gains on sales of real estate of CHF 112 million in 2012, CHF 78 million in 2011 and CHF 158 million in 2010.

Net gains from disposals of investments in associates in 2010 included a gain of CHF 180 million from the sale of investments in associates owning office space in New York.

Note 6 Personnel expenses

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Salaries	**6,814**	6,859	7,033	(1)
Variable compensation – performance awards[1, 2]	**3,000**	3,516	4,171	(15)
of which: guarantees for new hires[2]	***134***	*173*	*135*	*(23)*
Variable compensation – other[1, 2]	**367**	191	141	92
of which: replacement payments[3]	***109***	*121*	*107*	*(10)*
of which: forfeiture credits	***(174)***	*(215)*	*(167)*	*(19)*
of which: severance payments[2, 4]	***303***	*239*	*80*	*27*
of which: retention plan and other payments[2]	***128***	*46*	*121*	*178*
Contractors	**214**	217	232	(1)
Social security	**768**	743	826	3
Pension and other post-employment benefit plans[5]	**18**	831	834	(98)
Wealth Management Americas: Financial advisor compensation[1, 6]	**2,873**	2,518	2,667	14
Other personnel expenses	**682**	758	1,127	(10)
Total personnel expenses[7]	**14,737**	15,634	17,031	(6)

1 Refer to "Note 31 Equity participation and other compensation plans" for more information. 2 In 2012, costs related to guarantees for new hires were reclassified from Variable compensation – other to Variable compensation – performance awards. In addition, costs related to both supplemental severance and certain retention payments were reclassified from Variable compensation – performance awards to Variable compensation – other. Prior periods were adjusted for these changes. The combined impact of these changes resulted in a net increase to Variable compensation – performance awards of CHF 125 million and CHF 89 million for the year ended 31 December 2011 and for the year ended 31 December 2010, respectively, with a corresponding net decrease to Variable compensation – other. 3 Replacement payments are payments made to compensate employees for deferred awards forfeited as a result of joining UBS. 4 Includes legally obligated and standard severance payments, as well as supplemental severance payments. 5 Refer to "Note 30 Pension and other post-employment benefit plans" for more information. 6 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. 7 Includes net restructuring charges of CHF 358 million for the year ended 31 December 2012 and CHF 261 million for the year ended 31 December 2011, and includes net restructuring provisions releases of CHF 2 million for the year ended 31 December 2010. Refer to "Note 37 Changes in organization" for more information.

In 2012, IAS 19R was adopted. Prior period information for the expense line Pension and other post-employment benefit plans was restated accordingly. Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information.

In the first quarter of 2012, UBS announced certain changes to its Swiss pension plan. The main changes, being the reduction in the conversion rate on retirement and an increase to the regular retirement age, serve in part to offset the impact of the increased life expectancy reflected in the defined benefit obligation. These changes to the pension plan resulted in a credit of CHF 730 million to the expense line Pension and other post-employment benefit plans.

In the second quarter of 2012, UBS announced changes to its retiree medical and life insurance benefit plan in the US. These changes resulted in a credit of CHF 116 million to the expense line Pension and other post-employment benefit plans.

Note 7 General and administrative expenses

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Occupancy	**1,074**	1,059	1,252	1
Rent and maintenance of IT and other equipment	**473**	429	555	10
Communication and market data services	**632**	616	664	3
Administration	**636**	621	669	2
Marketing and public relations	**528**	393	339	34
Travel and entertainment	**450**	470	466	(4)
Professional fees	**908**	822	754	10
Outsourcing of IT and other services	**1,357**	1,151	1,078	18
Provisions for litigation, regulatory and similar matters[1, 2]	**2,549**	276	631	824
Other[3]	**47**	122	175	(61)
Total general and administrative expenses	**8,653**	5,959	6,585	45

1 Reflects the net increase / release of provisions for litigation, regulatory and similar matters recognized in the income statement. In addition, it includes recoveries from third parties of CHF 12 million, CHF 33 million and CHF 2 million for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively. 2012 includes charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. A portion (CHF 45 million) of the net increase / release recognized in the income statement for provisions for certain litigation, regulatory and similar matters for 2012 as presented in "Note 23a Provisions" was recorded as negative other income rather than as general and administrative expenses. 2 Refer to "Note 23 Provisions and contingent liabilities" for more information. 3 Includes net real estate related restructuring charges of CHF 0 million, CHF 93 million and CHF 79 million for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively. Refer to "Note 37 Changes in organization" for more information.

Note 8 Earnings per share (EPS) and shares outstanding

	As of or for the year ended			% change from
	31.12.12	31.12.11	31.12.10	31.12.11
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	(2,511)	4,138	7,452	
Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	(2,511)	4,138	7,452	
Less: (profit)/loss on UBS equity derivative contracts	(1)	(3)	(2)	(67)
Net profit attributable to UBS shareholders for diluted EPS	(2,512)	4,135	7,450	
Weighted average shares outstanding				
Weighted average shares outstanding for basic EPS	3,754,112,403	3,774,036,437	3,789,732,938	(1)
Effect of dilutive potential shares resulting from notional shares, in-the-money options and warrants outstanding	126,261	61,259,378	48,599,111	(100)
Weighted average shares outstanding for diluted EPS	3,754,238,664	3,835,295,815	3,838,332,049	(2)
Earnings per share (CHF)				
Basic	(0.67)	1.10	1.97	
Diluted	(0.67)	1.08	1.94	
Shares outstanding				
Shares issued	3,835,250,233	3,832,121,899	3,830,840,513	0
Treasury shares	87,879,601	84,955,551	38,892,031	3
Shares outstanding	3,747,370,632	3,747,166,348	3,791,948,482	0
Exchangeable shares	418,526	509,243	580,261	(18)
Shares outstanding for EPS	3,747,789,158	3,747,675,591	3,792,528,743	0

The table below outlines the potential shares which could potentially dilute basic earnings per share in the future, but were not dilutive for the periods presented:

Potentially dilutive instruments			
Number of shares	31.12.12	31.12.11	31.12.10
Employee share-based compensation awards	233,256,208	219,744,203	189,567,472
Other equity derivative contracts	15,386,605	24,407,443	51,752,713
SNB warrants[1]	100,000,000	100,000,000	100,000,000
Total	348,642,813	344,151,646	341,320,185

1 These warrants relate to the SNB transaction. The SNB provided a loan to a fund owned and controlled by the SNB (the SNB StabFund), to which UBS transferred certain illiquid securities and other positions. As part of this arrangement, UBS granted warrants on shares to the SNB, which become exercisable if the SNB incurs a loss on its loan to the SNB StabFund.

Balance sheet notes: assets

Note 9 Due from banks and loans (held at amortized cost)

CHF million	**31.12.12**	31.12.11
By type of exposure		
Due from banks, gross	**21,252**	23,235
of which: due from central banks	***638***	*317*
Allowance for credit losses	**(22)**	(17)
Due from banks, net	**21,230**	23,218
Loans, gross		
Residential mortgages	**132,033**	125,775
Commercial mortgages	**22,421**	21,247
Lombard loans	**77,579**	68,083
Other loans[1,2]	**40,407**	40,804
Securities[3]	**8,166**	11,520
Subtotal	**280,606**	267,429
Allowance for credit losses	**(706)**	(825)
Loans, net	**279,901**	266,604
Total due from banks and loans, net[4]	**301,130**	289,822

1 1 Includes corporate loans. 2 Includes leveraged finance loans reclassified from held-for trading. Refer to "Note 1a) 10)" and "Note 29b Reclassification of financial assets" for more information. 3 Includes securities reclassified from held-for-trading. Refer to "Note 1a) 10)" and "Note 29b Reclassification of financial assets" for more information. 4 Refer to "Note 29c Maximum exposure to credit risk" for information on collateral and other credit enhancements.

Note 10 Cash collateral on securities borrowed and lent, reverse repurchase and repurchase agreements, and derivative instruments

The Group enters into collateralized reverse repurchase and repurchase agreements, securities borrowing and securities lending transactions and derivative transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group manages credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

Balance sheet assets

CHF million	**Cash collateral on securities borrowed 31.12.12**	**Reverse repurchase agreements 31.12.12**	**Cash collateral receivables on derivative instruments 31.12.12**	Cash collateral on securities borrowed 31.12.11	Reverse repurchase agreements 31.12.11	Cash collateral receivables on derivative instruments 31.12.11
By counterparty						
Banks	**15,977**	**56,775**	**12,393**	17,236	133,010	22,341
Customers	**21,396**	**74,165**	**18,021**	41,527	80,491	18,980
Total	**37,372**	**130,941**	**30,413**	58,763	213,501	41,322

Balance sheet liabilities

CHF million	**Cash collateral on securities lent 31.12.12**	**Repurchase agreements 31.12.12**	**Cash collateral payables on derivative instruments 31.12.12**	Cash collateral on securities lent 31.12.11	Repurchase agreements 31.12.11	Cash collateral payables on derivative instruments 31.12.11
By counterparty						
Banks	**8,572**	**13,727**	**46,101**	7,601	16,986	38,890
Customers	**630**	**23,912**	**25,047**	536	85,443	28,224
Total	**9,203**	**37,639**	**71,148**	8,136	102,429	67,114

Note 11 Allowances and provisions for credit losses

CHF million

By movement	Specific allowances	Collective allowances	Total allowances	Provisions[1]	Total 31.12.12	Total 31.12.11
Balance at the beginning of the year	714	131	845	93	938	1,287
Write-offs / usage of provisions	(312)	(2)	(313)	0	(313)	(501)
Recoveries	63	0	63	0	63	51
Increase / (decrease) recognized in the income statement	149	(15)	134	(16)	118	84
Reclassifications	13	0	13	(13)	0	0
Foreign currency translation	(8)	0	(8)	0	(8)	(1)
Other	(3)	0	(3)	0	(3)	18
Balance at the end of the year	616	114	730	64	794	938

1 Represents provisions for loan commitments and guarantees, which are included in Other liabilities. Refer to “Note 23 Provisions and contingent liabilities” for more information. Refer to the “Financial and operating performance” section of this report for the maximum irrevocable amount of loan commitments and guarantees.

By balance sheet line	Specific allowances	Collective allowances	Total allowances	Provisions	Total 31.12.12	Total 31.12.11
Due from banks	22	0	22		22	17
Loans	591	114	706		706	825
Cash collateral on securities borrowed	2	0	2		2	3
Provisions[1]				64	64	93
Balance at the end of the year	616	114	730	64	794	938

1 Represents provisions for loan commitments and guarantees.

Note 12 Trading portfolio

CHF million	**31.12.12**	31.12.11
Trading portfolio assets by issuer type		
Debt instruments		
Government and government agencies	**37,594**	62,118
of which: Switzerland	***492***	*418*
of which: USA	***16,377***	*22,958*
of which: United Kingdom	***3,123***	*3,709*
of which: Australia	***2,249***	*3,540*
of which: Japan	***2,174***	*14,258*
of which: Germany	***1,930***	*3,547*
Banks	**8,547**	10,611
Corporates and other	**34,911**	38,420
Total debt instruments	**81,052**	111,149[1]
Equity instruments	**47,438**	35,296[1]
Financial assets for unit-linked investment contracts	**15,277**	16,376
Financial assets held for trading	**143,767**	162,821
Precious metals and other physical commodities	**17,093**	18,704
Total trading portfolio assets	**160,861**	181,525
Trading portfolio liabilities by issuer type		
Debt instruments		
Government and government agencies	**16,115**	18,913
of which: Switzerland	***280***	*261*
of which: USA	***7,387***	*5,634*
of which: United Kingdom	***979***	*1,946*
of which: Australia	***568***	*756*
of which: Japan	***2,059***	*3,894*
of which: Germany	***1,610***	*2,492*
Banks	**1,475**	1,913
Corporates and other	**2,943**	4,716
Total debt instruments	**20,533**	25,542
Equity instruments	**13,621**	13,937
Total trading portfolio liabilities	**34,154**	39,480

1 In 2012, we corrected the classification of certain investment fund units which were previously classified as equity instruments rather than debt instruments. As a result, equity instruments were reduced by CHF 2,104 million as of 31 December 2011, and debt instruments were increased by CHF 2,104 million as of 31 December 2011.

Note 12 Trading portfolio (continued)

	31.12.12[1]				31.12.11
	Level 1	Level 2	Level 3	Total	
Trading portfolio assets by product type					
Debt instruments					
Government bills / bonds	22,180	6,445	113	28,737	45,297
Corporate bonds, municipal bonds, including bonds issued by financial institutions	954	21,436	1,610	24,000	32,765
Loans	0	4,125	2,004	6,129	4,088
Investment fund units	2,970	10,585	75	13,629	11,963[2]
Asset-backed securities	3,637	3,427	1,493	8,556	17,035
of which: mortgage-backed securities	*3,637*	*2,320*	*803*	*6,760*	*13,868*
Total debt instruments	29,740	46,017	5,295	81,052	111,149[2]
Equity instruments	46,994	296	148	47,438	35,296[2]
Financial assets for unit-linked investment contracts	14,557	442	278	15,277	16,376
Financial assets held for trading	91,290	46,755	5,721	143,767	162,821
Precious metals and other physical commodities				17,093	18,704
Total trading portfolio assets				160,861	181,525
Trading portfolio liabilities by product type					
Debt instruments					
Government bills / bonds	14,093	648	0	14,741	17,026
Corporate bonds, municipal bonds, including bonds issued by financial institutions	789	4,459	137	5,386	7,122
Investment fund units	140	243	0	383	1,083
Asset-backed securities	14	4	4	22	312
of which: mortgage-backed securities	*14*	*4*	*3*	*22*	*287*
Total debt instruments	15,036	5,356	141	20,533	25,542
Equity instruments	13,518	93	11	13,621	13,937
Total trading portfolio liabilities	28,554	5,449	151	34,154	39,480

1 Refer to "Note 27 Fair value of financial instruments" for more information on the fair value hierarchy categorization. 2 In 2012, we corrected the classification of certain investment fund units which were previously classified as equity instruments rather than debt instruments. As a result, equity instruments were reduced by CHF 2,104 million as of 31 December 2011, and investment fund units within debt instruments were increased by CHF 2,104 million as of 31 December 2011.

Note 13 Financial assets designated at fair value

CHF million	**31.12.12**	31.12.11
Loans	**1,611**	2,358
Structured loans	**1,187**	960
Reverse repurchase and securities borrowing agreements	**5,466**	6,071
of which: banks	***2,500***	*3,514*
of which: customers	***2,966***	*2,557*
Investment funds	**608**	730
Other debt instruments	**234**	218
Total financial assets designated at fair value	**9,106**	10,336

The maximum exposure to credit risk from financial assets designated at fair value is equal to the fair value for Loans, Structured loans and reverse repurchase and securities borrowing agreements. The maximum exposure is mitigated by collateral, which mainly relates to structured loans and reverse repurchase and securities borrowing agreements of CHF 6,694 million and CHF 6,919 million for 31 December 2012 and 31 December 2011, respectively. These collateral values are capped at the maximum exposure to credit risk for which they serve as security.

Other debt instruments mainly reflect loan commitments and letters of credit designated at fair value which have a maximum exposure to credit risk of CHF 4,237 million and CHF 4,423 million as of 31 December 2012 and as of 31 December 2011, respectively. The maximum exposure to credit risk of these instruments is generally hedged through derivative transactions.

Investment fund units do not have a direct exposure to credit risk.

The maximum exposure to credit risk of loans, but not structured loans, is generally mitigated by credit derivatives or similar instruments. Information regarding these instruments and the exposure which they mitigate is provided in the table below on a notional basis.

Notional amounts of loans designated at fair value and related credit derivatives

CHF million	**31.12.12**	31.12.11
Loans – notional amount	**2,102**	2,595
Credit derivatives related to loans – notional amount[1]	**1,025**	1,404
Credit derivatives related to loans – fair value[1]	**2**	37

1 Credit derivatives contracts include credit default swaps, total return swaps and similar instruments.

The table below provides the impact to the fair values of loans from changes in credit risk for the periods presented and cumulatively since inception. Similarly, the change in fair value of credit derivatives and similar instruments which are used to hedge these loans is also provided.

Changes in fair value of loans and related credit derivatives attributable to changes in credit risk

	For the year ended		Cumulative from inception until the year ended	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Changes in fair value of loans designated at fair value, attributable to changes in credit risk[1]	**22**	(15)	**(10)**	(49)
Changes in fair value of credit derivatives and similar instruments which mitigate the maximum exposure to credit risk of loans designated at fair value[1]	**(18)**	35	**2**	37

1 Current and cumulative changes in the fair value of loans designated at fair value, attributable to changes in their credit risk are only calculated for those loans outstanding at balance sheet date. Current and cumulative changes in the fair value of credit derivatives hedging such loans include all the derivatives which have been used to mitigate credit risk of these loans since designation at fair value. For loans reported under the fair value option, changes in fair value due to changes in the credit standing of the borrower are calculated using counterparty credit information obtained from independent market sources.

Note 14 Financial investments available-for-sale

CHF million	31.12.12	31.12.11
Financial investments available-for-sale by issuer type		
Debt instruments		
Government and government agencies	58,973	47,144
of which: Switzerland	*156*	*357*
of which: USA	*31,740*	*25,677*
of which: Germany	*6,669*	*1,991*
of which: United Kingdom	*5,042*	*3,477*
of which: Japan	*4,221*	*8,854*
of which: France	*3,593*	*2,170*
Banks	4,200	4,271
Corporates and other	2,486	1,060
Total debt instruments	**65,659**	52,475
Equity instruments	**725**	699
Total financial investments available-for-sale	**66,383**	53,174
Unrealized gains – before tax	447	477
Unrealized (losses) – before tax	(26)	(55)
Net unrealized gains / (losses) – before tax	**421**	422
Net unrealized gains / (losses) – after tax	**270**	250

	31.12.12[1]				31.12.11
CHF million	Level 1	Level 2	Level 3	Total	
Financial investments available-for-sale by product type					
Debt instruments					
Government bills / bonds	46,351	646	33	47,031	34,899
Corporate bonds, municipal bonds, including bonds issued by financial institutions	2,055	8,830	55	10,940	8,590
Investment fund units	35	114	225	375	445
Asset-backed securities	0	7,313	0	7,313	8,541
of which: mortgage-backed securities	*0*	*7,313*	*0*	*7,313*	*8,541*
Total debt instruments	**48,442**	**16,903**	**314**	**65,659**	52,475
Equity instruments					
Shares	102	35	410	547	481
Private equity investments	0	0	177	177	218
Total equity instruments	**102**	**35**	**588**	**725**	699
Total financial investments available-for-sale	**48,543**	**16,939**	**901**	**66,383**	53,174

1 Refer to "Note 27 Fair value of financial instruments" for more information on the fair value hierarchy categorization.

Note 15 Investments in associates

CHF million	31.12.12	31.12.11
Carrying amount at the beginning of the year	795	790
Additions	4	1
Disposals	(3)	(4)
Share of net profits of associates	88	42
Share of other comprehensive income of associates	25	(27)
Dividends paid	(37)	(28)
Foreign currency translation	(12)	21
Carrying amount at the end of the year	**858**	795

Significant associated companies of the Group had the following balance sheet and income statement totals on an aggregated basis, not adjusted for the Group's proportionate interest. Refer to "Note 34 Significant subsidiaries and associates".

	As of or for the year ended	
CHF million	31.12.12	31.12.11
Assets	6,265	5,806
Liabilities	4,141	3,789
Revenues	1,361	1,356
Net profit	223	181

Note 16 Property and equipment

At historic cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improvements	IT hardware, software and communication	Other machines and equipment	Projects in progress	31.12.12	31.12.11
Historic cost							
Balance at the beginning of the year	8,679	2,674	4,049	736	545	16,683	16,364
Additions	75	56	194	51	735	1,111	1,129
Additions from acquired companies	0	0	0	0	0	0	2
Disposals / write-offs[1]	(215)	(203)	(413)	(28)	0	(859)	(791)
Reclassifications	(229)	192	27	42	(452)	(420)[5]	(40)
Foreign currency translation	(1)	(42)	(24)	(10)	(10)	(88)	19
Balance at the end of the year	8,307	2,677	3,833	792	819	16,428	16,683
Accumulated depreciation							
Balance at the beginning of the year	4,934	1,930	3,596	546	0	11,005	10,991
Depreciation and impairment[2]	202	208	216	63	0	689	761
Disposals / write-offs[1]	(215)	(195)	(412)	(27)	0	(850)	(752)
Reclassifications	(260)	5	0	0	0	(255)[5]	(12)
Foreign currency translation	0	(35)	(22)	(8)	0	(65)	16
Balance at the end of the year	4,660	1,912	3,378	574	0	10,524	11,005
Net book value at the end of the year[3, 4]	**3,647**	**765**	**456**	**218**	**819**	**5,905**	**5,678**

1 Includes write-offs of fully depreciated assets. 2 In 2012, amounts presented include a CHF 1 million net reversal of impairments of own used property (31 December 2011: CHF 22 million), CHF 27 million net impairments of leasehold improvements (31 December 2011: CHF 29 million), CHF 4 million impairments of IT, software and communication and CHF 5 million net impairments of other machines and equipment (31 December 2011: CHF 3 million). 3 Fire insurance value of property and equipment is CHF 12,865 million (2011: CHF 13,075 million), predominantly related to real estate. 4 As of 31 December 2012, contractual commitments to purchase property in the future amounted to approximately CHF 0.5 billion. 5 Mainly reflects reclassifications to Investment properties at fair value (CHF 75 million on a net basis) presented in the table below and to Properties held for sale (CHF 89 million on a net basis) reported within Other assets.

Investment properties at fair value

CHF million	31.12.12	31.12.11
Balance at the beginning of the year	10	94
Additions	6	0
Sales	0	(87)
Revaluations	9	4
Reclassifications	75	(1)
Foreign currency translation	0	(1)
Balance at the end of the year	**99**	10

Note 17 Goodwill and intangible assets

Introduction

UBS performs an impairment test on its goodwill assets on an annual basis, or when indicators of impairment exist. UBS considers the segments as reported in "Note 2 Segment reporting" as separate cash-generating units. The impairment test is performed for each segment to which goodwill is allocated by comparing the recoverable amount with the carrying amount of the respective segment. An impairment charge is recognized if the carrying amount exceeds the recoverable amount.

As of 31 December 2012, the following three segments carried goodwill: Wealth Management (CHF 1.3 billion), Wealth Management Americas (CHF 3.2 billion), and Global Asset Management (CHF 1.4 billion). Based on the impairment testing methodology described below, UBS concluded that the goodwill balances as of 31 December 2012 allocated to these segments remain recoverable.

Impairment of Investment Bank goodwill and other non-financial assets

An impairment test was performed as of 30 September 2012 with respect to the Investment Bank because indicators of impairment were present for that cash-generating unit. These indicators included negative variances from planned performance, preliminary discussions regarding changes in strategy for the Investment Bank and revised business plan information taking into account changes in market conditions and the global economic outlook. The impairment test was based on the business plan approved by the Board of Directors on 29 October 2012. As a result of this impairment test, losses were recognized in the income statement relating to a full impairment of CHF 3,030 million for goodwill in the third quarter of 2012. Additional assets were examined to determine whether their carrying values exceeded their recoverable amounts. Impairment losses of CHF 15 million were recognized in the income statement for other intangible assets and CHF 19 million for property and equipment, both in the third quarter of 2012. These impairment losses were recognized in the Investment Bank's 2012 operating results as Impairment of goodwill, Amortization and impairment of intangible assets, and Depreciation and impairment of property and equipment.

Methodology for goodwill impairment testing

The recoverable amount is determined using a discounted cash flow model, which uses inputs that consider features of the banking business and its regulatory environment. The recoverable amount of a segment is the sum of the discounted earnings attributable to shareholders from the first five forecasted years and the terminal value. The terminal value reflecting all periods beyond the fifth year is calculated on the basis of the forecast of fifth-year profit, the discount rate and the long-term growth rate.

The carrying amount for each segment is determined by reference to the Group's equity attribution framework. Within this framework, which is described in the "Capital Management" section of this report, the Board of Directors (BoD) attributes equity to the businesses after considering their risk exposure, pro-forma Basel III RWA usage, asset size (pro-forma Basel III Leverage Ratio denominator), goodwill and intangible assets. The framework is primarily used for purposes of measuring the performance of the businesses and includes certain management assumptions. Attributed equity equates to the capital that a segment requires to conduct its business and is considered an appropriate starting point from which to determine the carrying value of the segments. The attributed equity methodology is aligned with the business planning process, the inputs from which are used in calculating the recoverable amounts of the respective cash-generating units.

➔ **Refer to the "Capital Management" section of this report for more information on the equity attribution framework**

Assumptions

Valuation parameters used within the Group's impairment test model are linked to external market information where applicable. The model used to determine the recoverable amount is most sensitive to changes in the forecast earnings available to shareholders in years one to five, to changes in the discount rates, and to changes in the long-term growth rate. The applied long-term growth rate is based on long-term economic growth rates for different regions worldwide. Earnings available to shareholders are estimated based on forecast results, which are part of the business plan approved by the BoD. The discount rates are determined

Note 17 Goodwill and intangible assets (continued)

by applying a capital-asset-pricing-model-based approach, as well as considering quantitative and qualitative inputs from both internal and external analysts and the view of UBS's management.

Key assumptions used to determine the recoverable amounts of each segment are tested for sensitivity by applying a reasonably possible change to those assumptions. Forecast earnings available to shareholders were changed by 10%, the discount rates were changed by 1% and the long-term growth rates were changed by 0.5%. Under all scenarios, the recoverable amounts for each segment exceeded the respective carrying amount, such that the reasonably possible changes in key assumptions would not result in impairment.

If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of our goodwill may become impaired in the future, giving rise to losses in the income statement. Recognition of any impairment of goodwill would reduce IFRS equity attributable to UBS shareholders and net profit. It would not impact cash flows and, as goodwill is required to be deducted from capital under the Basel capital framework, no impact is expected on the Group capital ratios.

Discount and growth rates

	Discount rates		Growth rates	
In %	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Wealth Management	**10.0**	10.7	**1.7**	1.7
Wealth Management Americas	**10.0**	10.0	**2.4**	2.4
Investment Bank	**13.0**[1]	12.0	**2.4**	2.4
Global Asset Management	**10.0**	10.0	**2.4**	2.4

1 A discount rate of approximately 13% was used for the impairment test that was performed as of 30 September 2012 with respect to the Investment Bank. As the Investment Bank had no goodwill as of 31 December 2012, no impairment test was required at year end.

	Goodwill	Intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.12**	31.12.11
Historic cost						
Balance at the beginning of the year	9,074	713	854	1,567	**10,641**	10,634
Additions	3		8	8	**11**	40
Disposals			(1)	(1)	**(1)**	(2)
Write-offs	(3,030)		(79)	(79)	**(3,110)**	0
Foreign currency translation	(98)	(17)	(9)	(26)	**(124)**	(32)
Balance at the end of the year	5,949	696	773	1,469	**7,417**	10,641
Accumulated amortization and impairment						
Balance at the beginning of the year		399	547	946	**946**	812
Amortization		36	54	89	**89**	90
Impairment	3,030		17	17	**3,047**	37
Disposals				0	**0**	0
Write-offs	(3,030)		(79)	(79)	**(3,110)**	0
Foreign currency translation		(10)	(7)	(17)	**(17)**	8
Balance at the end of the year	0	424	532	956	**956**	946
Net book value at the end of the year	5,949	272	241	513	**6,461**	9,695

Note 17 Goodwill and intangible assets (continued)

The following table presents the disclosure of goodwill and intangible assets by business unit for the year ended 31 December 2012.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Corporate Center	UBS
Goodwill						
Balance at the beginning of the year	1,319	3,293	3,019	1,442		9,074
Additions				3		3
Disposals						0
Impairment			(3,030)			(3,030)
Foreign currency translation	(15)	(80)	11	(13)		(98)
Balance at the end of the year	**1,304**	**3,213**	**0**	**1,432**		**5,949**
Intangible assets						
Balance at the beginning of the year	62	382	136	41		621
Additions					8	8
Disposals			(1)			(1)
Amortization	(4)	(51)	(25)	(8)	(2)	(89)
Impairment	(2)		(15)			(17)
Foreign currency translation		(8)	(1)	1		(9)
Balance at the end of the year	**55**	**323**	**94**	**34**	**6**	**513**

The estimated, aggregated amortization expenses for intangible assets are as follows:

CHF million	Intangible assets
Estimated, aggregated amortization expenses for:	
2013	75
2014	75
2015	74
2016	65
2017	57
2018 and thereafter	146
Not amortized due to indefinite useful life	20
Total	**513**

Note 18 Other assets

CHF million	**31.12.12**	31.12.11
Prime brokerage receivables	**8,072**	6,103
Settlement and clearing accounts	**589**	482
Properties and other non-current assets held for sale	**137**	183
VAT and other tax receivables	**214**	176
Other	**2,043**	2,222
Total other assets	**11,055**	9,165

Balance sheet notes: liabilities

Note 19 Due to banks and customers

CHF million	**31.12.12**	31.12.11
Due to banks	**23,024**	30,201
Due to customers in savings and investment accounts	**134,255**	114,079
Other amounts due to customers	**237,637**	228,330
Total due to customers	**371,892**	342,409
Total due to banks and customers	**394,916**	372,610

Note 20 Financial liabilities designated at fair value[1]

CHF million	**31.12.12**	31.12.11
Non-structured fixed rate bonds	**4,967**	4,114
Structured debt instruments issued:		
Equity linked	**39,924**	37,809
Credit linked	**11,186**	9,345
Rates linked[2]	**18,606**	19,853
Other	**4,672**	4,767
Structured over-the-counter debt instruments:		
Equity linked	**3,536**	5,556
Other	**8,154**	6,615
Repurchase agreements	**1,672**	477
Loan commitments[3]	**161**	445
Total	**92,878**	88,982
of which: own credit on financial liabilities designated at fair value	***292***	*(1,934)*

1 In 2012, presentational changes were made to the disclosure of Financial liabilities designated at fair value. Non-structured fixed-rate bonds are now reported separately. Previously, these instruments were reported as Structured debt instruments issued, Other. In addition, the classification within Structured debt instruments issued and Structured over-the-counter debt instruments was corrected for 31 December 2011. 2 Also includes non-structured rates-linked debt instruments issued. 3 Loan commitments recognized as "Financial liabilities designated at fair value" until drawn and recognized as loans. See Note 1a) 8) for additional information.

As of 31 December 2012, the contractual redemption amount at maturity of Financial liabilities designated at fair value through profit or loss was CHF 0.2 billion higher than the carrying value. As of 31 December 2011, the contractual redemption amount at maturity of such liabilities was CHF 6.1 billion higher than the carrying value.

As of 31 December 2012 and 31 December 2011, the Group had CHF 92,878 million and CHF 88,982 million, respectively, of financial liabilities designated at fair value, comprised of both CHF and non-CHF denominated fixed-rate and floating-rate debt.

The table on the following page shows the contractual maturity of the carrying value of financial liabilities designated at fair value, split between fixed-rate and floating-rate based on the contractual terms and ignoring any early redemption features. Interest rate ranges for future interest payments related to these financial liabilities designated at fair value have not been included in the table below as a majority of these liabilities are structured products, and therefore the future interest payments are highly dependent upon the embedded derivative and prevailing market conditions at the time each interest payment is made.

→ **Refer to the "Maturity analysis of financial liabilities" table in the "Treasury management" section of this report for information on maturities on an undiscounted cash flow basis.**

Note 20 Financial liabilities designated at fair value (continued)

Contractual maturity of carrying value[1]

CHF million, except where indicated	2013	2014	2015	2016	2017	2018–2022	Thereafter	Total 31.12.12	Total 31.12.11
UBS AG (Parent Bank)									
Non-subordinated debt									
Fixed rate	6,299	3,017	2,620	1,201	2,933	2,182	3,052	**21,304**	18,935
Floating rate	19,281	7,725	7,739	3,939	5,504	4,922	8,878	**57,538**	58,862
Subtotal	25,579	10,742	10,359	5,140	7,987	7,104	11,930	**78,841**	77,797
Subsidiaries									
Non-subordinated debt									
Fixed rate	259	317	156	240	191	651	1,330	**3,145**	3,035
Floating rate	2,851	541	1,677	3,176	815	1,322	510	**10,891**	8,150
Subtotal	3,110	859	1,834	3,416	1,006	1,973	1,840	**14,036**	11,185
Total	28,689	11,601	12,193	8,557	8,992	9,076	13,769	**92,878**	88,982

1 In 2012, presentational changes were made to the contractual maturity table. Financial liabilities designated at fair value are presented separately from Debt issued held at amortized cost. In 2011, the contractual maturities of Financial liabilities designated at fair value and Debt issued held at amortized cost were presented on a combined basis. In addition, the classification between fixed rate and floating rate debt was corrected for 31 December 2011.

Note 21 Debt issued held at amortized cost

CHF million	31.12.12	31.12.11
Certificates of deposit	**11,153**	31,383
Commercial paper	**7,792**	22,133
Other short-term debt	**13,548**	17,861
Short-term debt	**32,493**	71,377
Non-structured fixed rate bonds	**31,197**	37,515
Covered bonds	**15,116**	9,788
Subordinated debt	**10,646**	7,035
Debt issued through the central bond institutions of the Swiss regional or cantonal banks	**7,585**	7,141
Medium-term notes	**1,341**	1,951
Other long-term debt	**6,278**	5,810
Long-term debt	**72,163**	69,240
Total debt issued held at amortized cost[1]	**104,656**	140,617

1 Net of bifurcated embedded derivatives with a net fair value of CHF 233 million as of 31 December 2012 (31 December 2011: CHF 955 million).

The Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt instruments held at amortized cost. In certain cases, the Group applies hedge accounting for interest rate risk as discussed in Note 1a) 15) and "Note 25 Derivative instruments and hedge accounting". As a result of applying hedge accounting, the carrying value of debt issued increased by CHF 2,608 million and by CHF 2,051 million as of 31 December 2012 and 31 December 2011, respectively, reflecting changes in fair value due to interest rate movements.

Subordinated debt are unsecured obligations of the Group that are subordinated in right of payment to all other present and future indebtedness and also to certain other obligations of the Group. As of 31 December 2012 and 31 December 2011, the Group had CHF 10,646 million and CHF 7,035 million, respectively, of subordinated debt, which included CHF 3,656 million and CHF 0 million of loss-absorbing capital notes as of 31 December 2012 and 31 December 2011, respectively. A majority of the subordinated debt outstanding as of 31 December 2012 were fixed rate issuances, with the remainder paying floating rate interest based on three-month or six-month London Interbank Offered Rate (LIBOR). Both the fixed and floating rate instruments provide for a single principal payment upon maturity.

As of 31 December 2012 and 31 December 2011, the Group had CHF 94,009 million and CHF 133,581 million, respectively, of non-subordinated debt issued held at amortized cost, comprised of both CHF and non-CHF denominated fixed rate and floating rate debt.

Note 21 Debt issued held at amortized cost (continued)

The following table shows the contractual maturity of the carrying value of debt issued, split between fixed rate and floating rate based on the contractual terms and ignoring any early redemption features. The Group uses interest rate swaps to hedge the majority of fixed-rate debt issued, which changes their re-pricing characteristics into those similar to floating rate debt.

➔ **Refer to the "Maturity analysis of financial liabilities" table in the "Treasury management" section of this report for information on maturities on an undiscounted cash flow basis.**

Contractual maturity of carrying value[1]

CHF million, except where indicated	2013	2014	2015	2016	2017	2018–2022	Thereafter	**Total 31.12.12**	Total 31.12.11
UBS AG (Parent Bank)									
Non-subordinated debt									
Fixed rate	33,841	7,414	7,178	4,974	8,631	13,875	1,504	**77,417**	99,818
Interest rates (range in %)	0–6.3	0–5.6	0–3.9	0–6.4	0–5.9	0–6.6	0–2.8		
Floating rate	4,832	1,614	18	0	0	0	2,733	**9,198**	13,739
Subordinated debt									
Fixed rate	3	398	1,059	1,379	673	5,432	1,010	**9,955**	6,350
Interest rates (range in %)	4.3–7.2	3.1	2.4–7.4	3.1–5.9	4.1–7.4	4.1–7.6	6.4–8.8		
Floating rate	0	0	0	0	0	692	0	**692**	685
Subtotal	38,676	9,427	8,255	6,353	9,305	19,998	5,248	**97,261**	120,593
Subsidiaries									
Non-subordinated debt									
Fixed rate	5,225	172	3	557	105	28	11	**6,100**	18,551
Interest rates (range in %)	0–0.8	0–7.6	0	0–8.3	0–8.1	0	0–6.2		
Floating rate	54	0	0	0	0	2	1,238	**1,294**	1,473
Subtotal	5,278	172	3	557	105	30	1,249	**7,394**	20,024
Total	43,954	9,599	8,258	6,910	9,409	20,029	6,497	**104,656**	140,617

1 In 2012, presentational changes were made to the contractual maturity table. Debt issued held at amortized cost is presented separately from Financial liabilities designated at fair value. In 2011, the contractual maturities of Debt issued held at amortized cost and Financial liabilities designated at fair value were presented on a combined basis. In addition, the classification between fixed rate and floating rate debt was corrected for 31 December 2011.

Note 22 Other liabilities

CHF million	**31.12.12**	31.12.11
Prime brokerage payables	**35,620**	36,746
Amounts due under unit-linked investment contracts	**15,346**	16,481
Deferred compensation plans	**1,541**	1,578
Net defined benefit pension and post-employment liability[1, 2]	**1,284**	3,135
Third-party interest in consolidated limited partnerships	**1,138**	1,378
Settlement and clearing accounts	**991**	874
VAT and other tax payables	**606**	492
Current and deferred tax liabilities[3]	**586**	573
Other	**2,791**[4]	1,526
Total other liabilities	**59,902**	62,784

1 Refer to "Note 30 Pension and other post-employment benefit plans" for more information. 2 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS 19R. 3 Refer to "Note 24 Income taxes" for more information. 4 Includes liabilities of CHF 1.4 billion arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. Refer to "Note 23 Provisions and contingent liabilities" for more information.

Note 23 Provisions and contingent liabilities

a) Provisions

CHF million	Operational risks[1]	Litigation, regulatory and similar matters[2]	Restructuring	Loan commitments and guarantees	Real estate	Employee benefits	Other	Total 31.12.12	Total 31.12.11
Balance at the beginning of the year	58	482	467	93	220	227	79	1,626	1,704
Additions from acquired companies	0	0	0	0	0	0	0	0	2
Increase in provisions recognized in the income statement	41	2,686	438	4	4	145	32	3,350	947
Release of provisions recognized in the income statement	(9)	(81)	(86)	(20)	(6)	(67)[5]	(5)	(273)	(288)
Provisions used in conformity with designated purpose	(37)	(1,685)[6]	(276)	0	(37)	(59)	(9)	(2,102)	(716)
Capitalized reinstatement costs	0	0	0	0	(4)	0	0	(4)	(2)
Disposal of subsidiaries	0	0	0	0	0	0	0	0	(1)
Reclassifications	0	43	(36)[4]	(13)	3	0	(43)	(47)	(52)
Foreign currency translation / unwind of discount	(1)	(13)	3	0	0	(2)	(2)	(14)	32
Balance at the end of the year	53	1,432	511	64	178[3]	244	53	2,536	1,626

1 Includes provisions for litigation resulting from security risks and transaction processing risks. 2 Includes litigation resulting from legal, liability and compliance risks. 3 Includes reinstatement costs for leasehold improvements of CHF 97 million as of 31 December 2012 (31 December 2011: CHF 109 million) and provisions for onerous lease contracts of CHF 81 million as of 31 December 2012 (31 December 2011: CHF 111 million). 4 Reflects a reclassification to share premium of restructuring provisions related to share-based compensation. 5 Includes the release of provisions for Swiss long-service and sabbatical awards. 6 Represents amounts paid out for the intended purpose and amounts transferred to Other liabilities – Other, presented in "Note 22 Other liabilities" for liabilities, which are no longer uncertain in timing or amount.

Restructuring provisions primarily relate to onerous lease contracts and severance amounts. The utilization of onerous lease provisions is driven by the maturities of the underlying lease contracts, which cover a period of up to 11 years. Severance related provisions are utilized within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces the number of people affected by a restructuring and therefore the estimated costs.

Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in Note 23b. Further information on the nominal principal amount of Loan commitments and guarantees, representing our maximum exposure to credit risk, is disclosed in Note 29c. There are no material contingent liabilities associated with the other classes of provisions.

b) Litigation, regulatory and similar matters

The Group operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this note may refer to UBS AG and/or one or more of its subsidiaries, as applicable) is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. If any of those conditions is not met, such matters result in contingent liabilities.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

In the case of certain matters below, we state that we have established a provision, and for the other matters we make no such statement. When we make this statement and we expect disclosure of the amount of a provision to prejudice seriously our position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, we do not disclose that amount. In some cases we are subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which we do not state whether we have established a provision, either a) we have not established

Note 23 Provisions and contingent liabilities (continued)

a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard or b) we have established a provision but expect disclosure of that fact to prejudice seriously our position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 23a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants.

Provisions for litigation, regulatory and similar matters by segment

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center – Core Functions	Corporate Center – Legacy Portfolio	**Total 31.12.12**	Total 31.12.11
Balance at the beginning of the year	96	206	132	4	17	2	26	**482**	618
Increase in provisions recognized in the income statement	90	133	304	6	19	1,518	616	**2,686**	396
Release of provisions recognized in the income statement	(15)	(28)	(32)	(1)	(1)	(3)	0	**(81)**	(87)
Provisions used in conformity with designated purpose	(40)	(135)	(266)	(1)	(6)	(1,222)	(15)	**(1,685)**	(455)
Reclassifications	0	0	(95)	0	0	44	95	**43**	0
Foreign currency translation / unwind of discount	0	(6)	(2)	0	0	(2)	(3)	**(13)**	10
Balance at the end of the year	130	170	40	7	29	338	720	**1,432**	482

1. Municipal bonds

In 2011, UBS announced a USD 140.3 million settlement with the US Securities and Exchange Commission (SEC), the Antitrust Division of the US Department of Justice (DOJ), the Internal Revenue Service (IRS) and a group of state attorneys general relating to the investment of proceeds of municipal bond issuances and associated derivative transactions. The settlement resolves the investigations by those regulators which had commenced in November 2006. Several related putative class actions, which were filed in Federal District Courts against UBS and numerous other firms, remain pending. Approximately USD 63 million of the regulatory settlement was made available to potential claimants through a settlement fund, the majority of which has been claimed, thereby reducing the total monetary amount at issue in the class actions for UBS.

2. Auction rate securities

In 2008, UBS entered into settlements with the SEC, the New York Attorney General (NYAG) and the Massachusetts Securities Division whereby UBS agreed to offer to buy back Auction Rate Securities (ARS) from eligible customers, and to pay penalties of USD 150 million. UBS has since finalized settlements with all of the states. The settlements resolved investigations following the industry-wide disruption in the markets for ARS and related auction failures beginning in early 2008. The SEC continues to investigate individuals affiliated with UBS regarding the trading in ARS and disclosures. UBS was also named in (i) several putative class actions, which were thereafter dismissed by the court and/or settled; (ii) arbitration and litigation claims asserted by investors relating to ARS; and (iii) arbitration and litigation claims asserted by ARS issuers, including a pending litigation under state common law and a state racketeering statute seeking at least USD 40 million in compensatory damages, plus exemplary and treble damages, and several pending arbitration claims filed in 2012 and 2013 alleging violations of state and federal securities law that seek compensatory and punitive damages, among other relief. In November 2012, UBS settled a consequential damages claim brought by a former customer for USD 45 million.

3. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. In France, a criminal investigation into allegations of illicit cross-border activity has been initiated with the appointment of a "Juge d'instruction". We have also received inquiries from German authorities concerning certain matters relating to our cross-border business. UBS is cooperating with these inquiries, requests and investigations within the limits of financial privacy obligations under Swiss and other applicable laws.

4. Matters related to the financial crisis

UBS is responding to a number of governmental inquiries and investigations and is involved in a number of litigations, arbitrations and disputes related to the financial crisis of 2007 to 2009 and in particular mortgage-related securities and other structured trans-

Note 23 Provisions and contingent liabilities (continued)

actions and derivatives. In February 2013, the SEC advised UBS that it is terminating its investigation of UBS's valuation of super senior tranches of collateralized debt obligations (CDO) during the third quarter of 2007 without recommending any enforcement action. UBS is in discussions with the SEC concerning UBS's structuring and underwriting of one CDO in 2007. UBS has also communicated with and has responded to other inquiries by various governmental and regulatory authorities concerning various matters related to the financial crisis. These matters concern, among other things, UBS's (i) disclosures and writedowns, (ii) interactions with rating agencies, (iii) risk control, valuation, structuring and marketing of mortgage-related instruments, and (iv) role as underwriter in securities offerings for other issuers.

UBS is a defendant in several lawsuits filed by institutional purchasers of CDOs structured by UBS in which plaintiffs allege, under various legal theories, that UBS misrepresented the quality of the collateral underlying the CDOs. Plaintiffs in these suits collectively seek to recover several hundred million dollars in claimed losses, including one case in which plaintiffs claim losses of at least USD 331 million.

Our balance sheet at 31 December 2012 reflected a provision with respect to matters described in this item 4 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

5. Lehman principal protection notes

From March 2007 through September 2008, UBS Financial Services Inc. (UBSFS) sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. (Lehman), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. Based on its role as an underwriter of Lehman structured notes, UBSFS has been named as a defendant in a putative class action asserting violations of disclosure provisions of the federal securities laws. In January 2013, plaintiffs' motion to certify the case as a class action, which UBS opposed, was granted with respect to certain claims. UBS is filing for an appeal of that decision with the Second Circuit. Firms that underwrote other non-structured Lehman securities have been named as defendants in the same purported class action, and those underwriters have entered into settlements. In 2011, UBSFS entered into a settlement with the Financial Industry Regulatory Authority (FINRA) related to the sale of these notes, pursuant to which UBSFS agreed to pay a USD 2.5 million fine and up to USD 8.25 million in restitution and interest to a limited number of investors in the US. UBSFS has also been named in numerous individual civil suits and customer arbitrations, which proceedings are at various stages. The individual customer claims, some of which have resulted in awards payable by UBSFS, relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers.

6. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter of US residential mortgage-backed securities (RMBS) and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. (UBS RESI), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into securitization trusts. In this manner, from 2004 through 2007, UBS RESI sponsored approximately USD 80 billion in RMBS, based on the original principal balances of the securities issued.

UBS RESI also sold pools of loans acquired from originators to third-party purchasers. These whole loan sales during the period 2004 through 2007 totaled approximately USD 19 billion in original principal balance.

We were not a significant originator of US residential loans. A subsidiary of UBS originated approximately USD 1.5 billion in US residential mortgage loans during the period in which it was active from 2006 to 2008, and securitized less than half of these loans.

Securities Lawsuits Concerning Disclosures in RMBS Offering Documents: UBS has been named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits relating to approximately USD 44 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages, and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the original face amount of RMBS at issue in these cases, approximately USD 11 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans (UBS-sponsored RMBS). The remaining USD 33 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS). In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights.

These lawsuits include actions brought by the Federal Housing Finance Agency (FHFA), as conservator for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac and collectively with Fannie Mae, the GSEs), in connection with the GSEs' investments in USD 4.5 billion in original face amount of UBS-sponsored RMBS and USD 1.8 billion in original face amount of third-party RMBS. These suits assert claims for damages and rescission under federal and state securities laws and state common law and allege losses of at

Note 23 Provisions and contingent liabilities (continued)

Loan repurchase demands by year received – original principal balance of loans[1]

USD million	2006–2008	2009	2010	2011	2012	through 5 March 2013	Total
Actual or agreed loan repurchases / make whole payments by UBS	11.7	1.4	0.1				13.2
Demands resolved or expected to be resolved through enforcement of UBS's indemnification rights against third-party originators		77.4	1.8	45.0	141.7		265.9
Demands resolved in litigation	0.6	20.7					21.3
Demands in litigation			345.6	731.7	1,041.1		2,118.5
Demands rebutted by UBS but not yet rescinded by counterparty		3.2	1.8	290.0	243.8		538.7
Demands rescinded by counterparty	110.2	100.4	18.8	8.3			237.7
Demands in review by UBS		2.1	0.1	9.1	11.7	1.8	24.8
Total	122.5	205.1	368.2	1,084.1	1,438.3	1.8	3,220.1

1 Loans submitted by multiple counterparties are counted only once.

least USD 1.2 billion plus interest. The court denied UBS's motion to dismiss in May 2012, but we are awaiting a decision from the US Court of Appeals for the Second Circuit on an appeal with respect to two legal issues that were the subject of UBS's motion to dismiss. The FHFA also filed suits in 2011 against UBS and other financial institutions relating to their role as underwriters of third-party RMBS purchased by the GSEs asserting claims under various legal theories, including violations of the federal and state securities laws and state common law.

In July 2012 a federal court in New Jersey dismissed with prejudice on statute of limitations grounds a putative class action lawsuit that asserted violations of the federal securities laws against various UBS entities, among others, in connection with USD 2.6 billion in original face amount of UBS-sponsored RMBS. The named plaintiff's appeal of the dismissal is pending.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, we generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, we were in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. We have been notified by certain institutional purchasers and insurers of mortgage loans and RMBS, including Freddie Mac, of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table above summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 5 March 2013. In the table, repurchase demands characterized as Demands resolved in litigation and Demands rescinded by counterparty are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, made additional loan repurchase demands totaling approximately USD 182 million in original principal balance in November and December 2012, and it is not clear when or to what extent additional demands may be made by Assured Guaranty, Freddie Mac or others.

Payments that UBS has made or agreed to make to date to resolve repurchase demands equate to approximately 62% of the original principal balance of the related loans. Most of the payments that UBS has made or agreed to make to date have related to so-called "Option ARM" loans; severity rates may vary for other types of loans or for Option ARMs with different characteristics. Actual losses upon repurchase will reflect the estimated value of the loans in question at the time of repurchase as well as, in some cases, partial repayment by the borrowers or advances by servicers prior to repurchase. It is not possible to predict future losses upon repurchase for reasons including timing and market uncertainties.

In most instances in which we would be required to repurchase loans due to misrepresentations, we would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. We estimate that, of the total original principal balance of loans sold or securitized by UBS from 2004 through 2007, less than 50% was purchased from surviving third-party originators. In connection with approximately 60% of the loans (by original principal balance) for which UBS has made payment or agreed to make payment in response to demands received in 2010, UBS has asserted indemnity or repurchase demands against originators. Since 2011, UBS has advised certain surviving originators of repurchase demands made against UBS for which UBS would be entitled to indemnity, and has asserted that such demands should be resolved directly by the originator and the party making the demand.

We cannot reliably estimate the level of future repurchase demands, and do not know whether our rebuttals of such demands will be a good predictor of future rates of rebuttal. We also cannot reliably estimate the timing of any such demands.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In February 2012, Assured

Note 23 Provisions and contingent liabilities (continued)

Guaranty filed suit against UBS RESI in New York State Court asserting claims for breach of contract and declaratory relief based on UBS RESI's alleged failure to repurchase allegedly defective mortgage loans with an original principal balance of at least USD 997 million that serve as collateral for UBS-sponsored RMBS insured in part by Assured Guaranty. Assured Guaranty also claims that UBS RESI breached representations and warranties concerning the mortgage loans and breached certain obligations under commitment letters. Assured Guaranty seeks unspecified damages that include payments on current and future claims made under Assured Guaranty insurance policies totaling approximately USD 308 million at the time of the filing of the complaint, as well as compensatory and consequential losses, fees, expenses and pre-judgment interest. The case was removed to federal court, and in August 2012, the Court granted UBS RESI's motion to dismiss Assured Guaranty's claims for breach of UBS RESI's contractual repurchase obligations, holding that only the trustee for the securitization trust has the contractual right to enforce those obligations. The Court also granted UBS RESI's motion to dismiss Assured Guaranty's claims for declaratory relief. The Court denied UBS RESI's motion to dismiss Assured Guaranty's claims for breach of representation and warranty and breach of the commitment letters. The case is now in discovery.

In October 2012, following the Court's holding that only the trustee may assert claims seeking to enforce UBS RESI's repurchase obligations, the RMBS trusts at issue in the Assured Guaranty litigation filed a related action in the Southern District of New York seeking to enforce UBS RESI's obligation to repurchase loans with an original principal balance of approximately USD 2 billion for which Assured Guaranty had previously demanded repurchase. UBS's motion to dismiss the suit filed by the trusts is pending. With respect to the portion of the loans subject to the suits filed by Assured Guaranty and the trusts that were originated by institutions still in existence, UBS is enforcing its indemnity rights against those institutions. At this time, UBS does not expect that it will be required to make payment for the majority of loan repurchase demands at issue in the suit brought by the RMBS trusts for at least the following reasons: (1) we reviewed the origination file and/or servicing records for the loan and concluded that the allegations of breach of representations and warranties are unfounded, or (2) a surviving originator is contractually liable for any breaches of representations and warranties with respect to loans that it originated. UBS has indemnification rights in connection with approximately half of the USD 2 billion in original principal balance of loans at issue in this suit (reflected in the "In litigation" category in the accompanying table). Additionally, in its motion to dismiss the suit filed by the trusts, UBS has asserted that, under governing transaction documents, UBS is not required to repurchase liquidated loans that were the subject of repurchase demands now at issue in this suit.

In April 2012, Freddie Mac filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach of contract and declaratory relief arising from alleged breaches of representations and warranties in connection with certain mortgage loans and UBS RESI's alleged failure to repurchase such mortgage loans. The complaint for this suit was filed in September 2012. Freddie Mac seeks, among other relief, specific performance of UBS RESI's alleged loan repurchase obligations for at least USD 94 million in original principal balance of loans for which Freddie Mac had previously demanded repurchase; no damages are specified.

We also have tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

As reflected in the table below, our balance sheet as of 31 December 2012 included a provision of USD 658 million with respect to matters described in this item 6. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

7. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US cross-border business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, in September 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary

Provision for claims related to sales of residential mortgage-backed securities and mortgages

USD million	31.12.12
Balance at the beginning of the year	104
Increase in provision recognized in the income statement	554
Release of provision recognized in the income statement	0
Provision used in conformity with designated purpose	0
Balance at the end of the year	**658**

Note 23 Provisions and contingent liabilities (continued)

shares made in the US for failure to state a claim. Plaintiffs have appealed the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In March 2012, the court denied plaintiffs' motion for leave to file an amended complaint. On appeal, the Second Circuit upheld the dismissal of all counts relating to one of the retirement plans. With respect to the second retirement plan, the Court upheld the dismissal of some of the counts, and vacated and remanded for further proceedings with regard to the counts alleging that defendants had violated their fiduciary duty to prudently manage the plan's investment options, as well as the claims derivative of that duty.

8. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011 the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. The BMIS Trustee has appealed the District Court's decision. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

9. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2009, the City of Milan filed civil proceedings against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007. In addition, in 2010 a criminal trial began against two current UBS employees and one former employee, together with employees from the three other banks, a former officer of Milan and a former adviser to Milan, for alleged fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. UBS Limited was also the subject (as were the three other banks) of an administrative charge, brought in the context of the criminal trial of the individuals, of failing to have in place a business organizational model to avoid the alleged misconduct by employees. In March 2012, UBS Limited and UBS Italia SIM Spa finalized a civil damages settlement agreement with Milan without any admission of liability. The settlement did not dispose of the ongoing criminal or administrative proceedings, nor did it dispose of a civil consumer group claim lodged in the criminal proceeding. In December 2012 the Milan criminal court found UBS Limited liable for the administrative offense and convicted the three UBS employees (two current and one former) of fraud against a public entity. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and pay-

ment of legal fees. UBS has previously provided for this potential exposure in the amount of EUR 18.5 million. Convictions have also been issued against six employees of the three other international banks, and the banks themselves were also found liable for the administrative offense.

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy and Lazio and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. Florence and Tuscany have also attempted to invoke Italian administrative law remedies which purport to allow a public entity to challenge its own decision to enter into the relevant contracts and avoid their obligations thereunder. In April 2012, UBS AG and UBS Limited settled the existing disputes with the Region of Tuscany without any admission of liability. In January 2013, the Tuscany criminal court dismissed without further consequence a related criminal investigation. In November 2012, UBS reached civil settlements with, respectively, the Regions of Lombardy and Lazio (the latter settlement is conditional upon Lazio making certain amendments to its pleading in ongoing litigation against third parties), again without any admission of liability. An in-principle agreement has also been reached with the City of Florence. Provisions have been booked in respect of these agreed or prospective settlements.

10. HSH Nordbank AG (HSH)

HSH has filed an action against UBS in New York State court relating to USD 500 million of notes acquired by HSH in a synthetic CDO transaction known as North Street Referenced Linked Notes, 2002-4 Limited (NS4). The notes were linked through a credit default swap between the NS4 issuer and UBS to a reference pool of corporate bonds and asset-backed securities. HSH alleges that UBS knowingly misrepresented the risk in the transaction, sold HSH notes with "embedded losses", and improperly profited at HSH's expense by misusing its right to substitute assets in the reference pool within specified parameters. HSH is seeking USD 500 million in compensatory damages plus pre-judgment interest. The case was initially filed in 2008. In March 2012, a New York state appellate court dismissed HSH's fraud claim and affirmed the trial court's dismissal of its negligent misrepresentation claim and punitive damages demand. As a result, the claims remaining in the case were for breach of contract and breach of the implied covenant of good faith and fair dealing. HSH has sought permission to appeal the appellate court's decision to the New York Court of Appeals. In March 2013, the parties settled the litigation. UBS had previously provided for this potential exposure in an amount equal to the settlement amount.

11. Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of Credit Default Swap (CDS) transactions with bank swap counterparties, including UBS. UBS entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (Depfa) and Landesbank Baden-Württemburg (LBBW), in relation to their respective swaps with KWL. Under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 138 million has fallen due from KWL but not been paid. Earlier in 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL. The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS has added its monetary claim to the proceedings. KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited.

In 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW, claiming that the swap transactions are void and not binding on the basis of KWL's allegation that KWL did not have the capacity or the necessary internal authorization to enter into the transactions and that the banks knew this. Upon and as a consequence of KWL withdrawing its appeal on jurisdiction in England, KWL also withdrew its civil claims against UBS and Depfa in the German courts, and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against LBBW are now proceeding before the German courts. The Leipzig court has ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

The back-to-back CDS transactions were terminated in 2010. In 2010, UBS and UBS Limited issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS Limited contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW respectively are defending against the claims and have also issued counterclaims. Additionally Depfa has added a claim against KWL to the proceedings against it and KWL has served a defense.

The former managing director of KWL and two financial advisers were convicted on criminal charges of bribery, and are currently standing trial for related charges of embezzlement, in respect of certain KWL transactions, including swap transactions with UBS and other banks.

In 2011, the SEC commenced an inquiry regarding the KWL transactions and UBS is providing information to the SEC relating to those transactions.

Note 23 Provisions and contingent liabilities (continued)

12. Puerto Rico

In 2011, a purported shareholder derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico (UBS PR) and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs allege that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008. Plaintiffs seek damages of over USD 800 million, which represents plaintiffs' estimate of the difference between the interest rate the System will pay on the bonds prior to their maturity between 2023 and 2058 and the return on the investments the System will make with the proceeds of the bond offerings before the proceeds are used to help the System meet a portion of its obligations to pensioners. UBS is named in connection with its underwriting and consulting services. Defendants, including UBS, have moved to dismiss and are awaiting a decision on that motion. The case is pending in the Commonwealth of Puerto Rico Court of First Instance. UBS is also cooperating with an SEC investigation into the bond offerings. Separately, in late 2012, an SEC administrative hearing on securities law violation charges against two UBS PR executives concluded, with a decision expected in late 2013. The charges stemmed from the SEC's investigation of UBS PR's sale of closed-end funds in 2008 and 2009, which UBS PR settled in April 2012.

13. LIBOR and other benchmark rates

Numerous government agencies, including the SEC, the US Commodity Futures Trading Commission (CFTC), the DOJ, the UK Financial Services Authority (FSA), the UK Serious Fraud Office (SFO), the Monetary Authority of Singapore (MAS), the Hong Kong Monetary Authority (HKMA), FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions are conducting investigations regarding submissions with respect to British Bankers' Association LIBOR (London Interbank Offered Rate) and other benchmark rates. These investigations focus on whether there were improper attempts by UBS (among others), either acting on our own or together with others, to manipulate LIBOR and other benchmark rates at certain times. The UK Parliament is conducting an inquiry into "transparency, conflicts of interest and the culture and professional standards of the financial services industry including the interaction with the criminal law", and a narrower review by the FSA that concerns the LIBOR process is also ongoing.

In December 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS will pay a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, and CHF 59 million in disgorgement to FINMA. Under a non-prosecution agreement (NPA) that UBS entered into with the DOJ, UBS has agreed to pay a fine of USD 500 million. Pursuant to a separate plea agreement between the DOJ and UBS Securities Japan Co. Ltd. (UBSSJ), UBSSJ has entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and the DOJ and UBSSJ have agreed to a sentence to be imposed on UBSSJ that would include a fine of USD 100 million, which is subject to the discretion of the sentencing court. The NPA requires UBS to pay the USD 500 million fine to DOJ within 10 days of the sentencing of UBSSJ, and provides that any criminal penalties imposed on UBSSJ at sentencing, which currently is scheduled for 15 March 2013, will be deducted from the USD 500 million fine. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). We have ongoing obligations to cooperate with authorities with which we have reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. Investigations by other government authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and the Swiss Competition Commission (WEKO), in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for Swiss franc LIBOR and certain transactions related to Swiss franc LIBOR. The Canadian Competition Bureau has granted UBS conditional immunity in connection with potential competition law violations related to submissions for Yen LIBOR. As a result of these conditional grants, we will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where we have conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to our continuing cooperation. However, the conditional leniency and conditional immunity grants we have received do not bar government agencies from asserting other claims and imposing sanctions against us, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, we are eligible for a

Note 23 Provisions and contingent liabilities (continued)

limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to our satisfying the DOJ and the court presiding over the civil litigation of our cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against us.

In 2011, the Japan Financial Services Agency (JFSA) commenced administrative actions and issued orders against UBS Securities Japan Ltd (UBS Securities Japan) and UBS AG, Tokyo Branch in connection with their investigation of Yen LIBOR and Euroyen TIBOR. These actions were based on findings by the Japan Securities and Exchange Surveillance Commission (SESC), and, in the case of UBS AG, Tokyo Branch, the JFSA, that a former UBS Securities Japan trader engaged in inappropriate conduct relating to Euroyen TIBOR and Yen LIBOR, including approaching UBS AG, Tokyo Branch, and other banks to ask them to submit TIBOR rates taking into account requests from the trader for the purpose of benefiting trading positions.

A number of putative class actions and other actions are pending in the federal courts in New York and other jurisdictions against UBS and numerous other banks on behalf of parties who transacted in LIBOR-based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR and EURIBOR. Also pending are actions asserting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. There is a pending motion to dismiss consolidated amended complaints which were filed by certain parties. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR or EURIBOR rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act, federal and state antitrust laws and the federal racketeering statute.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 31 December 2012 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

14. SinoTech Energy Limited

Since 2011, multiple putative class action complaints have been filed and consolidated in federal court in Manhattan, against SinoTech Energy Limited (SinoTech), its officers and directors, its auditor at the time of its initial public offering (IPO), and its underwriters, including UBS. The second amended complaint filed in June 2012 alleges, with respect to the underwriters, that the registration statement and prospectus filed in connection with SinoTech's 2010 USD 168 million IPO of American Depositary Shares, of which UBS underwrote 70%, contained materially misleading statements and omissions, including allegations regarding the authenticity and accuracy of certain asset purchase contracts purportedly entered into between SinoTech and its vendors. Plaintiff asserts violations of the US federal securities laws and seeks unspecified compensatory damages, among other relief. UBS and several other defendants have reached an agreement to settle the lawsuit, which is subject to court approval.

15. Swiss retrocessions

The Zurich High Court decided in January 2012, in a test case, that fees received by a bank for the distribution of financial products issued by third parties should be considered to be "retrocessions" unless they are received by the bank for genuine distribution services. Fees considered to be retrocessions would have to be disclosed to the affected clients and, absent specific client consent, surrendered to them. On appeal, the Swiss Supreme Court ruled in October 2012 that distribution fees paid to UBS for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the bank, absent a valid waiver.

In November 2012, FINMA issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients in the context of the mailing of the year-end account statements.

It is expected that the Supreme Court decision will result in a significant number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests will be assessed on a case-by-case basis. Considerations to be taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

Our balance sheet at 31 December 2012 reflected a provision with respect to matters described in this item 15 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess, particularly in view of the limited experience to date. Hence as in the case of other matters for which we have established provisions, the future outflow of resources in respect of

Note 23 Provisions and contingent liabilities (continued)

such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

16. Unauthorized trading incident

The trial in connection with the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011 concluded on 20 November 2012. The defendant was found guilty on two counts of fraud and not guilty on four counts of false accounting. On 26 November 2012, FINMA and the FSA announced the findings of their joint investigation. They also announced the actions they have taken, and the FSA imposed a fine of GBP 29.7 million on UBS.

In October 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorized trading incident. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. The complaint alleges that UBS misrepresented, through its public statements and financial disclosures, that its risk controls and procedures were effective, and that the falsity of these representations became apparent when UBS disclosed the unauthorized trading incident in September 2011, a disclosure that purportedly caused UBS's stock price to drop 10% in one day. The plaintiff seeks unspecified damages and interest, among other relief. UBS's motion to dismiss the complaint is pending.

17. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately USD 1.1 billion, including interest and penalties. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being or will be challenged in administrative proceedings. In February 2013, the Brazilian tax authority issued a decision that reduced our potential exposure on an assessment relating to deductions taken for goodwill amortization in connection with the 2006 acquisition of Pactual. The remaining assessment, net of this deduction, is being appealed to the next level administrative court. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts.

18. Greater Southwestern Funding

In June 2010, UBS was named as a defendant in a putative class action complaint brought in federal court in Oklahoma relating to its role as underwriter and seller in a bond offering of USD 182 million in zero coupon bonds originally issued in 1984 by Greater Southwestern Funding Corporation (GSF). The complaint alleges that GSF breached its contractual obligation to make payments on the bonds and is liable for the principal and interest due on the bonds, and that UBS is liable for GSF's contract indebtedness under equitable theories, including a corporate "veil-piercing" claim. A class was certified in December 2011. UBS's motion for summary judgment seeking dismissal of all claims against UBS is pending. Trial is scheduled to begin as early as April 2013.

Additional information

Note 24 Income taxes

	For the year ended		
CHF million	**31.12.12**	31.12.11[1]	31.12.10[1]
Tax expense / (benefit) from continuing operations			
Swiss			
Current	**95**	23	(75)
Deferred	**23**	1,041	640
Foreign			
Current	**72**	83	300
Deferred	**271**	(246)	(1,273)
Total income tax expense / (benefit) from continuing operations	**461**	901	(409)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS19R.

The Swiss current tax expense of CHF 95 million relates to taxable profits, against which no losses were available to offset, earned by Swiss subsidiaries and also from the sale of real estate. The Swiss deferred tax expense of CHF 23 million relates to a decrease in recognized deferred tax assets, due to Swiss pre-tax profits earned during the year, offset by Swiss tax relief for the impairment of goodwill.

The foreign net current tax expense of CHF 72 million relates to a tax expense in respect of taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset, partly offset by a tax benefit from the release of provisions in respect of tax positions which were previously uncertain. The foreign deferred tax expense of CHF 271 million mainly reflects a tax expense for the amortization of deferred tax assets, as tax losses were used against taxable profits.

The Group made net corporate income tax payments, including Swiss and foreign taxes, of CHF 261 million, CHF 349 million and CHF 498 million in 2012, 2011, and 2010 respectively.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Swiss tax rate, are as follows:

	For the year ended		
CHF million	**31.12.12**	31.12.11[1]	31.12.10[1]
Operating profit / (loss) from continuing operations before tax	**(1,774)**	5,307	7,345
of which: Swiss	***4,040***	*4,652*	*5,842*
of which: Foreign	***(5,814)***	*654*	*1,503*
Income taxes at Swiss tax rate of 21% for 2012, and 21.5% for 2011 and 2010	**(373)**	1,141	1,579
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss tax rate	**(684)**	98	(60)
Tax effects of losses not recognized	**184**	939	275
Previously unrecorded tax losses now utilized	**(1,342)**	(8)	(1,225)
Non-taxable and lower taxed income	**(417)**	(1,189)	(889)
Non-deductible expenses and additional taxable income	**2,205**	674	1,985
Adjustments related to prior years – current tax	**(216)**	(171)	(261)
Adjustments related to prior years – deferred tax	**1**	17	3
Change in deferred tax valuation allowances	**1,071**	(680)	(1,813)
Adjustments to deferred tax balances arising from changes in tax rates	**7**	42	11
Other items	**25**	39	(14)
Income tax expense / (benefit) from continuing operations	**461**	901	(409)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS19R.

Note 24 Income taxes (continued)

Certain deferred tax asset and liability movements are recognized directly in equity. In 2012 these include tax charges of CHF 581 million recognized in other comprehensive income (2011: CHF 152 million) and CHF 457 million recognized in Share premium (2011: benefit of CHF 280 million), which mainly relate to the lower valuation of deferred tax assets for net Swiss tax losses arising in previous periods. These charges were more than offset by a tax credit of CHF 1,119 million recognized in other comprehensive income related to previous years due to the retrospective adoption of IAS 19R. In addition, there were net foreign currency translation losses related to the effects of exchange rate changes on tax assets and liabilities denominated in currencies other than Swiss francs.

In the table below, the valuation allowance represents amounts that are not expected to provide a future tax benefit due to insufficient projected future taxable profits.

UBS AG Switzerland and certain overseas branches and subsidiaries of the Group have deferred tax assets related to tax loss carry-forwards and other items as shown in the table below. For entities that incurred losses in either the current or preceding year, CHF 3,487 million was recognized as deferred tax assets as of 31 December 2012 (CHF 564 million as of 31 December 2011).

CHF million	31.12.12[1]			31.12.11[2]		
Deferred tax assets	**Gross**	**Valuation allowance**	**Recognized**	Gross	Valuation allowance	Recognized
Compensation and benefits	**1,698**	**(1,047)**	**651**	3,312	(1,995)	1,317
Tax loss carry-forwards	**29,022**	**(23,276)**	**5,746**	27,275	(19,226)	8,049
Trading assets	**1,067**	**(131)**	**936**	880	(813)	67
Other	**1,235**	**(425)**	**809**	1,641	(1,447)	194
Total deferred tax assets	**33,021**	**(24,879)**	**8,143**	33,108	(23,481)	9,627
Deferred tax liabilities						
Goodwill and intangible assets			**17**			37
Trading assets			**5**			1
Property and equipment			**2**			1
Financial investments			**2**			11
Investments in associates and other			**26**			17
Total deferred tax liabilities			**52**			68

1 The deferred tax assets recognized for compensation and benefits, trading assets and other temporary differences increased in the year by CHF 1.8 billion as a result of recognizing deferred tax assets for temporary differences in advance of those on tax losses for locations where there is partial recognition of deferred tax assets. This had no impact on the overall amount of deferred tax assets recognized, as there was a corresponding reduction in the amount of deferred tax assets recognized for tax loss carry-forwards. 2 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS19R.

The deferred tax assets recognized as of 31 December 2012 in respect of tax loss carry-forwards were based on expected profitability using business plan assumptions, as adjusted to take into account the recognition criteria of IAS 12 *Income taxes*. If the business plan earnings and assumptions in future periods substantially deviate from the current assumptions, the amount of deferred tax assets may need to be adjusted in the future.

As of 31 December 2012, tax loss carry-forwards totaling CHF 68,125 million, which are not recognized as deferred tax assets, were available to be offset against future taxable profits. These tax losses expire as follows:

CHF million	**31.12.12**	31.12.11
Within 1 year	**0**	3
From 2 to 5 years	**7,912**	29
From 6 to 10 years	**461**	85
From 11 to 20 years	**43,866**	38,647
No expiry	**15,886**	13,309
Total	**68,125**	52,073

In general, Swiss tax losses can be carried forward for seven years, US federal tax losses for 20 years and UK and Jersey tax losses for an unlimited period.

The Group provides for deferred income tax on undistributed earnings of subsidiaries except to the extent that those earnings are indefinitely invested. As of 31 December 2012, no such earnings were considered indefinitely invested.

Note 25 Derivative instruments and hedge accounting

Derivatives: overview

A derivative is a financial instrument, the value of which is derived from the value of one or more variables ("underlyings"). Underlyings may be indices, exchanges or interest rates, or the value of shares, commodities, bonds, or other financial instruments. A derivative commonly requires little or no initial net investment by either counterparty to the trade.

The majority of derivative contracts are negotiated with respect to notional amounts, tenor, price and settlement mechanisms, as is customary with other financial instruments.

Over-the-counter (OTC) contracts are usually traded under a standardized International Swaps and Derivatives Association (ISDA) master trading agreement (MTA) between UBS and its counterparties. Terms are negotiated directly with counterparties and the contracts will have industry-standard settlement mechanisms prescribed by ISDA. Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on organized exchanges; these are commonly referred to as exchange-traded derivatives (ETD) contracts. Exchanges offer the benefits of pricing transparency, standardized daily settlement of changes in value, and consequently reduced credit risk. During 2012, the industry continued to promote the use of Central Counterparties (CCP) to clear OTC trades. The trend toward CCP clearing and settlement will generally facilitate the reduction of systemic credit exposures.

Derivative instruments are measured at fair value and generally classified as *Positive replacement values* and *Negative replacement values* on the face of the balance sheet. Derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivable or payable on derivative instruments*. They are not classified within replacement values because the change in fair value of these instruments is economically settled each day through the cash payment of variation margin. Products that receive this treatment are futures contracts, 100% daily margined exchange traded options, interest rate swaps and forward rate agreements transacted with the London Clearing House and certain credit derivative contracts.

Additionally, for presentation purposes, the Group is subject to the IFRS netting provisions for derivative contracts, if all the following conditions exist: contracts are with the same legal counterparty; the Group has legally enforceable rights to set off amounts due; the contracts have common maturity dates; and the parties intend to settle net, which may be evidenced by current practice. Changes in the replacement values of derivatives are recorded in net trading income, unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships as described in Note 1a) 15).

Valuation principles and techniques applied in the measurement of derivative instruments are discussed in Note 27a. *Positive replacement values* represent the estimated amount the Group would receive if the derivative contract were settled in full on the balance sheet date. *Negative replacement values* indicate the value at which the Group would extinguish its obligations in respect of the underlying contract, were it required or entitled to do so on the balance sheet date.

Derivatives embedded in other financial instruments are not included in the table "Derivative instruments" within this Note. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract. In case where UBS applies the fair value option to hybrid instruments, bifurcation of an embedded derivative component is not required and as such, also not included in the table "Derivative instruments". Refer to "Note 13 Financial asset designated at fair value" and "Note 20 Financial liabilities designated at fair value" for more information.

Types of derivative instruments

The Group uses the following derivative financial instruments for both trading and hedging purposes. Through the use of the products listed below, the Group is engaged in extensive high volume market-making and client facilitation trading referred to as the flow business. Measurement techniques applied to determine the fair value of each product type are described in Note 27c.

The main types of derivative instruments used by the Group are:

- Options and warrants: options and warrants are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option), or to sell (put option) at, or before, a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded in the OTC market, or on a regulated exchange, and may be traded in the form of a security (warrant).
- Swaps: Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.
- Forwards and futures: Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardized contracts transacted on regulated exchanges.
- Cross-currency swaps: Cross-currency swaps involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start or end of the contract. Most cross-currency swaps are traded in the OTC market.

The main products and underlyings, that the Group uses are:

- Interest rate contracts: Interest rate products include interest rate swaps, forward rate agreements, swaptions and caps and floors.
- Credit derivatives: Credit default swaps (CDSs) are the most common form of a credit derivative, under which the party

Note 25 Derivative instruments and hedge accounting (continued)

buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following the occurrence of a contractually defined credit event with respect to a specified third-party credit entity. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity, and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is generally terminated. More information on credit derivatives is included in a separate section below.

- Total return swaps (TRSs): TRSs are employed in both the Investment Bank's fixed income and equity trading businesses with underlyings which are generally equity or fixed income indices, loans or bonds. TRSs are structured with one party making payments based on a set rate, either fixed or variable, plus any negative changes in fair value of an underlying asset, and the other party making payments based on the return of the asset, which includes both income it generates and any positive changes in its fair value.
- Foreign exchange contracts: Foreign exchange contracts will include spot, forward and cross-currency swaps and options and warrants. Forward purchase and sale currency contracts are typically executed to meet client needs and for trading and hedging purposes.
- Equity/Index contracts: The Group uses equity derivatives linked to single names, indices and baskets of single names and indices. The indices used may be based on a standard market index, or may be defined by UBS. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.
- Commodities contracts: The Group has an established commodity derivatives trading business, which includes the commodity index, the structured business and the flow business. The index and structured business are client facilitation businesses trading exchange traded funds, OTC swaps and options on commodity indices. The underlying indices cover third party and UBS defined indices such as the UBS Bloomberg Constant Maturity Commodity Index and the Dow Jones UBS Commodity indices. The flow business is investor led and incorporates both ETD and vanilla OTC products, for which the underlying covers the agriculture, base metals and energy sectors. All of the flow trading is cash settled with no physical delivery of the underlying.
- Precious metals: The Group has an established precious metals ability in both flow and non-vanilla OTC products incorporating both physical and non-physical trading. The flow business is investor led and products include ETD, vanilla OTCs and certain non-vanilla OTCs. The vanilla OTCs are in forwards, swaps and options. The non-vanilla OTC business relates to cash-settled forwards similar in nature to non-deliverable forwards, meaning there is no physical delivery of the underlying.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is predominantly managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in the audited portions of the "Market risk" section of this report.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in the audited portions of the "Credit risk" section of this report. It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Group's credit exposure, the positive replacement values for a counterparty are rarely an adequate reflection of the Group's credit exposure in its derivatives business with that counterparty. This is, for example, because on one hand, replacement values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with other counterparties. Both the exposure measures used by the Group internally to control credit risk and the capital requirements imposed by regulators reflect these additional factors.

The replacement values presented on UBS's balance sheet include netting in accordance with IFRS requirements (refer to Note 1a) 35), which is more restrictive than netting in accordance with Swiss Federal Banking law. Swiss Federal Banking law netting is generally based on close-out netting arrangements that are enforceable in case of insolvency. The positive and negative replacement values based on netting in accordance with Swiss Federal Banking law (factoring in cash collateral) are presented on the bottom of the table on the next pages.

The notional amount of a derivative is generally the quantity of the underlying instrument on which the derivative contract is based and is the reference against which changes in the value of the derivative are measured. Notional values, in themselves, are generally not a direct indication of the values which are exchanged between parties, and are therefore not a direct measure of risk or financial exposure, but are viewed as an indication of the scale of the different types of derivatives entered into by the Group.

Note 25 Derivative instruments and hedge accounting (continued)

Derivative instruments[1]

CHF billion	31.12.12 Total PRV[2]	31.12.12 Notional values related to PRVs[3]	31.12.12 Total NRV[4]	31.12.12 Notional values related to NRVs[3]	31.12.12 Other notional values[3, 5]	31.12.11 Total PRV[2]	31.12.11 Notional values related to PRVs[3]	31.12.11 Total NRV[4]	31.12.11 Notional values related to NRVs[3]	31.12.11 Other notional values[3, 5]
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts[6]	0.8	481.0	0.8	443.8	1,329.6	2.0	1,610.0	2.3	1,637.4	0.0
Swaps[7]	223.3	3,933.5	196.1	3,789.2	14,276.3	247.3	5,264.5	226.1	5,162.2	18,568.1
Options	43.6	1,210.5	44.6	1,200.2	0.0	46.7	1,173.2	48.0	1,185.2	0.0
Exchange-traded contracts[8]										
Futures					759.0					924.3
Options	0.0	3.0	0.0	0.0	725.5	0.0	124.0	0.0	127.8	526.2
Agency transactions[9]	0.0		0.0			0.1		0.1		
Total	267.8	5,628.0	241.5	5,433.2	17,090.4	296.1	8,171.7	276.4	8,112.6	20,018.6
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	36.3	1,090.8	33.9	1,043.3	238.9	66.6	1,292.2	62.9	1,238.0	172.4
Total rate of return swaps	0.4	2.4	0.4	3.3	0.0	0.6	2.4	0.5	2.0	0.0
Options and warrants	0.0	3.1	0.0	0.5	0.0	0.1	3.6	0.1	4.6	0.0
Total	36.7	1,096.3	34.3	1,047.1	238.9	67.3	1,298.1	63.5	1,244.6	172.4
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	11.6	690.3	12.4	689.6	0.0	15.7	648.3	14.9	610.5	0.0
Interest and currency swaps	76.9	2,382.0	80.9	2,193.2	0.0	75.7	2,177.4	85.5	2,165.5	0.0
Options	5.1	395.1	5.2	329.3	0.0	5.8	367.8	5.8	346.4	0.0
Exchange-traded contracts										
Futures					13.8					12.2
Options	0.0	0.6	0.0	0.6	0.0	0.0	0.1	0.0	0.6	0.0
Agency transactions[9]	0.0		0.0			0.0		0.0		
Total	93.5	3,467.9	98.5	3,212.7	13.8	97.2	3 193.7	106.3	3,123.0	12.2
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forward contracts	2.7	41.7	3.3	47.0	0.0	2.8	38.3	3.0	39.0	0.0
Options	8.4	84.8	7.4	98.3	0.0	8.7	69.0	8.9	86.9	0.0
Exchange-traded contracts[8]										
Futures					16.6					10.6
Options	2.4	94.9	3.3	106.8	17.7	3.3	84.6	3.7	85.2	4.1
Agency transactions[9]	2.4		2.4			3.9		4.2		
Total	15.9	221.4	16.4	252.1	34.3	18.8	191.8	19.8	211.1	14.7

Table continues on the next page.

Note 25 Derivative instruments and hedge accounting (continued)

Derivative instruments[1] (continued)

Table continued from previous page.

	31.12.12					31.12.11				
CHF billion	Total PRV[2]	Notional values related to PRVs[3]	Total NRV[4]	Notional values related to NRVs[3]	Other notional values[3, 5]	Total PRV[2]	Notional values related to PRVs[3]	Total NRV[4]	Notional values related to NRVs[3]	Other notional values[3, 5]
Commodities contracts										
Over-the-counter (OTC) contracts										
Forward contracts	1.4	22.9	1.4	21.8	0.0	2.8	29.9	2.3	21.4	0.0
Options	1.0	35.2	1.2	41.7	0.0	1.6	30.4	2.1	28.1	0.0
Exchange-traded contracts[8]										
Futures					14.4					17.1
Forward contracts	0.4	23.3	0.4	21.2	0.0	0.1	36.7	0.2	35.0	0.0
Options	0.1	6.4	0.1	7.0	1.2	0.0	4.4	0.0	6.3	0.6
Agency transactions[9]	0.9		0.9			2.3		2.4		
Total	3.8	87.9	4.0	91.7	15.6	6.9	101.3	7.0	90.9	17.7
Unsettled purchases of non-derivative financial assets[10]	0.2	20.4	0.1	8.7	0.0	0.2	39.8	0.2	10.7	0.0
Unsettled sales of non-derivative financial assets[10]	0.1	8.9	0.2	19.0	0.0	0.1	17.9	0.2	30.2	0.0
Total derivative instruments, based on IFRS netting	418.0	10,530.9	395.1	10,064.4	17,392.9	486.6	13,014.3	473.4	12,823.1	20,235.6
Replacement value netting, based on capital adequacy rules	(327.3)		(327.3)			(383.3)		(383.3)		
Cash collateral netting, based on capital adequacy rules	(49.4)		(17.4)			(45.6)		(28.0)		
Total derivative instruments, based on capital adequacy netting[11]	41.3		50.4			57.7		62.1		

1 Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from the table; these derivatives amount to a PRV of CHF 0.4 billion (2011: CHF 1.1 billion) (related notional values of CHF 3.9 billion [2011: CHF 24.8 billion]) and an NRV of CHF 0.2 billion (2011: CHF 0.2 billion) (related notional values of CHF 13.6 billion [2011: CHF 9.3 billion]). 2 PRV: Positive replacement value. 3 In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. 4 NRV: Negative replacement value. 5 Receivables resulting from these derivatives are recognized on our balance sheet under Cash collateral receivables on derivative instruments totaling CHF 3.3 billion (2011: CHF 2.4 billion). Payables resulting from these derivatives are recognized on our balance sheet under Cash collateral payables on derivative instruments totaling CHF 4.0 billion (2011: CHF 2.7 billion). 6 Negative replacement values as of 31 December 2012 include CHF 0.1 billion related to derivative loan commitments (31 December 2011: 0.2 billion). No notional amounts related to these replacement values are included the table. The maximum irrevocable amount related to these commitments was CHF 6.3 billion as of 31 December 2012 (31 December 2011: CHF 6.1 billion). 7 In 2012, we corrected the allocation of notional values for 31 December 2011. Notional values related to positive replacement values for interest rate contracts (OTC swaps) were reduced by CHF 1,397 billion. Notional values related to negative replacement values for interest rate contracts (OTC swaps) were reduced by CHF 1,399 billion. Correspondingly, Other notional values were increased by CHF 2,796 billion. 8 In 2012, the presentation of notional values of exchange traded daily-margined options was changed. Notional values related to these instruments are now reported on the disclosure line options. Previously, notional values related to these instruments were reported on the disclosure line futures. The comparative period was restated for this change. As a result, other notional values for exchange traded interest rate contracts – options for 31 December 2011 were changed from CHF 0.0 billion to CHF 526.2 billion, with a corresponding decline to other notional values for exchange traded interest rate contracts – futures. Similarly, other notional values for exchange traded equity/index contracts – options for 31 December 2011 were changed from CHF 0.0 billion to CHF 4.1 billion, with a corresponding decline to other notional values for exchange traded equity index contracts – futures. Lastly, other notional values for exchange traded commodities contracts – options for 31 December 2011 were changed from CHF 0.0 billion to CHF 0.6 billion, with a corresponding decline to other notional values for exchange traded commodities contracts – futures. 9 Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile. 10 Changes in the fair value of purchased and sold non-derivative financial assets between trade date and settlement date are recognized as replacement values. 11 Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking law.

The maturity profile of OTC interest rate contracts held as of 31 December 2012, based on notional values, is as follows: approximately 37% (2011: 42%, 2010: 45%) mature within one year, 38% (2011: 35%, 2010: 33%) within 1 to 5 years and 25% (2011: 23%, 2010: 22%) over 5 years. Notional values of interest rate contracts cleared with The London Clearing House are presented under "other notional values" and are categorized into maturity buckets on the basis of contractual maturities of the cleared underlying derivative contracts.

Derivatives transacted for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify, or reduce, current or expected risks. Trading activities include market making to directly support the facilitation and execution of client activity. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume.

Credit derivatives

UBS is an active dealer in the fixed income market, including CDSs and related products, with respect to a large number of issuers' securities. The primary purpose of these activities is for the benefit of UBS's clients through market making activities and for the ongoing hedging of trading book exposures.

Market making activity consists of buying and selling single-name CDSs, index CDSs, loan CDSs and related referenced cash instruments to facilitate client trading activity. UBS also actively

Note 25 Derivative instruments and hedge accounting (continued)

utilizes CDSs to economically hedge specific counterparty credit risks in its accrual loan portfolio and off-balance sheet loan portfolio (including loan commitments) with the aim of reducing concentrations in individual names, sectors or specific portfolios.

➔ **Refer to "Note 13 Financial assets designated at fair value"**
➔ **Refer to "Note 20 Financial liabilities designated at fair value"**
➔ **Refer to "Note 29c Maximum exposure to credit risk"**

In addition, UBS actively utilizes CDSs to economically hedge specific counterparty credit risks in its OTC derivative portfolios including financial instruments which are designated at fair value through profit or loss. During the fourth quarter of 2012, UBS announced an Investment Bank strategy change which resulted in a focus on certain types of client facilitation business and resulted in reduced market making activity. As a result, CDS activity became increasingly used for economic hedging purposes.

The tables below provide further details on credit protection bought and sold, including replacement and notional value information by instrument type and counterparty type. The value of protection bought and sold is not, in isolation, a measure of UBS's credit risk. Counterparty relationships are viewed in terms of the total outstanding credit risk, which relates to other instruments in addition to CDSs, and in connection with collateral arrangements in place. On a notional value basis, credit protection bought and sold as of 31 December 2012 matures in a range of approximately 22% (2011: 18%) within one year, approximately 69% (2011: 69%) within 1 to 5 years and approximately 8% (2011: 13%) after 5 years.

Credit derivatives – by type of instrument

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Single name credit default swaps	**14.7**	**11.0**	**813.8**	**11.1**	**13.1**	**781.7**
Multi-name index linked credit default swaps	**6.1**	**1.5**	**376.7**	**2.7**	**6.0**	**369.4**
Multi-name other credit default swaps	**0.8**	**1.2**	**17.7**	**1.0**	**1.2**	**13.7**
Total rate of return swaps	**0.4**	**0.3**	**4.2**	**0.0**	**0.1**	**1.5**
Options and warrants	**0.0**	**0.0**	**3.1**	**0.0**	**0.0**	**0.5**
Total 31 December 2012	**21.9**	**13.9**	**1,215.5**	**14.8**	**20.4**	**1,166.7**
of which: credit derivatives related to economic hedges	*21.8*	*13.4*	*1,166.4*	*14.3*	*20.3*	*1,117.3*
of which: credit derivatives related to market making	*0.1*	*0.5*	*48.9*	*0.5*	*0.1*	*49.4*
Total 31 December 2011	63.2	2.9	1,392.6	4.0	60.5	1,322.5

Credit derivatives by counterparty

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Broker-dealers	**5.1**	**3.0**	**255.4**	**3.1**	**5.5**	**254.7**
Banks	**12.8**	**10.1**	**752.3**	**10.8**	**13.8**	**741.3**
Central clearing counterparties	**0.0**	**0.0**	**132.6**	**0.0**	**0.0**	**106.3**
Other	**4.0**	**0.8**	**75.2**	**0.8**	**1.1**	**64.5**
Total 31 December 2012	**21.9**	**13.9**	**1,215.5**	**14.8**	**20.4**	**1,166.7**
Total 31 December 2011	63.2	2.9	1,392.6	4.0	60.5	1,322.5

Note 25 Derivative instruments and hedge accounting (continued)

UBS's credit derivatives are usually traded as OTC contracts. Since 2009, in line with the broader derivatives industry, a number of initiatives have been launched in both the US and Europe to establish CCP solutions for OTC CDS contracts with the aim of reducing counterparty risk. UBS, along with other dealer members, has continued to participate in these initiatives during 2012.

A significant portion of UBS's credit derivatives are traded under an ISDA MTA between UBS and its counterparty. UBS's CDS trades are also documented using industry standard forms of documentation published by ISDA or equivalent terms documented in a bespoke (i.e. tailored) agreement. Those forms and agreements use standardized terms that form the basis for market conventions related to the types of credit events that would trigger performance (i.e. payment default, bankruptcy, etc. – see below) under a CDS. Those agreements and forms do not contain recourse provisions that would enable UBS to recover from third parties any amounts paid out by UBS (i.e. this is the case where a credit event occurs and UBS is required to make payment under a CDS).

The types of credit events that would require UBS to perform under a CDS contract are subject to agreement between the parties at the time of the transaction. However, nearly all transactions are traded using credit events that are applicable under certain market conventions based on the type of reference entity to which the transaction relates. Applicable credit events by market conventions include "bankruptcy", "failure to pay", "restructuring", "obligation acceleration" and "repudiation/moratorium".

Contingent collateral features of derivative liabilities

Certain derivative payables contain contingent collateral or termination features triggered upon a downgrade of the published credit rating of the Group in the normal course of business. Based on UBS's credit ratings as of 31 December 2012, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately CHF 2.9 billion, CHF 5.8 billion and CHF 6.0 billion would have been required in the event of a one-notch, two-notch and three-notch reduction, respectively, in UBS's long-term credit ratings, and a corresponding reduction in short-term ratings. In evaluating UBS's liquidity requirements, UBS considers additional collateral or termination payments that would be required in the event of a reduction in UBS's long-term credit ratings, and a corresponding reduction in short-term ratings.

Derivatives transacted for hedging purposes

Derivatives used for structural hedging

The Group enters into derivative transactions for the purposes of hedging risks inherent in assets, liabilities and forecast transactions. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies as such for accounting purposes.

Derivative transactions that qualify and are designated as hedges for accounting purposes are described under the corresponding headings in this note (fair value hedges, cash flow hedges and hedges of net investments in foreign operations). The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1a) 15), under which terms used in the following sections are explained.

The Group has also entered into various hedging strategies utilizing derivatives for which hedge accounting has not been applied. These include interest rate swaps and other interest rate derivatives (e.g. futures) for day-to-day economic interest rate risk management purposes. In addition, the Group has used equity futures, options and, to a lesser extent, swaps for economic hedging in a variety of equity trading strategies to offset underlying equity and equity volatility exposure. The Group has also entered into CDSs that provide economic hedges for credit risk exposures (refer to the credit derivatives section). Fair value changes of derivatives that are part of economic relationships, but do not qualify for hedge accounting treatment, are reported in Net trading income, except for forward points on short duration foreign exchange contracts which are reported in Net interest income.

Fair value hedges: interest rate risk related to debt issued

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments (e.g. long-term fixed-rate debt issued) due to movements in market interest rates. The fair values of outstanding interest rate derivatives designated as fair value hedges were assets of CHF 3,028 million as of 31 December 2012 and assets of CHF 2,422 million and liabilities of CHF 16 million as of 31 December 2011.

Fair value hedges of interest rate risk related to debt issued

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Gains/(losses) on hedging instruments	**537**	1,203	402
Gains/(losses) on hedged items attributable to the hedged risk	**(581)**	(1,172)	(383)
Net gains/(losses) representing ineffective portions of fair value hedges	**(44)**	31	19

Note 25 Derivative instruments and hedge accounting (continued)

Fair value hedges: portfolio interest rate risk related to loans

The Group also applies fair value hedge accounting to mortgage loan portfolio interest rate risk. The change in fair value of the hedged items is recorded separately from the hedged item and is included in Other assets on the balance sheet. The fair value of outstanding interest rate derivatives designated for these hedges as of 31 December 2012 were assets of CHF 1 million and liabilities of CHF 1,208 million (31 December 2011: liabilities of CHF 1,389 million).

Fair value hedge of portfolio of interest rate risk related to loans

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Gains / (losses) on hedging instruments	**139**	(461)	35
Gains / (losses) on hedged items attributable to the hedged risk	**(159)**	452	(60)
Net gains / (losses) representing ineffective portions of fair value hedges	**(20)**	(9)	(25)

Cash flow hedges of forecasted transactions

The Group is exposed to variability in future interest cash flows on non-trading financial assets, and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, the maximum maturity of which is 16 years. The table below shows forecasted principal balances on which expected interest cash flows arise as of 31 December 2012. Amounts shown in the table below represent, by time bucket, average assets and liabilities subject to forecasted cash flows designated as hedged items in cash flow hedge accounting relationships.

As of 31 December 2012, the fair values of outstanding derivatives designated as cash flow hedges of forecasted transactions were CHF 7,764 million assets and CHF 3,046 million liabilities and as of 31 December 2011 the amounts were CHF 7,450 million assets and CHF 3,583 million liabilities. In 2012, a gain of CHF 158 million was recognized in Net trading income due to hedge ineffectiveness, compared with losses of CHF 38 million and CHF 22 million in 2011 and 2010, respectively.

At the end of 2012 and 2011, gains of CHF 3 million and CHF 7 million associated with de-designated interest rate swaps were deferred in OCI. They will be removed from OCI when the previously hedged forecasted cash flows affect net profit or loss, or when the forecasted cash flows are no longer expected to occur. Amounts reclassified from OCI to Net interest income relating to de-designated swaps was a CHF 4 million net gain in 2012, a CHF 11 million net gain in 2011 and a CHF 28 million net gain in 2010.

Principal balances subject to cash flow forecasts

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Assets	80	173	54	28	2
Liabilities	26	62	14	6	0
Net balance	**54**	**111**	**41**	**22**	**2**

Note 25 Derivative instruments and hedge accounting (continued)

Hedges of net investments in foreign operations

With effect from fourth quarter 2011, the Group started to apply hedge accounting for certain net investments in foreign operations. As of 31 December 2012, the positive replacement values and negative replacement values of FX derivatives (mainly FX swaps) designated as hedging instruments in net investment hedge accounting relationships were CHF 103 million and CHF 45 million, respectively (31 December 2011: positive replacement values of CHF 10 million and negative replacement values of CHF 40 million). As of 31 December 2012, the underlying hedged structural exposures in several currencies amounted to CHF 4.8 billion (31 December 2011: CHF 4.8 billion). Hedges of structural FX exposures in currencies other than USD may be comprised of two jointly designated derivatives as the foreign currency risk may be hedged against USD first and then converted into Swiss francs, the presentation currency of the Group, as part of a separate FX derivative transaction. The aggregated notional amount of designated hedging derivatives as of 31 December 2012 was CHF 9.2 billion in total (31 December 2011: CHF 9.6 billion) including CHF 4.8 billion notional values related to USD versus CHF swaps and CHF 4.4 billion notional values related to derivatives hedging foreign currencies (other than USD) versus the USD. The effective portion of gains and losses of these FX swaps is transferred directly to OCI to offset foreign currency translation (FCT) gains and losses on the net investments in foreign branches and subsidiaries. As such, these FX swaps hedge the structural FX exposure resulting in the accumulation of FCT on the level of individual foreign branches and subsidiaries and hence on the total FCT OCI of the Group.

Also with effect from the fourth quarter 2011, UBS began to designate certain non-derivative foreign currency financial assets and liabilities of foreign branches or subsidiaries as hedging instruments in net investment hedge accounting arrangements. The FX translation difference recorded in FCT OCI of the non-derivative hedging instrument of one foreign entity offsets the structural FX exposure of another foreign entity. Therefore, the aggregated FCT OCI of the Group is unchanged from this hedge designation. As of 31 December 2012, the nominal amount of non-derivative financial assets and liabilities designated as hedging instruments in such net investment hedges was CHF 16.1 billion and CHF 16.1 billion, respectively (31 December 2011: CHF 16.9 billion non-derivative financial assets and CHF 16.9 billion non-derivative financial liabilities). No material ineffectiveness of hedges of net investments in foreign operations was recognized in the income statement in 2012 and 2011.

Undiscounted cash flows

The table below provides undiscounted cash flows of all derivative instruments designated in hedge accounting relationships. Interest rate swap cash flows include cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS as of 31 December 2012.

Derivatives designated in hedge accounting relationships (undiscounted cash flows)

CHF billion	On demand	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Interest rate swaps							
Cash inflows		0	0	3	10	3	17
Cash outflows		0	0	2	6	3	11
FX swaps / forwards							
Cash inflows		9					9
Cash outflows		9					9
Net cash flows	**0**	**0**	**0**	**1**	**4**	**0**	**6**

Note 26 Operating lease commitments

As of 31 December 2012, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions, as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options, nor do they impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The minimum commitments for non-cancellable leases of premises and equipment are presented as follows:

CHF million	**31.12.12**
Expenses for operating leases to be recognized in:	
2013	**808**
2014	**744**
2015	**664**
2016	**546**
2017	**539**
2018 and thereafter	**2,409**
Subtotal commitments for minimum payments under operating leases	**5,710**
Less: Sublease rental commitments under non-cancellable leases	**432**
Net commitments for minimum payments under operating leases	**5,278**

CHF million	**31.12.12**	31.12.11	31.12.10
Gross operating lease expense recognized in the income statement	**860**	837	1,057
Sublease rental income	**87**	84	97
Net operating lease expense recognized in the income statement	**773**	754	960

Note 27 Fair value of financial instruments

a) Valuation principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as held for trading or designated at fair value through profit or loss, and financial assets classified as available-for-sale are recognized in the financial statements at fair value. All derivatives are measured at fair value.

Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Fair value of a financial asset or financial liability in an active market is the current bid or offer price times the number of units of the instrument held. Where a trading portfolio contains both financial assets and financial liabilities with offsetting market risks, fair value is estimated by valuing the gross long and short positions at current mid-market prices, with an adjustment at the portfolio level to the net open long or short position to amend the valuation to bid or offer as appropriate.

Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. Valuation techniques and models involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique or model, but are nevertheless a component of the market pricing for such products. Based on the established fair value and model governance policies and related controls and procedures applied, management believes that these valuation adjustments are a necessary and appropriate component of the valuation for financial instruments carried at fair value on the balance sheet.

When entering into a transaction where model inputs are not market observable, the financial instrument is initially recognized at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. Refer to "Note 27d Deferred day 1 profit or loss" for more information. The timing of the recognition in profit and loss of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data become observable.

Valuation techniques and pricing models

UBS uses widely recognized valuation techniques for determining fair values of less complex financial instruments. The most frequently applied valuation techniques and pricing models include discounted cash flow, relative value and option pricing models. Discounted cash flow models determine the value by estimating the expected future cash flows from assets or liabilities discounted to their present value. Relative value models determine the value based on the market prices of similar assets or liabilities. Option pricing models use probability-based techniques that include binomial and Monte Carlo pricing. For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from consensus pricing services. UBS also uses internally developed models, which are typically based on valuation methods and techniques generally recognized as standard within the industry.

Valuation models are used primarily to value derivatives transacted in the over-the-counter (OTC) market, unlisted equity and debt securities (including those with embedded derivatives), and other fair valued debt instruments for which markets were not active. Market-observable assumptions and inputs are used where available, and derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. Little, if any, weight is placed on transaction prices when calculating the fair value where the transactions are not orderly (i.e., distressed or forced). For positions where observable inputs are not available for some or all parameters, UBS determines these non-market-observable inputs to be used in its valuation models based on a combination of historical experience, derivation of parameter levels based upon similar products with observable price levels and knowledge of current market conditions and modeling approaches. Assumptions and inputs used in valuation techniques and models include benchmark interest rate curves, credit spreads and other premiums used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation.

The output of a model is always an estimate or approximation of a value that cannot be estimated with certainty. As a result, valuations are adjusted, where appropriate, to reflect close-out costs, credit exposure, model-driven-valuation adjustments, trading restrictions and other factors when such factors would be considered by market participants.

Interest rate curves

UBS uses various market-derived interest rate curves for valuing its financial instruments. The curves used for discounting cash flows in the valuation of the collateralized derivatives reflect the funding terms associated with the relevant collateral arrangement for the instrument in question. Financial liabilities designated at fair value are measured using UBS's funds transfer price curve. Financial assets designated at fair value are valued consistent with the curve used for the particular product. Uncollateralized credit exposure is evaluated under our credit risk control framework. For the valuation of uncollateralized derivative instruments, UBS generally employs a LIBOR flat curve.

Note 27 Fair value of financial instruments (continued)

Counterparty credit risk in the valuation of OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments

In order to estimate fair value, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments. This amount represents the estimated market value of protection required to hedge counterparty credit risk from counterparties in UBS's OTC derivatives portfolio, derivatives embedded in funded assets designated at fair value and in traded debt instruments. CVA depends on expected future exposures, default probabilities and recovery rates, and also takes into consideration collateral or netting arrangements, break clauses and other contractual factors.

UBS's own credit risk in the valuations of OTC derivative instruments

The Group estimates debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, predominately to align it with the CVA methodology as described in the preceding section. DVA represents the theoretical cost to counterparties of hedging their UBS credit risk exposure or the credit risk reserve that a counterparty could reasonably be expected to hold against their credit risk exposure to UBS. DVA takes into account collateral, netting agreements, expected future mark-to-market movements, and UBS's credit default spreads to determine the exposure from the perspective of the counterparty.

As of 31 December 2012 and 2011, respectively, CVA and DVA for derivative financial instruments (replacement values) were as follows:

CVA and DVA for derivative financial instruments

CHF billion	**31.12.12**	31.12.11
DVA		
Gain / (loss) for the year ended	**(0.4)**	0.2
Life-to-date gain / (loss)	**0.4**	0.8
CVA[1]		
Gain / (loss) for the year ended[2]	**1.1**	(0.8)
of which: Monoline credit protection – negative basis trades	***0.2***	*(0.3)*
of which: Monoline credit protection – other	***0.1***	*(0.1)*
of which: Other instruments	***0.8***	*(0.4)*
Life-to-date gain / (loss)	**(0.9)**	(2.9)
of which: Monoline credit protection – negative basis trades	***(0.3)***	*(1.3)*
of which: Monoline credit protection – other	***(0.1)***	*(0.2)*
of which: Other instruments	***(0.6)***	*(1.4)*

1 Amounts do not include reserves against defaulted counterparties. 2 Amounts do not include commutations.

Note 27 Fair value of financial instruments (continued)

UBS's own credit risk in the valuations of financial liabilities designated at fair value

The Group's own credit risk is reflected in the valuation of those financial liabilities designated at fair value, if the Group's own credit risk would be considered by market participants. Own credit effects are not reflected in the valuations of fully collateralized transactions and other instruments for which it is established market practice not to include them.

Own credit changes are calculated based on a funds transfer price (FTP) curve, which the Group uses to derive a single, market-based level of discounting for uncollateralized funded instruments. UBS senior debt curve spreads are discounted in order to arrive at the FTP curve, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS paper and the levels at which UBS medium-term notes (MTNs) are currently issued. The FTP curve is used by UBS to value uncollateralized funding transactions designated at fair value and is considered to be representative of UBS credit risk, reflecting the premium that market participants require to purchase UBS MTNs.

The effects of own credit adjustments related to *Financial liabilities designated at fair value* (predominantly issued structured products) as of 31 December 2012 and 2011, respectively, are summarized in the table below.

Own credit on financial liabilities designated at fair value

	As of or for the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Gain / (loss) for the year ended	**(2,202)**	1,537	(548)
of which: credit spread related only	***(2,338)***	*1,526*	*(471)*
Life-to-date gain / (loss)	**(292)**	1,934	237

Year-to-date amounts represent the change during the year and life-to-date amounts reflect the cumulative change since initial recognition. The change in own credit for the period can be analyzed in two components: (1) changes in fair value that are attributable to the change in UBS's credit spreads during the period, and (2) the effect of volume changes, which is the change in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay, changes in interest rates and changes in the value of referenced instruments issued by third parties. Own credit amounts are also impacted by foreign currency movements.

During 2012, we improved our own credit calculation methodology through system changes that enabled us to produce a more refined estimate of the impact of changes in our credit curve spread since issuance. The improved methodology compares the current valuation of the instrument using current market data with the valuation using the same current market data but the trade date FTP curve, either on a risk based or full revaluation basis. Previously, the current impact of the full FTP spread over LIBOR was compared with the unamortized impact of the full FTP spread at trade date. This methodology change resulted in an own credit gain on financial liabilities designated at fair value of CHF 217 million. Valuation methodologies and systems used across the market to estimate the own credit effects for both derivatives and financial liabilities designated at fair value continue to evolve. As such, we expect further enhancements to our own credit calculation going forward.

As of 31 December 2012, a 1 basis point increase in the UBS credit spread over LIBOR is expected to result in an own credit gain of approximately CHF 15.6 million.

Reflection of market liquidity risk in fair value estimates

Fair value estimates incorporate the effects of market liquidity risk in the relevant markets. Market liquidity risk is the risk that a loss is incurred in neutralizing the exposure to a position or of a portfolio by either liquidating the position or portfolio or establishing an offsetting market risk position. A liquidity adjustment is therefore made to provide for the expected cost of covering open market risk exposure within a portfolio or position. Liquidity adjustments are bid/offer adjustments taken where a net open risk position is retained and the model on which it is valued is calibrated to mid market. Valuations based on models incorporate liquidity or risk premiums either implicitly (e.g., by calibrating to market prices that incorporate such premiums) or explicitly.

Reflection of model uncertainty in fair value estimates

Uncertainties associated with the use of model-based valuations are incorporated into the estimate of fair value through the use of model reserves. These reserves reflect the amounts that UBS estimates are appropriate to deduct from the valuations produced directly by the models to reflect uncertainties in the relevant modeling assumptions, inputs used, calibration of the output, or choice of model. In arriving at these estimates, UBS considers a range of market practices and how it believes other market par-

Note 27 Fair value of financial instruments (continued)

ticipants would assess these uncertainties. Model reserves are periodically reassessed in light of information from market transactions, consensus pricing services, and other relevant sources.

Valuation processes

UBS's fair value and model governance structure includes numerous controls and procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products must be reviewed and approved by all stakeholders relevant to risk and financial control. Responsibility for the ongoing measurement of financial instruments at fair value resides with the business, but is independently validated by risk and financial control functions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market information and to provide justification and rationale for their fair value estimates. Independent price verification of financial instruments measured at fair value is undertaken by the product control function, which is independent from the businesses. The objective of the independent-price-verification process is to independently corroborate the business's estimates of fair value against available market information. By benchmarking the business's fair value estimates with observable market prices or other independent sources, the degree of valuation uncertainty embedded in these measurements can be assessed and managed as required in the governance framework. A critical aspect of the independent-price-verification process is the evaluation of the accuracy of modeling approaches and input assumptions which yield fair value estimates derived from valuation models. The output of modeling approaches is compared to observed prices and market levels for the specific instrument being priced if possible and appropriate. This calibration analysis is performed to assess the ability of the model and its inputs (which are frequently based upon a combination of price levels of observable hedge instruments and difficult to observe parameters) to price a specific product in its own specific market. An independent model review group evaluates UBS's valuation models on a regular basis or if specific triggers occur and approves them for valuing specific products. As a result of the valuation controls employed, valuation adjustments may be made to the business's estimate of fair value to either align with independent market information or financial accounting standards.

Note 27 Fair value of financial instruments (continued)

b) Fair value hierarchy

All financial instruments at fair value are categorized into one of three fair value hierarchy levels at year-end, based upon the lowest level input that is significant to the product's fair value measurement in its entirety:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
- Level 3 – valuation techniques which include significant inputs that are not based on observable market data.

Determination of fair values from quoted market prices or valuation techniques[1]

	31.12.12				31.12.11			
CHF billion	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading[2]	91.3	46.8	5.7	143.8	99.4	55.7	7.8	162.8
of which: assets pledged as collateral which may be sold or repledged by counterparties	*38.7*	*5.8*	*0.2*	*44.7*	*33.2*	*6.2*	*0.5*	*39.9*
Positive replacement values	2.9	407.0	8.1	418.0	3.4	469.2	13.9	486.6
of which:								
Interest rate contracts	*0.0*	*267.3*	*0.4*	*267.8*	*0.4*	*294.9*	*0.9*	*296.2*
Credit derivative contracts	*0.0*	*33.0*	*3.6*	*36.7*	0.0	*58.4*	*8.8*	*67.3*
Foreign exchange contracts	*0.3*	*92.0*	*1.2*	*93.5*	*0.4*	*94.8*	*2.0*	*97.2*
Equity/index contracts	*2.2*	*10.9*	*2.9*	*15.9*	*2.6*	*14.2*	*2.2*	*19.1*
Commodities contracts	*0.1*	*3.8*	*0.0*	*3.8*	*0.0*	*6.9*	*0.0*	*6.9*
Financial assets designated at fair value	0.1	4.1	4.9	9.1	0.7	6.9	2.7	10.3
Financial investments available-for-sale	48.5	16.9	0.9	66.4	34.8	17.7	0.6	53.2
Total assets	142.8	474.9	19.7	637.3	138.4	549.5	25.0	712.9
Trading portfolio liabilities	28.6	5.4	0.2	34.2	30.4	8.4	0.6	39.5
Negative replacement values	2.9	385.7	6.5	395.1	3.5	459.1	10.8	473.4
of which:								
Interest rate contracts	*0.0*	*241.1*	*0.4*	*241.5*	*0.4*	*275.7*	*0.3*	*276.5*
Credit derivative contracts	*0.0*	*31.0*	*3.3*	*34.3*	0.0	*56.3*	*7.1*	*63.4*
Foreign exchange contracts	*0.3*	*96.7*	*1.5*	*98.5*	*0.4*	*103.6*	*2.3*	*106.3*
Equity/index contracts	*2.2*	*12.9*	*1.3*	*16.4*	*2.7*	*16.5*	*0.9*	*20.1*
Commodities contracts	*0.1*	*3.9*	*0.0*	*4.0*	*0.0*	*6.9*	*0.1*	*7.0*
Financial liabilities designated at fair value	0.0	78.2	14.7	92.9	0.0	76.9	12.1	89.0
Other liabilities – amounts due under unit-linked investment contracts	0.0	15.3	0.0	15.3	0.0	16.4	0.0	16.4
Total liabilities	31.4	484.7	21.4	537.4	34.0	560.8	23.5	618.2

1 Bifurcated embedded derivatives, which are presented on the same balance sheet lines as their host contracts, are excluded from this table. As of 31 December 2012, net bifurcated embedded derivative assets held at fair value, totaling CHF 0.2 billion (of which CHF 0.4 billion were net level 3 assets and CHF 0.1 billion net level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 December 2011, net bifurcated embedded derivative assets held at fair value, totaling CHF 1.0 billion (of which CHF 0.8 billion were net level 3 assets and CHF 0.2 billion net level 2 assets), were recognized on our balance sheet within Debt issued. 2 Financial assets held for trading do not include precious metals and commodities.

Transfers between level 1 and level 2 in the fair value hierarchy

Trading assets and liabilities totaling approximately CHF 6.2 billion and CHF 4.1 billion, respectively, were transferred from level 2 to level 1 during 2012. These transfers mainly related to debt instruments and were largely driven by improvements in the Eurozone government debt markets.

Financial investments available-for-sale of approximately CHF 3.6 billion were transferred from level 2 to level 1 during 2012, also driven by improvements in the Eurozone government debt markets.

Trading assets of approximately CHF 4.7 billion and trading liabilities of approximately CHF 1.7 billion were transferred from level 1 to level 2 during 2012. These transfers mainly related to debt instruments where volumes and frequency of trades declined below the thresholds of an active market, as defined in UBS's valuation governance principles.

Note 27 Fair value of financial instruments (continued)

Movements of level 3 instruments

CHF billion	Financial assets held for trading[1]	Financial assets designated at fair value	Derivative instruments: Positive replacement values	Derivative instruments: Negative replacement values	Financial liabilities designated at fair value
Balance as of 31 December 2010	**10.8**	**0.5**	**12.4**	**10.4**	**14.0**
Total gains / losses included in the income statement	**(0.4)**	**0.0**	**1.9**	**0.7**	**(0.5)**
Net trading income	(0.6)	0.0	1.9	0.7	(0.5)
Other	0.2	0.0	0.0	0.0	0.1
Purchases, sales, issuances and settlements	**(2.2)**	**2.1**	**(1.1)**	**(0.5)**	**0.4**
Purchases	2.5	0.0	0.0	0.0	0.0
Sales	(4.7)	0.0	0.0	0.0	0.0
Issuances	0.0	2.3	3.3	1.7	5.2
Settlements	0.0	(0.2)	(4.4)	(2.2)	(4.8)
Transfers into or out of level 3	**(0.4)**	**0.1**	**0.6**	**0.1**	**(2.0)**
Transfers into level 3	1.0	0.1	1.7	1.3	1.8
Transfers out of level 3	(1.4)	0.0	(1.1)	(1.2)	(3.8)
Foreign currency translation	0.1	0.0	0.1	0.1	0.0
Balance as of 31 December 2011	**7.8**	**2.7**	**13.9**	**10.8**	**12.1**
Balance as of 31 December 2011	**7.8**	**2.7**	**13.9**	**10.8**	**12.1**
Total gains / losses included in the income statement	**(1.1)**	**0.1**	**(2.9)**	**(1.3)**	**1.4**
Net trading income	(1.1)	0.1	(2.9)	(1.3)	1.9
of which: related to level 3 instruments held at the end of the reporting period	*(0.3)*	*0.0*	*(1.2)*	*(0.3)*	*1.1*
Other	0.0	0.0	0.0	0.0	(0.4)
of which: related to level 3 instruments held at the end of the reporting period	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Purchases, sales, issuances and settlements	**(0.1)**	**1.7**	**(2.2)**	**(2.8)**	**0.0**
Purchases	1.0	0.0	0.0	0.0	0.0
Sales	(7.2)	0.0	0.0	0.0	0.0
Issuances	6.1	2.7	1.2	1.1	5.9
Settlements	0.0	(1.0)	(3.4)	(3.9)	(6.0)
Transfers into or out of level 3	**(0.5)**	**0.6**	**(0.1)**	**0.4**	**0.6**
Transfers into level 3	2.4	0.6	2.1	2.7	5.9
Transfers out of level 3	(3.0)	0.0	(2.3)	(2.3)	(5.3)
Foreign currency translation	(0.3)	(0.3)	(0.5)	(0.5)	0.6
Balance as of 31 December 2012	**5.7**	**4.9**	**8.1**	**6.5**	**14.7**

1 Includes assets pledged as collateral which may be sold or repledged by counterparties.

Note 27 Fair value of financial instruments (continued)

Material changes in level 3 instruments

As of 31 December 2012, financial instruments measured with valuation techniques using significant non-market observable inputs (level 3) mainly included the following:

- structured rates and credit positions, including bespoke collateralized debt obligations (CDO) and collateralized loan obligations (CLO);
- reference-linked notes (RLN);
- financial instruments linked to the US and European residential and US and non-US commercial real estate markets;
- corporate bonds and corporate credit default swaps (CDS); and
- lending-related products.

The significant movements in level 3 instruments during the year ended 31 December 2012 are described below.

Financial assets held for trading

Financial assets held for trading decreased from CHF 7.8 billion to CHF 5.7 billion during the year. Sales of CHF 7.2 billion, consisting mainly of commercial mortgage loans, commercial loans, corporate bonds, US subprime super senior CDO and non-US RLN, were partially offset by issuances of CHF 6.1 billion, which were primarily comprised of commercial mortgage loans and commercial loans, and purchases of CHF 1.0 billion, mainly corporate bonds. Total net losses included in the income statement were CHF 1.1 billion. Transfers into and out of level 3 during the period amounted to CHF 2.4 billion and CHF 3.0 billion, respectively. Transfers into level 3 were comprised primarily of corporate bonds and commercial loans due to the reduced observability of credit spread inputs. Transfers out of level 3 were comprised primarily of corporate bonds due to an improvement in the availability of observable credit spread data, equity related products as a reduction in instrument maturity moved volatility and dividend model inputs into tenors for which a hedge market was observable, and CMBS CDO as the availability of market-based price information improved confidence around discount margin and pricing inputs.

Financial assets designated at fair value

Financial assets designated at fair value increased from CHF 2.7 billion to CHF 4.9 billion, mainly due to the issuance of CHF 2.7 billion of structured financing trades and transfers into level 3 of CHF 0.6 billion. These increases were partially offset by settlements, which were comprised mainly of structured financing trades totaling CHF 1.0 billion.

Positive replacement values

Positive replacement values decreased from CHF 13.9 billion to CHF 8.1 billion during the year as issuances of CHF 1.2 billion, primarily comprised of structured credit positions, were more than offset by settlements of CHF 3.4 billion, which were comprised primarily of structured credit positions, corporate CDS and US subprime super senior CDO. Net trading losses included in the income statement were CHF 2.9 billion. Transfers into and out of level 3 were CHF 2.1 billion and CHF 2.3 billion, respectively, and were comprised primarily of corporate CDS, structured rates positions and structured credit bespoke CDO, resulting from changes in the availability of observable inputs for credit spread and rates volatility data and changes in the correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Negative replacement values

Negative replacement values decreased from CHF 10.8 billion to CHF 6.5 billion during the year primarily due to settlements of CHF 3.9 billion, which mainly included structured credit positions, corporate CDS and CMBS CDO, and net trading gains of CHF 1.3 billion. This decrease was partially offset by issuances of structured credit positions totaling CHF 1.1 billion. Transfers into and out of level 3 amounted to CHF 2.7 billion and CHF 2.3 billion, respectively, and were comprised primarily of structured credit bespoke CDO, corporate CDS, index tranche CDS, structured rates and structured credit positions, resulting from changes in the availability of observable inputs for credit spread and rates volatility data and changes in the correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Financial liabilities designated at fair value

Financial liabilities designated at fair value increased from CHF 12.1 billion to CHF 14.7 billion during the year due to issuances of CHF 5.9 billion, which were comprised primarily of structured financing trades, credit- and interest rate-linked notes, net losses of CHF 1.4 billion and foreign currency movements of CHF 0.6 billion. These increases were partially offset by settlements of CHF 6.0 billion, comprised primarily of structured financing trades and credit- and equity-linked notes. Transfers into and out of level 3 amounted to CHF 5.9 billion and CHF 5.3 billion, respectively. Transfers into level 3 consisted primarily of equity- and interest rate-linked notes as a reduction in observable volatility inputs impacted the embedded options in these structures. Transfers out of level 3 consisted primarily of credit-, equity- and interest rate-linked notes and were driven in part by a reduction over time of the maturity of the underlying notes such that volatility inputs became observable, and also by improved observability of credit spread, equity and rate volatility and equity dividend inputs.

Note 27 Fair value of financial instruments (continued)

Sensitivity information

Included in the fair value estimates of financial instruments carried at fair value on the balance sheet are financial instruments for which fair value is estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices, rates, or other inputs. Consequently, there may be uncertainty about a valuation which results from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or from other elements affecting the valuation technique or model.

To estimate the effect of changing the unobservable inputs to a reasonably possible alternative assumption, UBS performed a sensitivity analysis on its level 3 financial instruments, which are measured using valuation techniques, and for which significant inputs are unobservable in the markets in which the underlying products are transacted. The fair values of these financial instruments were adjusted by zero to 25 percent. These adjustments were determined by product type based on the professional judgment of control functions, which perform procedures to establish the reasonableness of UBS's valuation assertions as of the balance sheet date.

Cash instruments referred to in the below table relate to long and short inventory, if applicable, for the respective product type. For presentation purposes, derivative instruments in the table below include positive and negative replacement values, as well as issued notes with embedded equity- or interest-rate derivative features, which are presented on UBS's balance sheet as financial assets or liabilities designated at fair value. For all instruments, favorable changes are increases to asset values and decreases to liability values as a consequence of applying the relevant sensitivity percentage. Unfavorable changes are decreases in asset values and increases in liability values as a consequence of applying the relevant sensitivity percentage for the respective financial instruments.

Sensitivity of level 3 financial assets and liabilities

	31.12.12		31.12.11	
CHF billion	**Favorable changes**	**Unfavorable changes**	Favorable changes	Unfavorable changes
Cash instruments				
Mortgage securities	**0.1**	**(0.1)**	0.3	(0.3)
Debt securities	**0.2**	**(0.2)**	0.2	(0.2)
Equity securities	**0.1**	**(0.1)**	0.0	0.0
Traded loans	**0.2**	**(0.2)**	0.1	(0.1)
Total cash instruments	**0.6**	**(0.6)**	0.6	(0.6)
Derivative instruments				
Equity derivatives[1]	**0.3**	**(0.3)**	0.3	(0.3)
Interest rate derivatives	**0.1**	**(0.1)**	0.3	(0.3)
Credit derivatives	**0.2**	**(0.2)**	0.5	(0.5)
Total derivative instruments	**0.6**	**(0.6)**	1.1	(1.1)

1 Includes UBS's option to acquire the equity of the SNB StabFund. In 2011, this option was presented in Derivative instruments – other. The prior period was restated for this change in presentation.

Note 27 Fair value of financial instruments (continued)

c) Valuation techniques by product

This section includes a description of main product categories and related valuation techniques employed by UBS.

Government and corporate bonds, bills and loans

Government bonds and bills are generally actively traded with quoted prices in liquid markets. Should market prices not be available, the securities are valued against yield curves implied from similar issuances.

Corporate bonds are priced at market levels, which are based on recent trades or broker and dealer quotes. In cases where no directly comparable price is available, the bonds are tested against yields derived from other securities by the same issuer or benchmarked against similar securities adjusting for seniority, maturity and liquidity. For illiquid securities, credit modeling may be used, which considers the features of the security and discounts cashflows using observable or implied credit spreads and prevailing interest rates.

Loans held at fair value are priced at market levels reflecting recent transactions or quoted dealer prices. For illiquid loans where no market price is available, alternative valuation techniques are used which may include relative value benchmarking using pricing derived from debt instruments for comparable entities or different products in the same entity.

The corporate lending portfolio is valued using either directly observed market prices typically from consensus providers or a credit-default-swap pricing model, which requires credit spreads, recovery and interest rate inputs.

Equity securities, hedge fund and investment fund units, convertible bonds and derivatives

The majority of the Group's equity securities are traded on public stock exchanges where quoted prices are readily and regularly available.

Hedge funds are measured at fair value based on their published net asset values (NAV), considering the availability of NAV from the funds or restrictions imposed upon the redemption of these funds.

Convertible bonds are mostly valued using observable pricing sources, which are generally available given the frequency of trading in the market.

Investment fund units are predominantly exchange traded, with quoted prices in liquid markets. Should market prices not be available, these instruments may be valued based on their NAV.

UBS has positions in both exchange-traded derivatives (ETD) and OTC derivatives. ETD derivatives generally have observable prices and UBS considers these market prices within the fair value assessment. OTC derivatives are measured using either industry standard models or internally developed proprietary models. Inputs to these models include equity prices, equity dividend and funding rates, equity volatilities, FX rates and correlations.

Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Asset-Backed Securities (ABS) and Collateralized Debt Obligations (CDO)

Values of RMBS, CMBS, ABS and CDOs are estimated by reference to traded prices and independently verified market data when available. In the absence of direct market data, values are derived from traded and quoted prices on one or more securities with similar characteristics or indices through benchmarking or triangulation.

Securities with plain vanilla features, but limited observable market data are valued using industry standard valuation models, while those with complex structures are valued using proprietary models and fundamental analysis. Key inputs to such models include management's quantitative and qualitative assessment of current and future economic conditions, the securities' projected performance under such conditions as well as liquidity in the market, among other factors.

Credit derivatives related to RMBS, CMBS, ABS and CDO

Credit derivatives include credit default swaps, total return swaps and balance guaranteed swaps either referencing an index, single-name securities or a basket of single-name securities. Single-name contracts are primarily priced using reliable market data or are derived from traded and quoted securities prices on similar exposures in order to estimate fair value. More illiquid and bespoke credit derivatives are valued using proprietary models and inputs to such models are derived from market data and calibration to similar transactions, reference indices and securities.

Credit derivatives

Single-name, index and portfolio credit default swaps, and any derivation or combination which can be classified as complex structured credit products are valued using market available credit spreads and recovery rates from either consensus pricing services or other market participants. This data is fed into industry-standard models in order to derive fair value.

Complex structured credit products are valued using proprietary models, which are calibrated to market-derived data. Inputs to these models include single-name credit spreads, recovery rates, implied correlations, credit volatilities, cash-synthetic basis spreads and quanto basis spreads.

Interest rate swaps and forwards

OTC swap products include interest rate swaps, basis swaps, cross currency swaps, inflation swaps and interest rate forwards, often referred to as forward rate agreements (FRA). All of these products are valued by estimating future interest cash flows (both fixed and future index levels) and then discounting these cash flows using an interest rate that reflects the appro-

Note 27 Fair value of financial instruments (continued)

priate funding rate for that portion of the portfolio. Interest rates and future index levels used in the respective calculations are generated from observing current market interest rates associated with typical interest rate derivatives (considering swap rates, basis swap spreads, futures prices and FRA rates) and converting these into rates specific to the portfolio using market standard yield curve models.

Interest rates options

Interest rate caps and floors, swaptions and other more complex non-linear interest-rate products are valued using market standard option models. These models use inputs that include (but are not limited to) interest rate yield curves, inflation curves, interest rates volatilities, FX rate volatilities, inflation volatilities and correlations (between different interest rates or between rates and FX or inflation). The models are calibrated to recover market-observed prices for standard option instruments trading within the market and the calibrated model is then used to revalue the portfolio.

FX options

OTC options on FX rates are valued using market standard option models. Inputs to these models include (but are not limited to) FX spot rates, FX forward points, FX volatilities, interest rate yield curves and correlations between FX rates and interest rates. The models are calibrated to recover market-observed prices for standard option instruments trading within the market and the calibrated model is then used to revalue the portfolio.

FX spot and forward

Open spot and settled FX positions are valued using the observed market FX spot rate. Forward FX positions are valued using the spot rate adjusted for forward pricing points observed from standard market sources.

➔ Refer to the "Risk, treasury and capital management" section of this report for more information on certain financial instruments with significant valuation uncertainty (CVA on monolines, US and non-US reference-linked notes, and the option to acquire equity of the SNB StabFund)

d) Deferred day-1 profit or loss

The table reflects the activity in deferred profit or loss for financial instruments for which fair value is estimated using valuation models when not all significant inputs are market observable. Such financial instruments are initially recognized at their transaction price, even if the values obtained from the relevant valuation model on day 1 differ. Day 1 reserves are released and gains or losses are recorded in *Net trading income* when product equivalent quotes become available or the underlying parameters become observable, the transaction is closed out or using an appropriate amortization methodology. The following table shows the aggregate difference yet to be recognized in the income statement at the beginning and end of the period and a reconciliation of changes during the period.

Deferred day 1 profit or loss

	For the year ended	
CHF million	**31.12.12**	31.12.11
Balance at the beginning of the year	**433**	565
Deferred profit / (loss) on new transactions	**424**	221
Recognized (profit) / loss in the income statement	**(367)**	(354)
Foreign currency translation	**(16)**	1
Balance at the end of the year	**474**	433

As of 31 December 2012, deferred day 1 profit of CHF 0.5 billion primarily consisted of CHF 0.2 billion related to OTC equity options (31 December 2011: CHF 0.3 billion), CHF 0.1 billion related to credit default swaps (31 December 2011: CHF 0.1 billion) and CHF 0.1 billion related to interest rate swaps (31 December 2011: CHF 0.1 billion).

Note 27 Fair value of financial instruments (continued)

e) Financial instruments accounted for at amortized cost

The following table reflects the estimated fair values for UBS's instruments accounted for at amortized cost. Refer to Note 29 for an overview of financial assets classified as "loans and receivables" and financial liabilities accounted for at amortized cost.

Financial instruments accounted for at amortized cost

	31.12.12		31.12.11	
CHF billion	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and balances with central banks	66.4	66.4	40.6	40.6
Due from banks	21.2	21.2	23.2	23.2
Cash collateral on securities borrowed	37.4	37.4	58.8	58.8
Reverse repurchase agreements	130.9	131.1	213.5	213.3
Cash collateral receivables on derivative instruments	30.4	30.4	41.3	41.3
Loans	279.9	282.9	266.6	268.2
Accrued income, other assets	12.1	12.1	10.2	10.2
Liabilities				
Due to banks	23.0	23.1	30.2	30.2
Cash collateral on securities lent	9.2	9.2	8.1	8.1
Repurchase agreements	37.6	37.6	102.4	102.4
Cash collateral payables on derivative instruments	71.1	71.1	67.1	67.1
Due to customers	371.9	371.9	342.4	342.4
Debt issued	104.9	107.8	141.6	140.6
Accrued expenses, other liabilities	45.0	45.0	47.2	47.2
Guarantees / Loan commitments				
Guarantees[1]	0.1	(0.1)	0.1	0.1
Loan commitments[2]	0.0	0.3	0.0	0.7

1 The carrying value of guarantees represents a liability of CHF 0.1 billion as of 31 December 2012 and 31 December 2011, respectively. The estimated fair value of guarantees represents an asset of CHF 0.1 billion as of 31 December 2012 and a liability of CHF 0.1 billion as of 31 December 2011. 2 The carrying value of loan commitments represents a liability of CHF 0.0 billion as of 31 December 2012 and 31 December 2011, respectively. The estimated fair value of loan commitments represents a liability of CHF 0.3 billion as of 31 December 2012 and a liability of CHF 0.7 billion as of 31 December 2011.

Loans include Wealth Management and Retail & Corporate assets, mainly mortgage loans, where fair values exceeded related carrying values by CHF 3.8 billion as of 31 December 2012 (31 December 2011: CHF 3.4 billion), and Legacy Portfolio assets reported in Corporate Center where fair values were below related carrying values by CHF 0.6 billion as of 31 December 2012 (31 December 2011: CHF 1.5 billion).

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions described below relate only to fair value of UBS's financial instruments accounted for at amortized cost. Other institutions may use different methods and assumptions for their fair value estimation, therefore, such fair value disclosures cannot necessarily be compared from one financial institution to another. UBS applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than UBS's established fair value and model governance policies and processes applied to financial instruments accounted for at fair value whose fair values impact UBS's balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments accounted for at amortized cost:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments accounted for at amortized cost have remaining maturities of three months or less: 100% of cash and balances with central

Note 27 Fair value of financial instruments (continued)

banks; 82% of amounts due from banks; 98% of cash collateral on securities borrowed; 95% of reverse repurchase agreements; 100% of cash collateral receivables on derivatives; 51% of loans; 88% of amounts due to banks; 93% of cash collateral on securities lent; 93% of repurchase agreements; 100% of cash collateral payable on derivatives; 98% of amount due to customers; and 21% of debt issued.

- The fair value of variable interest-bearing financial instruments accounted for at amortized cost is assumed to be approximated by their carrying amounts, which are net of credit loss allowances, and does not reflect fair value changes in the credit quality of counterparties or UBS's own credit movements.
- The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.
- The estimated fair values of off-balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 28 Pledged and transferred financial assets

This Note provides information about assets pledged as collateral for liabilities or contingent liabilities (Note 28a), transfers of financial assets (Note 28b and 28c), and financial assets which are received as collateral with the right to resell or re-pledge these assets (Note 28d).

a) Financial assets pledged as collateral

The Group pledges financial assets mainly in securities lending transactions, in repurchase transactions, against loans from Swiss mortgage institutions, in connection with derivative transactions, as security deposits for stock exchanges and clearinghouse memberships, and in connection with the issuance of covered bonds.

Financial assets pledged as collateral for liabilities or contingent liabilities

	Carrying amount	
CHF million	**31.12.12**	31.12.11[1]
Trading portfolio assets	**53,656**	56,162
of which: assets pledged as collateral which may be sold or repledged by counterparties	***44,698***	*39,936*
Loans	**34,005**	27,884
of which: mortgage loans[2]	***33,928***	*27,841*
Total financial assets pledged as collateral[3]	**87,661**	84,047

1 Comparative data has been restated due to a change in the definition of financial assets pledged as collateral. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information. 2 These pledged mortgage loans serve as collateral for existing liabilities against Swiss central mortgage institutions and for existing covered bond issuances. Of these pledged mortgage loans, approximately CHF 7.5 billion for 31 December 2012 (31 December 2011: approximately CHF 5.7 billion) could be withdrawn or used for future liabilities or covered bond issuances without breaching existing collateral requirements. 3 Does not include assets placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes (31 December 2012: CHF 4.8 billion, 31 December 2011: CHF 3.6 billion).

Note 28 Pledged and transferred financial assets (continued)

b) Transferred financial assets that are not derecognized in their entirety

The following table presents information for financial assets, which have been transferred but are subject to continued recognition in full, as well as recognized liabilities associated with those transferred assets.

Transferred financial assets subject to continued recognition in full

CHF million	31.12.12		31.12.11[1, 2]
	Carrying value of transferred assets	Carrying value of associated liabilities recognized on-balance sheet	Carrying value of transferred assets
Trading portfolio assets transferred which may be sold or repledged by counterparties			
relating to repurchase agreements in exchange for cash received	*8,305*	*8,287*	*15,481*
relating to securities lending agreements in exchange for cash received	*15,268*	*14,063*	*12,309*
relating to securities lending agreements in exchange for securities received	*18,258*	*0*	*10,248*
relating to other financial asset transfers	*2,868*	*152*	*1,899*
Total financial assets transferred	**44,698**	**22,502**	39,936

1 Comparative data has been restated due to a change in the definition of transferred financial assets. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information.
2 The relationship between the carrying value of transferred assets and the associated liabilities as of 31 December 2011 was substantially the same as that in 2012.

Transactions whereby financial assets are transferred, but continue to be recognized in their entirety on UBS' balance sheet include securities lending and repurchase agreements as well as other financial asset transfers. Repurchase agreements and securities lending agreements are discussed in Notes 1a) 13) and 1a) 14). Repurchase and securities lending arrangements are, for the most part, conducted under standard market agreements, and are undertaken with counterparties subject to UBS's normal credit risk control processes. Other financial asset transfers include securities transferred to collateralize derivative transactions.

Approximately half of the transferred financial assets are trading portfolio assets transferred in exchange for cash, in which case the associated recognized liability represents the amount to be repaid to counterparties. For securities lending and repurchase agreements, a haircut between 0% and 15% is generally applied to the collateral, which results in associated liabilities having a carrying value below the carrying value of the transferred assets. The counterparties to the associated liabilities presented in the table above have full recourse to UBS.

In securities lending arrangements entered into in exchange for the receipt of other securities as collateral, neither the securities received nor the obligation to return them are recognized on UBS's balance sheet as the risks and rewards of ownership are not transferred to UBS. In cases where such financial assets received are subsequently sold or re-pledged in another transaction, this is not considered to be a transfer of financial assets.

Transferred assets other than trading portfolio assets which may be sold or repledged by counterparties were not material in 2012 and 2011.

Transferred financial assets that are not subject to derecognition in full, but which remain on the balance sheet to the extent of the Group's continuing involvement, were not material in 2012 and 2011.

Note 28 Pledged and transferred financial assets (continued)

c) Transferred financial assets that are derecognized in their entirety with continuing involvement

Continuing involvement in a transferred and fully derecognized financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the counterparty or a third party entered into in connection with the transfer. Such transactions include purchased call options on transferred financial assets, certain lending arrangements as well as interests purchased and retained upon the transfer of assets into securitization structures and special purpose entities. The table below provides information on the Group's continuing involvement in transferred and fully derecognized financial assets.

Transferred financial assets that are derecognized in their entirety with continuing involvement

CHF million	31.12.12					
					Gain/(loss) from continuing involvement in transferred and derecognized financial assets	
	Balance sheet line item	Carrying amount of continuing involvement	Fair value of continuing involvement	Gain/(loss) recognized at the date of transfer of the financial assets	For the year ended 31.12.12	Life-to-date
Type of continuing involvement						
Purchased call option	Positive replacement values	2,103	2,103	(1,003)	526	(2,256)
Lending arrangements	Loans	3,342	3,271	0	61	651
Purchased and retained interests in securitization structures	Trading portfolio assets / Replacement values	205	205	0	0	(1,701)
Total		**5,650**	**5,579**	**(1,003)**	**587**	**(3,306)**

There are a limited number of specific transactions for which UBS has continuing involvement in derecognized financial assets, as detailed below.

Purchased call option: UBS's option to acquire the SNB StabFund's equity

In 2008 and 2009, UBS transferred assets to a fund owned and controlled by the Swiss National Bank (SNB StabFund). The price at which the SNB StabFund purchased the assets from UBS was CHF 1.0 billion below the fair value at which these assets were held by UBS. The SNB has financed the fund with a loan in the amount of 90% of the purchase price, secured by the assets of the fund. 10% of the purchase price was financed through an equity contribution by the SNB. The loan is non-recourse to UBS. The fund and loan facility terminates in eight years from inception, but the termination date may be extended to 10 or 12 years. UBS has purchased, for an amount equal to the SNB's equity contribution, an option to acquire the fund's equity once the loan has been fully repaid. This option to acquire the SNB StabFund's equity represents a continuing involvement in the assets transferred to the fund, which is reflected in the table above. The option exercise price is USD 1 billion plus 50% of the amount by which the fund's equity value exceeds USD 1 billion at the time of exercise. This option is carried on UBS's balance sheet at fair value, which is also the maximum exposure to loss. In the event of a change of control of UBS, the SNB has the right, but not the obligation, to require UBS to purchase the loan the SNB provided to the SNB StabFund at its outstanding principal amount plus accrued interest and the fund's equity at 50% of its value at the time. If, upon the fund's termination, the SNB incurs a loss on the loan it has made to the fund, the SNB will be entitled to receive 100 million UBS ordinary shares against payment of the par value of those shares.

➔ **Refer to the "Risk, treasury and capital management" section for more information on UBS's option to acquire the SNB StabFund's equity**

Lending arrangements: loan to BlackRock fund

In 2008, UBS sold a portfolio of US RMBSs for proceeds of USD 15 billion to the RMBS Opportunities Master Fund, LP (the "RMBS fund"), a special purpose entity managed by BlackRock, Inc. The USD 15 billion proceeds were approximately in line with the fair value of the assets at the date of the transfer of the assets. The RMBS fund was capitalized with approximately USD 3.75 billion in equity raised by BlackRock from third-party investors and an eight-year amortizing USD 11.25 billion senior secured loan provided by UBS, which represents a continuing involvement in the assets transferred to the fund and is reflected in the table above. The maximum exposure to loss is equal to the carrying amount of loan to the RMBS fund.

➔ **Refer to the "Risk, treasury and capital management" section of this report for more information on the management of credit risk**

Note 28 Pledged and transferred financial assets (continued)

Purchased and retained interests in securitization structures

In securitization structures where UBS has transferred assets into a third-party special purpose entity and retained or purchased interests therein, UBS has a continuing involvement in those transferred assets. The majority of our retained securitization positions held in the trading portfolio are collateralized debt obligations, US commercial mortgage-backed securities and residential mortgage-backed securities. As a result of losses incurred in previous years, the majority of these positions have a carrying amount of zero as of 31 December 2012. The maximum exposure to loss was CHF 0.3 billion as of 31 December 2012. Life-to-date losses presented in the table on the previous page only relate to retained interests held as of 31 December 2012.

d) Off-balance-sheet securities received

The following table presents the amounts of securities received from third parties that are not recognized on the balance sheet, but that are held as collateral, including amounts that have been sold or repledged.

Off-balance sheet securities received

CHF million	**31.12.12**	31.12.11
Fair value of securities received which can be sold or repledged	**400,150**	551,590
received as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	***398,496***	*550,023*
received in unsecured borrowings	***1,654***	*1,567*
thereof sold or repledged as collateral for liabilities or contingent liabilities[1, 2]	**284,599**	365,087
in connection with financing activities	***224,361***	*298,645*
to satisfy commitments under short sale transactions	***34,154***	*39,480*
in connection with derivative and other transactions	***26,084***	*26,962*

1 Comparative data has been restated due to a change in the definition of financial assets pledged as collateral. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information 2 Does not include off-balance sheet securities (31 December 2012: CHF 29.4 billion, 31 December 2011: CHF 27.4 billion) placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes for which there are no associated liabilities or contingent liabilities.

Note 29 Measurement categories of financial assets and financial liabilities

a) Measurement categories of financial assets and financial liabilities

The following table provides information about the carrying amounts of individual classes of financial instruments within the measurement categories of financial assets and financial liabilities as defined in IAS 39 *Financial instruments: recognition and measurement.* Only those assets and liabilities which are financial instruments as defined in IAS 32 *Financial instruments: presentation* are included in the table below, which causes certain balances to differ from those presented on the balance sheet.

➔ **Refer to "Note 27 Fair value of financial instruments" for more information on how fair value of financial instruments is determined**

CHF million	**31.12.12**	31.12.11
Financial assets[1]		
Held for trading		
Trading portfolio assets	**143,767**	162,821
of which: assets pledged as collateral which may be sold or repledged by counterparties	***44,698***	*39,936*
Debt issued[2]	**405**	1,149
Positive replacement values	**418,029**	486,584
Total	**562,201**	650,554
Fair value through profit or loss		
Financial assets designated at fair value	**9,106**	10,336
Financial assets at amortized cost		
Cash and balances with central banks	**66,383**	40,638
Due from banks	**21,230**	23,218
Cash collateral on securities borrowed	**37,372**	58,763
Reverse repurchase agreements	**130,941**	213,501
Cash collateral receivables on derivative instruments	**30,413**	41,322
Loans	**279,901**	266,604
Accrued income	**1,514**	1,464
Other assets	**10,545**	8,757
Total	**578,299**	654,267
Available-for-sale		
Financial investments available-for-sale	**66,383**	53,174
Total financial assets	**1,215,989**	1,368,331
Financial liabilities		
Held for trading		
Trading portfolio liabilities	**34,154**	39,480
Debt issued[2]	**172**	194
Negative replacement values	**395,070**	473,400
Total	**429,396**	513,074
Fair value through profit or loss, other		
Financial liabilities designated at fair value	**92,878**	88,982
Amounts due under unit-linked contracts	**15,346**	16,481
Total	**108,223**	105,462
Financial liabilities at amortized cost		
Due to banks	**23,024**	30,201
Cash collateral on securities lent	**9,203**	8,136
Repurchase agreements	**37,639**	102,429
Cash collateral payables on derivative instruments	**71,148**	67,114
Due to customers	**371,892**	342,409
Accrued expenses	**4,548**	6,646
Debt issued	**104,889**	141,572
Other liabilities	**40,473**	40,512
Total	**662,816**	739,019
Total financial liabilities	**1,200,435**	1,357,555

1 As of 31 December 2012, CHF 113 billion of Loans, CHF 0 billion of Due from banks, CHF 1 billion of Reverse repurchase agreements, CHF 29 billion of Financial investments available-for-sale and CHF 7 billion of Financial assets designated at fair value are expected to be recovered or settled after twelve months. As of 31 December 2011, CHF 118 billion of Loans, CHF 1 billion of Due from banks, CHF 1 billion of Reverse repurchase agreements, CHF 20 billion of Financial investments available-for-sale and CHF 8 billion of Financial assets designated at fair value were expected to be recovered or settled after twelve months. 2 Represents the embedded derivative component of structured debt issued for which the fair value option has not been applied. The amounts shown here as positive and negative replacement values are presented within Debt issued on the balance sheet.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

b) Reclassification of financial assets

In the fourth quarter of 2008 and the first quarter of 2009, financial assets with fair values on their reclassification dates of CHF 26 billion and CHF 0.6 billion, respectively, were reclassified out of *Trading portfolio assets* to *Loans*.

The reclassification of financial assets reflected UBS's change in intent and ability to hold these financial assets for the foreseeable future rather than for trading in the near term. The foreseeable future is interpreted to mean a period of approximately 12 months following the date of reclassification. The financial assets were reclassified using their fair value on the date of the reclassification, which became their new cost basis at that date.

Held-for-trading assets reclassified to loans and receivables

CHF billion	31.12.12	31.12.11
Carrying value	3.2	5.3
Fair value	3.1	4.9
Pro-forma fair value gain / (loss)	(0.1)	(0.4)

The following table provides notional values, fair values and carrying values by product category for the remaining reclassified financial assets.

Held-for-trading assets reclassified to loans and receivables

	31.12.12			
CHF billion	Notional value	Fair value	Carrying value	Ratio of carrying to notional value (%)
US student loan and municipal auction rate securities	2.0	1.7	1.9	94
Monoline-protected assets	0.6	0.6	0.5	91
Leveraged finance	0.3	0.3	0.3	85
US reference-linked notes	0.1	0.1	0.1	73
Other assets	0.5	0.5	0.4	83
Total	3.6	3.1	3.2	90

In 2012, the carrying value of the remaining reclassified financial assets decreased by CHF 2.1 billion, mainly due to sales of CHF 1.9 billion, of which CHF 0.9 billion related to sales of US student loan auction rate securities and CHF 0.3 billion related to sales of monoline-protected assets. The overall impact on operating profit before tax from the financial assets for the year ended 31 December 2012 was a profit of CHF 49 million (see table below). If the financial assets had not been reclassified, the impact on operating profit before tax for the year ended 31 December 2012 would have been a profit of approximately CHF 0.3 billion (2011: CHF 0.2 billion).

Contribution of the reclassified assets to the income statement

	For the year ended	
CHF million	31.12.12	31.12.11
Net interest income	116	381
Credit loss (expense) / recovery	(73)	36
Other income[1]	7	306
Impact on operating profit before tax	49	723

1 Includes net gains / (losses) on the disposal of reclassified financial assets.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

c) Maximum exposure to credit risk and credit quality information

The table below represents the Group's maximum exposure to credit risk by class of financial instrument and the respective collateral and other credit enhancements mitigating credit risk for these classes of financial instruments. The maximum exposure to credit risk includes the carrying amounts of financial instruments recognized on the balance sheet subject to credit risk and the notional amounts for off-balance sheet arrangements.

Where information is available, collateral is presented at fair value; for other collateral such as real estate, a reasonable alternative value is used. Credit enhancements (credit derivative contracts/guarantees) are included at their notional amounts. Both are capped at the maximum exposure to credit risk for which they serve as security.

The section "Risk management and control" describes management's view of credit risk and the related exposures. These differ in certain respects to the requirements of the accounting standard.

Maximum exposure to credit risk

	31.12.12							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Secured by real estate	Other collateral[1]	Netting	Credit derivative contracts	Guarantees
Financial assets measured at amortized cost on the balance sheet								
Balances with central banks	64.1							
Due from banks[2]	21.2		2.7		0.4			0.4
Loans[3]	279.9	13.1	65.9	155.8	18.3		0.9	2.5
Cash collateral on securities borrowed	37.4		37.2					
Reverse repurchase agreements	130.9		130.9					
Cash collateral receivables on derivative instruments[4]	30.4					17.4		
Accrued income, other assets	12.3		7.9					
Total financial assets measured at amortized cost	576.2	13.2	244.6	155.8	18.7	17.4	0.9	2.9
Financial assets measured at fair value on the balance sheet								
Positive replacement values[5]	418.0					376.7		
Trading portfolio assets – debt instruments[6, 7]	67.4							
Financial assets designated at fair value – debt instruments[8]	8.5		6.5		0.2		1.0	
Financial investments available-for-sale – debt instruments[9]	65.3							
Total financial assets measured at fair value	559.2	0.0	6.5	0.0	0.2	376.7	1.0	0.0
Total maximum exposure to credit risk reflected on the balance sheet	1,135.5	13.2	251.1	155.8	18.9	394.1	1.9	2.9
Guarantees	20.0	1.5	2.0	0.3	2.0		1.4	2.5
Loan commitments	59.8	0.2	2.1	1.7	9.2		16.9	1.5
Forward starting transactions, reverse repurchase and securities borrowing agreements	18.8		18.8					
Total maximum exposure to credit risk not reflected on the balance sheet	98.6	1.7	22.9	1.9	11.2	0.0	18.3	4.0
Total at the year-end	1,234.1	14.8	274.0	157.7	30.1	394.1	20.2	6.9

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 Due from banks includes amounts held with 3rd party banks on behalf of clients. The credit risk associated to these balances may be borne by those clients. 3 Loans include a balance outstanding of USD 3.6 billion to the BlackRock fund. This loan is collateralized by a portfolio of US residential mortgage-backed securities included within "Other collateral". Refer to the "Risk, treasury and capital management" section of this report for more information. 4 Included within cash collateral receivables on derivative instruments are margin balances due from exchanges or clearing houses. The amount shown in the netting column represents the netting with related negative replacement values in accordance with Swiss Federal Banking Law. 5 The amount shown in the netting column represents the netting with related negative replacement values and cash collateral payables in accordance with Swiss Federal Banking Law. For the purpose of this disclosure, securities collateral was not considered. 6 These positions are generally managed under the market risk framework and are included in VaR. For the purpose of this disclosure, collateral and credit enhancements were not considered. 7 Does not include debt instruments held for unit-linked investment contracts and investment fund units. 8 Does not include investment fund units. 9 Does not include investment fund units.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

Maximum exposure to credit risk (continued)

	31.12.11							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Secured by real estate	Other collateral[1]	Netting	Credit derivative contracts	Guarantees
Financial assets measured at amortized cost on the balance sheet								
Balances with central banks	38.6							
Due from banks[2]	23.2	0.0	2.7		0.5			0.6
Loans[3, 4, 5]	266.6	11.4	53.9	148.2	18.9		0.6	2.6
Cash collateral on securities borrowed	58.8		58.8					
Reverse repurchase agreements	213.5		213.5					
Cash collateral receivables on derivative instruments[6]	41.3					28.0		
Accrued income, other assets	10.2		6.2					
Total financial assets measured at amortized cost	652.2	11.5	335.1	148.2	19.3	28.0	0.6	3.2
Financial assets measured at fair value on the balance sheet								
Positive replacement values[7]	486.6					428.9		
Trading portfolio assets – debt instruments[8, 9]	99.2							
Financial assets designated at fair value – debt instruments[10]	9.6		6.7		0.2		1.4	
Financial investments available-for-sale – debt instruments[11]	52.3							
Total financial assets measured at fair value	647.7	0.0	6.7	0.0	0.2	428.9	1.4	0.0
Total maximum exposure to credit risk reflected on the balance sheet	1,299.9	11.5	341.8	148.2	19.5	456.9	2.0	3.2
Guarantees	18.8	1.5	1.9	0.2	1.5		1.8	1.9
Loan commitments	58.2	0.3	0.4	1.1	8.8		18.1	3.0
Forward starting transactions, reverse repurchase and securities borrowing agreements	27.6		27.6					
Total maximum exposure to credit risk not reflected on the balance sheet	104.6	1.8	29.9	1.3	10.3		19.8	5.0
Total at the year-end	1,404.5	13.2	371.7	149.5	29.9	456.9	21.8	8.2

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 Due from banks includes amounts held with 3rd party banks on behalf of clients. The credit risk associated to these balances may be borne by those clients. 3 Loans include a balance outstanding of USD 4.7 billion to the BlackRock fund. This loan is collateralized by a portfolio of US residential mortgage-backed securities included within "Other collateral". Refer to the "Risk, treasury and capital management" section of this report for more information. 4 Loans include monoline-protected assets which were reclassified from held-for-trading to loans and receivables in fourth quarter 2008. The remaining carrying value of these assets was CHF 0.8 billion as of 31 December 2011. The fair value of credit default swap protection after credit valuation adjustments related to these assets was CHF 0.2 billion, which is not included in the column "Credit derivative contracts". 5 In 2012, we corrected the classification of certain loans which were previously classified as unsecured loans to secured loans. As a result, total loans secured by Other collateral were increased by CHF 2.4 billion as of 31 December 2011. 6 Included within cash collateral receivables on derivative instruments are margin balances due from exchanges or clearing houses. The amount shown in the netting column represents the netting with related negative replacement values in accordance with Swiss Federal Banking Law. 7 The amount shown in the netting column represents the netting with related negative replacement values and cash collateral payables in accordance with Swiss Federal Banking Law. For the purpose of this disclosure, securities collateral received was not considered. 8 These positions are generally managed under the market risk framework and are included in VaR. For the purpose of this disclosure, collateral and credit enhancements were not considered. 9 Does not include debt instruments held for unit-linked investment contracts and investment fund units. 10 Does not include investment fund units. 11 Does not include investment fund units.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

Financial assets subject to credit risk by rating category

CHF billion				31.12.12			
Rating category[1]	**0–1**	**2–3**	**4–5**	**6–8**	**9–13**	**defaulted**	**Total**
Balances with central banks	**46.2**	**17.9**	**0.0**				**64.1**
Due from banks	**0.9**	**14.0**	**4.5**	**1.6**	**0.1**	**0.0**	**21.2**
Loans	**4.6**	**84.2**	**121.3**	**57.2**	**11.5**	**1.1**	**279.9**
Cash collateral on securities borrowed and reverse repurchase agreements	**2.3**	**123.3**	**25.8**	**14.9**	**2.0**	**0.0**	**168.3**
Positive replacement values	**13.4**	**348.9**	**44.4**	**9.9**	**1.4**	**0.2**	**418.0**
Cash collateral receivables on derivative instruments	**6.3**	**17.1**	**4.0**	**2.9**	**0.1**	**0.0**	**30.4**
Trading portfolio assets – debt instruments[2]	**34.2**	**17.2**	**7.8**	**3.4**	**4.8**	**0.2**	**67.4**
Financial investments available-for-sale – debt instruments	**57.7**	**7.6**	**0.0**	**0.0**	**0.0**		**65.3**
Other financial instruments	**0.3**	**3.2**	**7.9**	**8.8**	**0.4**	**0.2**	**20.8**
Financial instruments not recognized on the balance sheet							
Guarantees	**2.3**	**9.7**	**3.7**	**3.3**	**0.9**	**0.0**	**20.0**
Loan commitments	**0.2**	**34.6**	**11.6**	**6.7**	**6.7**	**0.1**	**59.8**
Forward starting reverse repurchase agreements	**0.0**	**17.4**	**0.6**	**0.5**			**18.6**
Forward starting securities borrowing agreements		**0.2**					**0.2**
Total	**168.2**	**695.4**	**231.5**	**109.2**	**28.0**	**1.8**	**1,234.1**

CHF billion				31.12.11			
Rating category[1]	0–1	2–3	4–5	6–8	9–13	defaulted	Total
Balances with central banks	27.3	11.2	0.0	0.0			38.6
Due from banks	0.4	16.0	3.5	3.0	0.2	0.0	23.2
Loans	6.9	78.6	110.6	57.4	11.9	1.1	266.6
Cash collateral on securities borrowed and reverse repurchase agreements	1.3	215.9	29.2	22.7	3.1	0.0	272.3
Positive replacement values	11.9	400.6	53.4	17.4	2.5	0.7	486.6
Cash collateral receivables on derivative instruments	7.0	25.8	3.8	4.6	0.1	0.0	41.3
Trading portfolio assets – debt instruments[2]	45.6	36.5	8.0	3.8	5.2	0.1	99.2
Financial investments available-for-sale – debt instruments	43.3	9.0	0.0	0.0	0.0		52.3
Other financial instruments	0.1	5.8	3.0	7.9	2.7	0.3	19.9
Financial instruments not recognized on the balance sheet							-
Guarantees	2.0	9.9	3.2	2.7	1.1		18.8
Loan commitments	0.3	31.7	13.2	5.8	7.1	0.1	58.2
Forward starting reverse repurchase agreements	0.1	26.1	0.6	0.4			27.1
Forward starting securities borrowing agreements		0.5					0.5
Total	**146.2**	**867.6**	**228.5**	**125.7**	**34.0**	**2.4**	**1,404.5**

1 Refer to the "UBS internal rating scale and mapping of external ratings" table in the "Risk, treasury and capital management" section of this report for more information on rating categories. 2 Does not include debt instruments held for unit-linked investment contracts and investment fund units.

Note 30 Pension and other post-employment benefit plans

During the fourth quarter of 2012, UBS adopted revisions to IAS19 *Employee Benefits* ("IAS 19R") retrospectively in accordance with the transitional provisions set out in IAS 19R and IAS 8 *Accounting Policies, Changes* in *Accounting Estimates and Errors.* IAS 19R introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information.

The following table provides information relating to pension costs for defined benefit plans and defined contribution plans. These costs are part of Personnel expenses.

Income statement – pension and other post-employment benefit plans

CHF million	**31.12.12**	31.12.11	31.12.10
Net periodic pension cost for defined benefit plans	**(222)**	577	588
of which: related to major pension plans[1]	***(116)***	*519*	*542*
of which: Swiss plan	***(198)***	*453*	*457*
of which: International plans	***82***	*66*	*85*
of which: related to post-retirement medical and life insurance plans[2]	***(102)***	*(2)*	*20*
of which: related to remaining plans and other costs[3]	***(3)***	*60*	*25*
Pension cost for defined contribution plans[4]	**240**	254	246
Total pension and other post-employment benefit plans[5]	**18**	831	834

1 Refer to "Note 30a Defined benefit pension plans" for more information. 2 Refer to "Note 30b Post-retirement medical and life insurance plans" for more information. 3 Other costs include differences between actual and estimated performance award accruals and net accrued pension costs related to restructuring. 4 Refer to "Note 30c Defined contribution plans" for more information. 5 Refer to "Note 6 Personnel expenses".

The following table provides information relating to amounts recognized in other comprehensive income for defined benefit plans.

Other comprehensive income – gains / (losses) on pension and other post-employment benefit plans

CHF million	**31.12.12**	31.12.11	31.12.10
Major pension plans[1]	**1,053**	(2,120)	160
of which: Swiss plan	***1,095***	*(1,811)*	*117*
of which: International plans	***(42)***	*(309)*	*42*
Post-retirement medical and life insurance plans[2]	**(26)**	(19)	(36)
Remaining plans	**(5)**	0	0
Gains / (losses) recognized in other comprehensive income, before tax	**1,023**	(2,141)	124
Tax (expense) / benefit relating to defined benefit plans recognized in other comprehensive income	**(413)**	321	(3)
Gains / (losses) recognized in other comprehensive income, after tax[3]	**609**	(1,820)	120
Cumulative amount of gains / (losses) recognized in other comprehensive income, before tax	**(5,542)**	(6,565)	(4,424)
Cumulative tax (expense) / benefit relating to defined benefit plans recognized in other comprehensive income	**736**	1,149	828
Cumulative gains / (losses) recognized in other comprehensive income, after tax[4]	**(4,806)**	(5,415)	(3,596)

1 Refer to "Note 30a Defined benefit pension plans" for more information. 2 Refer to "Note 30b Post-retirement medical and life insurance plans" for more information. 3 Refer to the "Statement of comprehensive income". 4 Refer to the "Statement of changes in equity".

The following table provides information on UBS's liabilities with respect to pension and post-employment benefit plans. These are recognized on the balance sheet within Other liabilities. All major plans are currently in a net deficit situation.

Balance sheet – net defined benefit pension and post-employment liability

CHF million	**31.12.12**	31.12.11	31.12.10
Major pension plans[1]	**1,108**	2,897	831
of which: Swiss plan	***118***	*1,941*	*184*
of which: International plans	***990***	*956*	*647*
Post-retirement medical and life insurance plans[2]	**136**	219	209
Remaining plans	**39**	18	17
Total net defined benefit pension and post-employment liability[3]	**1,284**	3,135	1,056

1 Refer to "Note 30a Defined benefit pension plans" for more information. 2 Refer to "Note 30b Post-retirement medical and life insurance plans" for more information. 3 Refer to "Note 22 Other liabilities".

Note 30 Pension and other post-employment benefit plans (continued)

a) Defined benefit pension plans

UBS has established pension plans for its employees in various locations. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations for the plans in these countries are performed as required.

The overall investment policy and strategy for UBS's defined benefit pension plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. For the plans with assets (i.e. funded plans), the investment strategies for the plans are generally managed under local laws and regulations in each jurisdiction. The actual asset allocation is determined by current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. Within this framework, UBS ensures that the fiduciaries consider how the asset investment strategy correlates with the maturity profile of the plan liabilities and the respective potential impact on the funded status of the plans, including potential short term liquidity requirements. Specific asset-liability matching strategies for each pension plan are independently determined by the responsible governance body in each country. The pension assets are invested in a diversified portfolio of assets across geographic regions to ensure diversified returns to the extent allowed under local pension laws.

Swiss pension plan

The Swiss pension plan covers nearly all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss pension law. Contributions to the pension plan are paid by the employees and the employer. The Swiss pension plan allows employees a choice with regard to the level of annual contributions paid by the employee. Employee contributions are calculated as a percentage of contributory salary and are deducted monthly. The percentages deducted from salary depend on age and vary between 1% and 13.5% of contributory base salary and between 0% and 9% of contributory variable compensation. Depending on the age of the employee, UBS pays a contribution that ranges between 6.5% and 27.5% of contributory base salary and between 3.6% and 9% of contributory variable compensation for retirement credits. UBS also pays risk contributions which are used to finance benefits paid out in the event of death and disability, as well as to finance the old age and survivors' bridging pensions. The benefits include retirement benefits and disability, death and survivor pensions. The pension plan provides a lifetime pension to members at the normal retirement age of 62 for 2012. From 2013 onwards, the normal retirement age is 64. Members can draw retirement benefits early from the age of 58. A portion of the benefit, up to the full amount under certain conditions, can be taken as a lump sum payment at retirement. The amount of pension payable is a result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance on the pension account is based on the employee and employer contributions that have been made to the pension account of each individual plan participant, as well as the interest accrued on the accumulated balance. The interest rate accrued is defined annually by the Pension Foundation Board. Although the Swiss pension plan is a defined contribution plan under Swiss pension law, it is accounted for as a defined benefit plan under IAS 19R, primarily because of the need to accrue interest on the pension accounts and the payment of lifetime pensions. The Swiss pension plan is governed by the Pension Foundation Board as required by the Swiss pension law. The responsibilities of the Pension Foundation Board are defined by Swiss pension law and by the plan rules. According to Swiss pension law, a temporary limited underfunding is permitted. However, the Pension Foundation Board is required to take the necessary measures to ensure that full funding can be expected to be restored within a period up to a maximum of ten years. Under Swiss pension law, if the Swiss pension plan became significantly underfunded on a Swiss pension law basis, additional employer and employee contributions could be required. In these situations, the risk is shared between employer and employees, and the employer is not legally obliged to cover more than 50% of the additional contributions required. The Swiss pension plan has a technical funding ratio under Swiss pension law of 123.4% as of 31 December 2012 (as of 31 December 2011: 117.3%), and thus it is not expected that additional contributions will be required in the next year. The investment strategy of the Swiss plan is in line with Swiss pension law, including the rules and regulations relating to diversification of plan assets. The Pension Foundation Board strives for a medium- and long-term consistency and sustainability between assets and liabilities. Under IAS 19R, volatility arises in the Swiss pension plan net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

There are ongoing discussions in the Swiss parliament on possible changes to Swiss pension law. The outcome of these discussions and the timing of any resulting changes are uncertain.

In the first quarter of 2012, UBS announced certain changes to its Swiss pension plan. The main changes were a reduction in conversion rate on retirement and an increase of the normal retirement age, which serve in part to offset the impact of the increased life expectancy reflected in the defined benefit obligation due to the adoption of the BVG 2010 generational table in 2011. This plan amendment reduced the defined benefit obligation by CHF 730 million resulting in a gain in the first quarter of 2012. The employer contributions expected to be made to the Swiss pension plan in 2013 are estimated to be CHF 480 million. The actuarial

Note 30 Pension and other post-employment benefit plans (continued)

assumptions used for the Swiss pension plan are based on the local economic environment and are disclosed below. Refer also to Note 1a) 24) for a description of the accounting policy for defined benefit pension plans.

International pension plans

The international locations of UBS operate various pension plans in accordance with local regulations and practices. The locations with significant defined benefit plans are the UK, the US and Germany. The remaining non-major plans are located mainly in Asia Pacific, Europe and the Americas. As these other plans are not significant, no further disclosure is given within this note. The amounts shown for the international plans reflect the net funded positions of the significant international plans. UBS's general principle is to ensure that the plans are appropriately funded under local pension regulations in each country and this is the primary driver for determining when additional contributions are required. Similar to the Swiss pension plan, volatility arises in the international pension plans' net liability because the fair value of the plan assets are not directly correlated to movements in the value of the plans' defined benefit obligation. The pension plans provide benefits in the event of retirement, death or disability. The level of benefits provided depends on the specific rate of benefit accrual and the level of employee compensation. The employer contributions expected to be made to these pension plans in 2013 are estimated to be CHF 136 million. The funding policy for these plans is consistent with local government regulations and tax requirements. The actuarial assumptions used for the international plans are based on the local economic environment and are disclosed below.

Refer also to Note 1a) 24) for a description of the accounting policy for defined benefit pension plans.

UK

The UK plan is a career average revalued earnings scheme; benefits increase automatically based on UK price inflation. Normal retirement age for the UK plan is 60. The plan is closed to new entrants, who instead can participate in a defined contribution arrangement. There is a UK Pension Trustee Board which is required under local pension laws. The responsibility for governance of the UK plan lies jointly with the Pension Trustee Board and UBS. The employer contributions to the pension fund are determined based on regular scheduled actuarial valuations. These actuarial valuations are required to be conducted on assumptions determined by the Trustees and agreed by UBS. In the event of an underfunding, UBS must agree a deficit recovery plan with the Pension Trustee Board within statutory deadlines. As the plan's obligation is to provide guaranteed lifetime pension benefits to plan participants upon retirement, increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant in the UK plan where inflationary increases result in higher sensitivity to changes in the life expectancy.
Based on the plan rules and due to local pension legislation there are caps on the level of inflationary increase applied to plan benefits. The plan assets are invested in a diversified class of assets and a portion of the plan assets are invested in inflation-indexed bonds, to provide a partial hedge against inflation. If inflation increases, the plan obligation will likely increase more significantly than any change in the fair value of plan assets; this would result in an increase in the net pension plan liability.

US

There are two distinct major pension plans in the US. Normal retirement age for the US plans is 65. The plans are closed to new entrants, who instead can participate in defined contribution plans. One plan is a contribution-based plan where each participant accrues a percentage of salary in a pension account. The pension account is credited annually with interest based on a rate which is linked to the yield on a US government bond. On retirement, the plan participant can elect to receive the retirement benefit as a lump sum or a lifetime pension. The other plan provides a lifetime pension which is based on the career average earnings of each individual plan participant. There are pension plan fiduciaries for both of the major pension plans as required under local state pension laws. The fiduciaries, jointly with UBS, are responsible for the governance of the plans. Actuarial valuations are regularly completed for the plans and UBS has historically elected to make contributions to the plans to at least maintain a funded ratio of 80% as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year plus a rolling amortization of any prior underfunding. If the employer contributes more than the minimum or the plan has assets exceeding the liabilities, the excess can be used to offset minimum funding requirements.

Germany

There are two different pension plans in Germany and both are contribution-based plans. Normal retirement age for the German plans is 65. The major pension plan is funded entirely by UBS, and the contribution is based on the salary of the employee. On an annual basis the accumulated account balance of the plan participant is credited with guaranteed interest at a rate of 5%. The other plan is a deferred compensation plan. The deferred compensation plan has a guaranteed interest rate of 4% on contributions paid after 2009. The German plans are regulated under German pension law under which the responsibility to pay pension benefits when they are due is entirely the responsibility of UBS.

The following table provides an analysis of the movement in the net asset/(liability) recognized on the balance sheet for defined benefit pension plans between the beginning to the end of the year, as well as an analysis of amounts recognized in net profit and in other comprehensive income.

Note 30 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans

CHF million	Swiss			International		
For the year ended	31.12.12	31.12.11	31.12.10	31.12.12	31.12.11	31.12.10
Defined benefit obligation at the beginning of the year	22,555	20,873	20,684	4,414	4,053	4,353
Current service cost	531	435	407	33	33	41
Interest expense	462	557	643	211	210	237
Plan participant contributions	205	211	197	0	0	0
Remeasurement of defined benefit obligation	29	1,452	149	258	260	141
of which: actuarial (gains)/losses arising from changes in demographic assumptions	*0*	*838*	*(423)*	*(27)*	*87*	*28*
of which: actuarial (gains)/losses arising from changes in financial assumptions	*20* [1]	*614*	*825*	*269*	*219*	*95*
of which: experience (gains)/losses	*9*	*0*	*(253)*	*17*	*(47)*	*18*
Past service cost related to plan amendments	(730)	0	0	0	0	0
Curtailments	(54)	0	0	0	0	0
Benefit payments	(1,139)	(985)	(1,252)	(164)	(145)	(148)
Termination benefits	43	11	45	0	0	0
Foreign currency translation	0	0	0	20	3	(573)
Defined benefit obligation at the end of the year	21,901	22,555	20,873	4,773	4,414	4,053
of which: amounts owing to active members	*10,602*	*12,269*	*11,418*	*713*	*644*	*792*
of which: amounts owing to deferred members	*0*	*0*	*0*	*2,378*	*2,188*	*1,986*
of which: amounts owing to retirees	*11,299*	*10,286*	*9,455*	*1,682*	*1,582*	*1,275*
Fair value of plan assets at the beginning of the year	20,614	20,690	20,286	3,458	3,406	3,517
Return on plan assets excluding amounts included in interest income	1,124	(359)	266	216	(50)	184
Interest income	460	562	650	167	180	198
Employer contributions – excluding termination benefits	486	495	510	84	71	86
Employer contributions – termination benefits	43	11	45	0	0	0
Plan participant contributions	205	211	197	0	0	0
Benefit payments	(1,139)	(985)	(1,252)	(164)	(145)	(148)
Administration expenses, taxes and premiums paid	(11)	(11)	(12)	(5)	(3)	(5)
Foreign currency translation	0	0	0	26	(1)	(427)
Fair value of plan assets at the end of the year	21,783	20,614	20,690	3,783	3,458	3,406
Net defined benefit asset/(liability)	(118)	(1,941)	(184)	(990)	(956)	(647)

Movement in the net asset/(liability) recognized on the balance sheet

Net asset/(liability) recognized on the balance sheet at the beginning of the year	(1,941)	(184)	(398)	(956)	(647)	(836)
Net periodic pension cost	198	(453)	(457)	(82)	(66)	(85)
Amounts recognized in other comprehensive income	1,095	(1,811)	117	(42)	(309)	42
Employer contributions – excluding termination benefits	486	495	510	84	71	86
Employer contributions – termination benefits	43	11	45	0	0	0
Foreign currency translation	0	0	0	5	(5)	146
Net asset/(liability) recognized on the balance sheet at the end of the year	(118)	(1,941)	(184)	(990)	(956)	(647)

Funded and unfunded plans

Defined benefit obligation from funded plans	21,901	22,555	20,873	4,472	4,174	3,813
Defined benefit obligation from unfunded plans	0	0	0	301	240	240
Plan assets	21,783	20,614	20,690	3,783	3,458	3,406
Surplus/(deficit)	(118)	(1,941)	(184)	(990)	(956)	(647)

1 During 2012, UBS revised its approach for calculating past service cost for certain members of the Swiss pension plan to consider not only age but also the initial employee contributions transferred to, or withdrawn from, the plan. This affected the distribution between past and future service costs, resulting in a current period reduction in the defined benefit obligation of CHF 841 million. This amount is offset by other remeasurement changes relating to changes in financial assumptions.

Note 30 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans (continued)

Analysis of amounts recognized in net profit

CHF million	Swiss			International		
For the year ended	31.12.12	31.12.11	31.12.10	31.12.12	31.12.11	31.12.10
Current service cost	531	435	407	33	33	41
Interest expense related to defined benefit obligation	462	557	643	211	210	237
Interest income related to plan assets	(460)	(562)	(650)	(167)	(180)	(198)
Administration expenses, taxes and premiums paid	11	11	12	5	3	5
Past service cost related to plan amendments	(730)	0	0	0	0	0
Curtailments	(54)	0	0	0	0	0
Termination benefits	43	11	45	0	0	0
Net periodic pension cost	(198)	453	457	82	66	85

Analysis of gains / (losses) recognized in other comprehensive income

CHF million	Swiss			International		
For the year ended	31.12.12	31.12.11	31.12.10	31.12.12	31.12.11	31.12.10
Remeasurement of defined benefit obligation	(29)	(1,452)	(149)	(258)	(260)	(141)
Return on plan assets excluding amounts included in interest income	1,124	(359)	266	216	(50)	184
Total gains / (losses) recognized in other comprehensive income	1,095	(1,811)	117	(42)	(309)	42

The following table provides information on the weighted average duration of the defined benefit pension obligations and the distribution of the timing of benefit payments.

	Swiss			International[1]		
	31.12.12	31.12.11	31.12.10	31.12.12	31.12.11	31.12.10
Duration of the defined benefit obligation	15.7	15.8	15.1	18.2	19.1	18.1
Maturity analysis of benefits expected to be paid						
Benefits expected to be paid within 12 months	1,036	1,014	1,017	150	153	153
Benefits expected to be paid between 1 to 3 years	2,051	2,036	2,052	310	310	320
Benefits expected to be paid between 3 to 6 years	3,022	3,136	3,146	538	532	580
Benefits expected to be paid between 6 to 11 years	5,527	5,819	5,430	1,157	1,110	1,290
Benefits expected to be paid between 11 to 16 years	5,783	6,117	5,679	1,471	1,410	1,627
Benefits expected to be paid in more than 16 years	28,828	29,597	30,563	9,264	9,625	8,748

1 For international plans the duration is a weighted average duration.

Note 30 Pension and other post-employment benefit plans (continued)

The following tables show the principal actuarial assumptions used in calculating the defined benefit obligations.

	Swiss			International[1]		
	31.12.12	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Principal actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**1.9**	2.3	2.8	**4.3**	4.8	5.4
Rate of salary increase	**2.5**	2.5	2.5	**4.1**	4.1	4.9
Rate of pension increase	**0.0**	0.0	0.3	**2.1**	2.1	2.3
Rate of interest credit on retirement savings	**2.1**	2.5	3.0			

1 For the international plans the actuarial assumptions are weighted average assumptions.

Mortality tables and life expectancies for major plans

		Life expectancy at age 65 for a male member currently					
		aged 65			aged 45		
Country	**Mortality table**	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Switzerland	BVG 2010 G[1]	**21.2**	21.1	17.9	**23.0**	22.8	17.9
UK	S1NA_L CMI 2010 G, with projections[2]	**24.5**	24.3	23.0	**27.5**	27.3	25.9
Germany	Dr. K. Heubeck 2005 G	**19.6**	19.4	19.3	**22.3**	22.1	22.0
US	PPA mandated mortality table per IRC 1.430(h)(3)	**19.2**	19.1	19.0	**19.2**	19.1	19.0

		Life expectancy at age 65 for a female member currently					
		aged 65			aged 45		
Country	**Mortality table**	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Switzerland	BVG 2010 G[1]	**23.7**	23.6	21.0	**25.4**	25.3	21.0
UK	S1NA_L CMI 2010 G, with projections[2]	**25.6**	25.5	24.7	**27.9**	27.8	26.6
Germany	Dr. K. Heubeck 2005 G	**23.7**	23.5	23.4	**26.2**	26.1	26.0
US	PPA mandated mortality table per IRC 1.430(h)(3)	**21.0**	21.0	20.9	**21.0**	21.0	20.9

1 In 2010 the mortality table BVG 2005 was used; the mortality tables are updated every five years. 2 In 2010 the mortality table PA 2000 G, medium cohort with adjustment was used.

Note 30 Pension and other post-employment benefit plans (continued)

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of plan assets.

Sensitivity analysis of significant actuarial assumptions[1]

	Swiss plan: increase / (decrease) in defined benefit obligation	International plans: increase / (decrease) in defined benefit obligation
CHF million	**31.12.12**	**31.12.12**
Discount rate		
Increase by 50 basis points	(1,438)	(410)
Decrease by 50 basis points	1,639	470
Rate of salary increase		
Increase by 50 basis points	163	2
Decrease by 50 basis points	(155)	(2)
Rate of pension increase		
Increase by 50 basis points	1,118	355
Decrease by 50 basis points	0[2]	(281)
Rate of interest credit on retirement savings		
Increase by 50 basis points	304	
Decrease by 50 basis points	(286)	
Life expectancy		
Increase in longevity by one additional year	613	125

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. The methodology applied is consistent to that used to determine the recognized pension liability. 2 As the assumed rate of pension increase was 0% as of 31 December 2012, a downward change in assumption is not applicable.

Note 30 Pension and other post-employment benefit plans (continued)

The following table provides information on the composition and fair value of plan assets of the Swiss pension plan and the international pension plans.

Composition and fair value of plan assets

Swiss Plan

	31.12.12				31.12.11			31.12.10		
	Fair value			Plan asset allocation %	Fair value		Plan asset allocation %	Fair value		Plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other		Quoted in an active market	Other	
Cash and cash equivalents	602	0	602	3	436	0	2	122	0	1
Real estate / property										
Domestic	0	2,377	2,377	11	0	2,312	11	0	2,249	11
Investment funds										
Equity										
Domestic	597	0	597	3	477	0	2	432	0	2
Foreign	5,210	824	6,034	28	4,423	804	26	4,772	768	27
Bonds[1]										
Domestic, AAA to BBB–	3,492	0	3,492	16	2,543	0	12	1,019	0	5
Domestic, below BBB–	0	0	0	0	0	0	0	0	0	0
Foreign, AAA to BBB–	7,060	0	7,060	32	8,385	0	41	10,197	0	49
Foreign, below BBB–	615	0	615	3	0	0	0	0	0	0
Real estate										
Foreign	0	138	138	1	133	158	1	141	134	1
Other	593	259	853	4	649	274	4	521	313	4
Other investments	0	16	16	0	0	20	0	0	20	0
Total	18,169	3,614	21,783	100	17,047	3,567	100	17,205	3,485	100

	31.12.12	31.12.11	31.12.10
Total fair value of plan assets	21,783	20,614	20,690
of which:			
UBS debt instruments and bank accounts at UBS	*611*	*516*	*258*
UBS shares	*32*	*23*	*25*
Property occupied by UBS	*158*	*157*	*188*
Derivative financial instruments, counterparty UBS	*83*	*20*	*298*

1 The bond credit ratings are primarily based on Standard and Poor's credit ratings. Ratings AAA to BBB– and below BBB– represent investment grade and non-investment grade ratings, respectively. In cases where credit ratings from other rating agencies were used, these were converted to the equivalent rating in the Standard & Poor's rating classification.

Note 30 Pension and other post-employment benefit plans (continued)

Composition and fair value of plan assets (continued)

International Plans

	31.12.12				31.12.11			31.12.10		
	Fair value			Weighted average plan asset allocation %	Fair value		Weighted average plan asset allocation %	Fair value		Weighted average plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other		Quoted in an active market	Other	
Cash and cash equivalents	95	0	95	3	83	0	2	27	0	1
Bonds[1]										
Domestic, AAA to BBB–	121	0	121	3	118	0	3	129	0	4
Domestic, below BBB–	121	0	121	3	118		3	72	0	2
Foreign, AAA to BBB–	19	0	19	1	17	0	1	7	0	0
Foreign, below BBB–	23	0	23	1	21	0	1	14	0	0
Private equity	0	0	0	0	0	0	0	0	3	0
Investment funds										
Equity										
Domestic	624	4	628	16	543	3	16	708	3	21
Foreign	874	0	874	23	771	0	22	814	0	24
Bonds[1]										
Domestic, AAA to BBB–	1,082	0	1,082	29	1,152	0	33	964	0	28
Domestic, below BBB–	219	0	219	6	62	0	2	58	0	2
Foreign, AAA to BBB–	125	0	125	3	201	0	6	140	0	4
Foreign, below BBB–	132	0	132	4	59	0	2	99	0	3
Real estate										
Domestic	0	95	95	3	0	93	3	0	92	3
Foreign	0	0	0	0	0	0	0	0	0	0
Other	61	163	223	6	31	163	6	34	215	7
Insurance contracts	0	15	15	0	0	14	0	0	14	0
Other investments	8	4	11	0	10	0	0	14	0	0
Total	3,503	280	3,783	100	3,185	273	100	3,079	327	100
Total fair value of plan assets			3,783			3,458			3,046	

1 The bond credit ratings are primarily based on Standard and Poor's credit ratings. Ratings AAA to BBB– and below BBB– represent investment grade and non-investment grade ratings, respectively. In cases where credit ratings from other rating agencies were used, these were converted to the equivalent rating in the Standard & Poor's rating classification.

b) Post-retirement medical and life insurance plans

In the US and the UK, UBS offers retiree medical benefits that contribute to the health care coverage of certain employees and their beneficiaries after retirement. The UK medical plan is closed to new entrants. In the US, in addition to retiree medical benefits, UBS also provides retiree life insurance benefits to certain employees. The post-retirement medical benefits in the UK and the US cover all types of medical expenses including, but not limited to, cost of doctor visits, hospitalization, surgery and pharmaceuticals. The retirees contribute to the cost of the post-retirement medical benefits. These plans are not pre-funded plans; cost are incurred as amounts are paid.

In the second quarter of 2012, UBS announced changes to the retiree medical and life insurance benefit plans in the US. This change reduced the defined benefit obligation by CHF 116 million with a corresponding gain recognized in the income statement.

The employer contributions expected to be made to the post-retirement medical and life insurance plans in 2013 are estimated at CHF 7 million.

Note 30 Pension and other post-employment benefit plans (continued)

Pension and other post-employment benefit plans

The following table provides an analysis of the net asset / (liability) recognized on the balance sheet for post-retirement medical and life insurance plans between the beginning to the end of the year, as well as an analysis of amounts recognized in net profit and in other comprehensive income.

Post-retirement medical and life insurance plans

CHF million			
For the year ended	**31.12.12**	31.12.11	31.12.10
Defined benefit obligation at the beginning of the year	**219**	209	186
Current service cost	**6**	9	9
Interest expense	**9**	11	11
Plan participant contributions	**3**	2	2
Remeasurement of defined benefit obligation	**26**	19	36
of which: actuarial (gains) / losses arising from changes in demographic assumptions	***0***	*0*	*8*
of which: actuarial (gains) / losses arising from changes in financial assumptions	***10***	*19*	*21*
of which: experience (gains) / losses	***16***	*0*	*6*
Past service cost related to plan amendments	**(9)**	(9)	0
Curtailments	**(108)**	(13)	0
Benefit payments[1]	**(9)**	(9)	(10)
Foreign currency translation	**(1)**	1	(25)
Defined benefit obligation at the end of the year	**136**	219	209
of which: amounts owing to active members	***27***	*122*	*112*
of which: amounts owing to deferred members	***0***	*0*	*0*
of which: amounts owing to retirees	***109***	*97*	*97*
Fair value of plan assets at the end of the year	**0**	0	0
Net defined benefit asset / (liability)	**(136)**	(219)	(209)
Analysis of amounts recognized in net profit			
Current service cost	**6**	9	9
Interest expense related to defined benefit obligation	**9**	11	11
Past service cost related to plan amendments	**(9)**	(9)	0
Curtailments	**(108)**	(13)	0
Net periodic cost	**(102)**	(2)	20
Analysis of gains / (losses) recognized in other comprehensive income			
Remeasurement of defined benefit obligation	**(26)**	(19)	(36)
Total gains / (losses) recognized in other comprehensive income	**(26)**	(19)	(36)

1 Benefits payments are funded by employer contribution and plan participant contributions.

The post-retirement benefit obligation is determined by using the assumed average health care cost trend rate. On a country-by-country basis, the same discount rate is used for the calculation of the post-retirement benefit obligation from medical and life insurance plans as for the defined benefit obligations arising from pension plans.

The discount rate and the assumed average health care cost trend rates are presented in the following table. The calculation of the post-retirement benefit obligation also uses life expectancy rates, as disclosed in "Note 30a Defined benefit pension plans" above.

Principal weighted average actuarial assumptions used (%)[1]

Assumptions used to determine defined benefit obligations at the end of the year			
CHF million			
For the year ended	**31.12.12**	31.12.11	31.12.10
Discount rate	**4.1**	5.0	5.5
Average health care cost trend rate – initial	**7.6**	7.9	8.1
Average health care cost trend rate – ultimate	**5.0**	5.0	5.0

1 The assumptions for life expectancies are provided within "Note 30a Defined benefit pension plans".

Note 30 Pension and other post-employment benefit plans (continued)

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date.

Sensitivity analysis of significant actuarial assumptions[1]

CHF million	**Increase / (decrease) in defined benefit obligation 31.12.12**
Discount rate	
Increase by 50 basis points	**(8)**
Decrease by 50 basis points	**9**
Average health care cost trend rate	
Increase by 100 basis points	**12**
Decrease by 100 basis points	**(10)**
Life expectancy	
Increase in longevity by one additional year	**9**

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. The methodology applied is consistent to that used to determine the recognized post-retirement benefit liability.

c) Defined contribution plans

UBS also sponsors a number of defined contribution plans in its international locations. The locations with significant defined contribution plans are the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from UBS. The employer contributions to these plans are recognized as an expense which, for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, amounted to CHF 240 million, CHF 254 million and CHF 246 million, respectively.

d) Related party disclosure

UBS is the principal bank for the pension fund of UBS in Switzerland. In this function, UBS is engaged to execute most of the pension fund's banking activities. These activities can include, but are not limited to, trading and securities lending and borrowing. All transactions have been executed under arm's length conditions. The international UBS pension funds do not have a similar banking relationship with UBS.

In 2008, UBS sold certain bank-occupied properties to the Swiss pension fund. Simultaneously, UBS and the Swiss pension fund entered into lease-back arrangements for some of the properties with 25-year lease terms and two renewal options for ten years each. During 2009, UBS renegotiated one of the lease contracts which reduced UBS's remaining lease commitment. As of 31 December 2012, the minimum commitment towards the Swiss pension fund under the related leases is approximately CHF 11 million (31 December 2011: CHF 16 million).

The following amounts have been received or paid by UBS from and to the pension funds in respect of these banking activities and arrangements:

Related party disclosure

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Received by UBS			
Fees	**31**	24	21
Paid by UBS			
Rent	**9**	10	11
Interest	**1**	3	3

Note 30 Pension and other post-employment benefit plans (continued)

The transaction volumes in UBS shares and other UBS securities are as follows:

Transaction volumes – related parties

	For the year ended		
	31.12.12	31.12.11	31.12.10
Financial instruments bought by pension funds			
UBS shares (in thousands of shares)	**2,926**	2,713	2,684
UBS debt instruments (par values in CHF million)	**10**	7	40
Financial instruments sold by pension funds or matured			
UBS shares (in thousands of shares)	**3,645**	2,374	4,735
UBS debt instruments (par values in CHF million)	**81**	18	10

Details of the fair value of the plan assets of the defined pension plans are disclosed in "Note 30a Defined benefit pension plans". In addition, UBS defined contribution pension funds held 16,690,174 UBS shares with a fair value of CHF 240 million as of 31 December 2012 (31 December 2011: 17,628,845 UBS shares with a fair value of CHF 196 million; 31 December 2010: 17,665,621 UBS shares with a fair value of CHF 272 million).

Note 31 Equity participation and other compensation plans

a) Plans offered

UBS operates several equity participation and other compensation plans to align the interests of executives, managers and staff with the interests of shareholders. Some plans (e.g. Equity Plus and EOP) are granted to eligible employees in approximately 50 countries and are designed to meet the legal, tax and regulatory requirements of each country in which they are offered. Certain plans are used in specific countries, business areas (e.g. awards granted within Wealth Management Americas), or are offered to members of the Group Executive Board (GEB) only. UBS operates compensation plans on a mandatory, discretionary and voluntary basis. The explanations below provide a general description of the terms of the most significant plans which relate to the performance year 2012 (granted in 2013) and those from prior years that are partly expensed in 2012. Refer to Note 1a) 25) for a description of the accounting policy related to equity participation and other compensation plans.

Mandatory share-based compensation plans

Equity Ownership Plan (EOP): Selected employees receive a portion of their annual performance-related compensation above a certain threshold in the form of an EOP award of UBS shares, notional shares or UBS performance shares (i.e. notional shares which are subject to performance conditions). Since 2011 (for the performance year 2010), performance shares have been granted to EOP participants who are risk-takers, Group Managing Directors or employees whose incentive exceeds a certain threshold. In respect of an award granted in 2011 and 2012, these performance shares will only vest in full if certain performance targets are met, i.e. if the participant's business division is profitable (for Corporate Center participants, the Group as a whole needs to be profitable) in the financial year preceding the relevant vesting date. Adjustments to reported profitability may be made based on considerations relating to risk, quality and reliability of earnings, as well as achievement of specific targets. For performance shares granted in respect of the performance year 2012, the performance conditions are based on the Group return on tangible equity and the divisional return on attributed equity. Replacement awards (including sign-on payments) can be offered in deferred cash under the EOP plan rules.

Awards of UBS shares allow for voting and dividend rights during the vesting period, whereas notional and performance shares represent a promise to receive UBS shares at vesting and do not allow for voting rights or dividends during the vesting period. Awards granted in the form of UBS shares, notional shares and performance shares are settled by delivering UBS shares at vesting, except in countries where this is not permitted for legal reasons. EOP awards granted until 2012 generally vest in three equal increments over a three-year vesting period and awards granted since March 2013 generally vest in equal increments in years two and three. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee, on a tiered basis.

Senior Executive Equity Ownership Plan (SEEOP): GEB members receive a portion of their mandatory deferral in UBS shares or notional shares, which vest in one-fifth increments over a five-year vesting period and are forfeitable if certain conditions are not met. Awards granted since 2011 are subject to the same performance conditions as performance shares granted under the EOP, i.e. they will only vest in full if the participant's business division is profitable (for Corporate Center participants, the Group as a whole must be profitable) in the financial year preceding scheduled vesting. Awards granted under SEEOP are settled by delivering UBS shares at vesting. Compensation expense is recognized on the same basis as for share-settled EOP awards. No SEEOP awards are granted for the performance year 2012.

Incentive Performance Plan (IPP): In 2010, GEB members and certain other senior employees received part of their annual incentive in the form of performance shares granted under the IPP. Each performance share granted is a contingent right to receive between one and three UBS shares at vesting, depending on the achievement of share price targets. The IPP awards vest after five years in 2015 and are subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee. IPP was a one-time plan granted in 2010 only.

Performance Equity Plan (PEP): From 2010 to 2012, GEB members received part of their annual incentive in the form of performance shares granted under the PEP. Each performance share is a contingent right to receive between zero and two UBS shares at vesting, depending on the achievement of Economic Profit (EP) and Total Shareholder Return (TSR) targets. PEP awards vest after three years. EP is a risk-adjusted profit measure that takes into account the cost of risk capital. TSR measures the total return to UBS shareholders (in the form of share price appreciation and dividends) as compared to the constituents of a banking index. Vesting is subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee. No PEP awards are granted for the performance year 2012.

2012 Special Plan Award Program for the Investment Bank (SPAP): In April 2012, certain Managing Directors and Group Managing Directors of the Investment Bank were granted an award of UBS shares which will vest three years after grant. Vesting is subject to performance conditions, continued employment with the firm and certain other conditions. The vesting of Special

Note 31 Equity participation and other compensation plans (continued)

Plan awards is subject to performance conditions based on the level of reduction in risk-weighted assets achieved and the average return on risk-weighted assets in the Investment Bank for 2012, 2013 and 2014. Compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Mandatory deferred cash compensation plans

Global Asset Management Equity Ownership Plan: To align their compensation with the performance of the funds that they manage, with effect from 2012, all Global Asset Management employees who receive EOP awards do so in the form of deferred cash, the amount of which depends on the value of the relevant underlying Global Asset Management funds at the time of vesting. In prior years certain Global Asset Management employees received EOP awards in a combination of shares and deferred cash, the amount of which depends on the value of the underlying Global Asset Management funds at the time of vesting.

Conditional Variable Compensation Plan (CVCP): In 2009, certain employees received part of their incentive in the form of a mandatory deferred cash award that vests in increments over a three-year vesting period subject to performance conditions. The award consists of a contingent right to receive cash payments at vesting. The awards are forfeitable upon voluntary termination of employment. Compensation expense is recognized over the individual performance periods and accelerated to the retirement-eligibility date for those employees who are, or become, retirement eligible during the service period. CVCP was a one-time plan granted in 2009. The last tranche of CVCP vested and was distributed in 2012.

Cash Balance Plan (CBP): From 2010 to 2012, Group Executive Board (GEB) members received part of their annual incentive in the form of a mandatory deferred cash award. CBP awards are paid out in two equal installments during the two years following the year of grant, subject to certain performance conditions. Awards granted in 2011 and 2012 (for performance years 2010 and 2011, respectively) are subject to a Group return on equity performance conditions, whereas awards granted in 2010 (for performance year 2009) are subject to profitability hurdles. After a GEB member has left the firm, the deferred portion of the CBP award continues to be at risk of forfeiture. Awards granted under the CBP from 2011 onwards are forfeited if a GEB member voluntarily terminates his or her employment and joins another financial services organization. Compensation expense is recognized in the performance year, which is generally the financial year prior to the grant date. No CBP awards are granted for the performance year 2012.

Deferred Cash Plan (DCP): In 2011, DCP awards were granted to Investment Bank employees whose total compensation exceeded a certain threshold. DCP awards vest in one-third increments over a three-year vesting period following the grant date. The awards are forfeitable upon voluntary termination of employment. Compensation expense is recognized ratably over the vesting period. DCP was a one-time plan granted in 2011.

Long-Term Deferred Retention Senior Incentive Scheme (LTDRSIS): Awards granted under the LTDRSIS are granted to employees in Australia only and represent a profit share amount based on the profitability of the Australian business. Awards vest and are paid in equal installments over three years and include an arrangement which allows for unpaid installments to be reduced if the business has a loss during the calendar year preceding vesting. The awards are generally forfeitable upon voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of the grant. Otherwise, compensation expense is recognized ratably from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Deferred Contingent Capital Plan (DCCP): The DCCP is a mandatory performance award deferral plan for all employees whose total compensation exceeds a certain threshold. Such employees receive part of their annual incentive in the form of notional bonds, which are a right to receive a cash payment at vesting. DCCP awards vest in full five years from grant and are forfeited if the phase-in Basel III Common Equity Tier 1 Ratio of the Group falls below 7%, if FINMA determines that the DCCP awards need to be written down to prevent the insolvency, bankruptcy or failure of UBS AG, or if UBS AG has received a commitment of extraordinary support from the public sector that is necessary to prevent such insolvency, bankruptcy or failure. Interest is paid annually for performance years in which the firm generates an adjusted pre-tax profit. In any years during the vesting period where UBS does not achieve an adjusted pre-tax profit, GEB members would forfeit 20% of the award. The awards are subject to standard forfeiture and harmful acts provisions, including voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Wealth Management Americas financial advisor compensation

Financial advisor compensation – cash payments consist primarily of a formula-based compensation plan, which fluctuates in proportion to the level of business activity.

UBS also may enter into compensation arrangements with certain financial advisors primarily as a recruitment incentive and to incentivize financial advisors to achieve specified revenue production and other performance thresholds. The compensation is earned and paid to the employee during a period of continued employment and may be forfeited under certain circumstances. In certain cases, UBS grants loans to financial advisors in connection with these compensation arrangements.

GrowthPlus is a program for selected financial advisors whose revenue production and length of service exceeds defined thresh-

Note 31 Equity participation and other compensation plans (continued)

olds from 2010 through 2017. Compensation arrangements were granted in 2010 and 2011 with potential arrangements to be granted in 2015 and 2018. The awards vest ratably over seven years from grant with the exception of the 2018 commitment, which vests over five years.

PartnerPlus is a mandatory deferred cash compensation plan for selected employees. Awards (UBS contributions) are based on a predefined formula during the performance year. Participants are also allowed to voluntarily contribute additional amounts earned during the year, up to a percentage of UBS's contribution. Awards earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter. Voluntary contributions can earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter, or alternatively be benchmarked to various mutual funds. The awards vest in 20% increments six to ten years after the grant date. Awards and interest earned on both UBS and voluntary contributions are forfeitable under certain circumstances. Compensation expense for awards is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expenses for awards are recognized ratably commencing in the performance year to the earlier of the vesting date or the retirement eligibility date of the employee. Compensation expenses for voluntary contributions are recognized in the year of deferral.

Discretionary share-based compensation plans

Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP): Until 2009, key and high potential employees were granted discretionary share-settled Stock Appreciation Rights (SARs) or UBS options with a strike price not less than the fair market value of a UBS share on the date the SAR or option was granted. A SAR gives employees the right to receive a number of UBS shares equal to the value of any appreciation in the market price of a UBS share between the grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price. SARs and options are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. These awards are generally forfeitable upon termination of employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. No Options or SARs awards have been granted since 2009.

Voluntary share-based compensation plans

Equity Plus Plan (Equity Plus): Equity Plus is a voluntary plan that provides eligible employees with the opportunity to purchase UBS shares at market value and receive, at no additional cost, one free notional UBS share for every three shares purchased, up to a maximum annual limit. Share purchases may be made annually from the performance award and/or monthly through regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for a maximum of three years from the time of purchase. Equity Plus awards vest after up to three years. Prior to 2010, instead of notional shares participants received two UBS options for each share they purchased under this plan. The options had a strike price equal to the fair market value of a UBS share on the grant date, a two-year vesting period and generally expired ten years from the grant date. The options are forfeitable in certain circumstances and are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Compensation expense for the Equity Plus plan is recognized from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee.

Share delivery obligations

UBS satisfies share delivery obligations under its share-based plans either by purchasing UBS shares in the market or through the issuance of new shares. As of 31 December 2012, UBS held approximately 74 million shares in treasury (31 December 2011: approximately 77 million shares) and approximately 145 million (31 December 2011: 149 million shares) unissued shares (out of 150 million approved in 2006) in conditional share capital. These treasury shares and unissued shares are available to satisfy the exercising of options and SAR awards by employees. The shares available cover all vested and in-the-money (i.e. exercisable) employee options and SARs.

Note 31 Equity participation and other compensation plans (continued)

b) Effect on income statement

Effect on the income statement for the financial year and future periods

The following table summarizes the compensation expenses recognized for the year ended 31 December 2012 and deferred compensation expenses that will be recognized as an expense in the income statements for 2013 and later. The deferred compensation expenses in the table also include vested and non-vested awards granted mainly in March 2013, which relate to the performance year 2012.

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2012			Personnel expenses deferred to 2013 and later		
CHF million	Expenses relating to awards for 2012	Expenses relating to awards for prior years	Total	Relating to awards for 2012	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,411	(38)	1,373	0	0	0
Deferred Contingent Capital Plan (DCCP)	145	0	145	361	0	361
Deferred cash plans (CBP, DCP and other cash plans)	5	149	154	10	87	97
Equity Ownership Plan (EOP / SEEOP) – UBS shares	135	995	1,130	383	495	878
Performance Equity Plan (PEP)	0	10	10	0	4	4
Incentive Performance Plan (IPP)	0	62	62	0	82	82
Total UBS share plans	135	1,067	1,202	383	581	964
UBS share option plans (KESAP / KESOP)	0	14	14	0	0	0
Equity Ownership Plan (EOP) – AIVs	28	84	112	20	46	66
Total performance awards	**1,724**	**1,276**	**3,000**	**774**	**714**	**1,488**
Variable compensation						
Variable compensation – other	424	(57)	367[3]	494[4]	71	565
Financial advisor compensation – cash payments	1,957	0	1,957	0	0	0
Compensation commitments and advances related to recruited financial advisors	54	579	634	587	2,115	2,702
GrowthPlus and other deferral plans	54	129	183	54	620	674
UBS share plans	21	78	99	66	216	282
Wealth Management Americas: Financial advisor compensation[2]	2,087	786	2,873	706	2,951	3,657
Total	**4,235**	**2,005**	**6,240**	**1,974**	**3,736**	**5,710**

1 Total share-based personnel expenses recognized for the year ended 31 December 2012 were CHF 1,584 million and were comprised of UBS share plans of CHF 1,261 million, UBS share option plans of CHF 14 million, Equity Ownership Plan – AIVs of CHF 112 million, related social security costs of CHF 89 million and other compensation plans (reported within Variable compensation – other) of CHF 108 million. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date. 3 Includes replacement payments of CHF 109 million (of which CHF 94 million related to prior years), forfeiture credits of CHF 174 million (entirely related to prior years), severance payments and provisions of CHF 303 million (entirely related to the current year) and retention plan and other payments of CHF 128 million (of which CHF 21 million related to prior years). 4 Includes interest expense of CHF 137 million related to DCCP.

Note 31 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2011			Personnel expenses deferred to 2012 and later		
CHF million	Expenses relating to awards for 2011	Expenses relating to awards for prior years	Total	Relating to awards for 2011	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,554	(88)	1,466	0	0	0
Deferred cash plans (CBP, DCP and other cash plans)	34	309	343	3	179	182
Equity Ownership Plan (EOP/SEEOP) – UBS shares	231	1,153	1,384	740	720	1,460
Performance Equity Plan (PEP)	3	5	8	10	4	14
Incentive Performance Plan (IPP)	0	97	97	0	134	134
Total UBS share plans	234	1,256	1,490	750	858	1,608
UBS share option plans (KESAP/KESOP)	0	100	100	0	15	15
Equity Ownership Plan (EOP) – AIVs	25	93	118	69	48	117
Total performance awards	**1,847**	**1,669**	**3,516**	**822**	**1,100**	**1,922**
Variable compensation						
Variable compensation – other	295	(104)	191[3]	132	111	243
Financial advisor compensation – cash payments	1,695	0	1,695	0	0	0
Compensation commitments and advances related to recruited financial advisors	37	499	536	561	2,131	2,692
GrowthPlus and other deferral plans	90	89	179	377	422	799
UBS share plans	20	88	108	86	261	347
Wealth Management Americas: Financial advisor compensation[2]	1,842	676	2,518	1,024	2,814	3,838
Total	**3,984**	**2,242**	**6,226**	**1,978**	**4,025**	**6,003**

1 Total share-based personnel expenses recognized for the year ended 31 December 2011 were CHF 1,789 million and were comprised of UBS share plans of CHF 1,490 million, UBS share option plans of CHF 100 million, Equity Ownership Plan – AIVs of CHF 118 million, related social security costs of CHF 39 million and other compensation plans (reported within Variable compensation – other) of CHF 42 million. In 2012, costs related to guarantees for new hires were reclassified from Variable compensation – other to Variable compensation – performance awards. In addition, costs related to both supplemental severance and certain retention payments were reclassified from Variable compensation – performance awards to Variable compensation – other. Prior periods were adjusted for these changes. The combined impact of these changes resulted in a net increase to Variable compensation – performance awards of CHF 125 million for the year ended 31 December 2011 with a corresponding net decrease to Variable compensation – other. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date. 3 Includes replacement payments of CHF 121 million, forfeiture credits of CHF 215 million, severance payments of CHF 239 million and retention plan and other payments of CHF 46 million.

Additional disclosures on income statement

During 2012, UBS accelerated the recognition of expenses for certain deferred compensation arrangements relating to employees that were made redundant as part of restructuring programs. Based on the redundancy provisions of the plan rules, these employees retain their deferred compensation awards, however, as the employees are not required to provide future service, compensation expense relating to these awards was accelerated to the termination date based on the shortened service period. The amounts accelerated and recognized in 2012 were CHF 63 million relating to share-based payment awards and CHF 13 million related to deferred cash awards. UBS also shortened the service period for certain employees in accordance with the mutually agreed termination provisions of their deferred compensation awards. Expense recognition was accelerated to the revised vesting date. The amounts accelerated and recognized in 2012 were CHF 20 million relating to share-based payment awards and CHF 2 million related to deferred cash awards. These amounts are included in personnel expenses.

Additional disclosures on mandatory, discretionary and voluntary share-based compensation plans (including AIVs granted under EOP)

The total share-based personnel expenses recognized for the years ended 31 December 2012, 2011 and 2010 were CHF

Note 31 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred[1]

CHF million	Personal expenses for the year ended 2010			Personal expenses deferred to 2011 and later		
	Expenses relating to awards for 2010	Expenses relating to awards for prior years	Total	Relating to awards for 2010	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	2,168	5	2,173	(10)	0	(10)
Deferred cash plans (CBP, DCP and other cash plans)	64	250	314	236	311	547
Equity Ownership Plan (EOP / SEEOP) – UBS shares	434	852	1,286	1,249	515	1,764
Performance Equity Plan (PEP)	6	5	11	16	2	18
Incentive Performance Plan (IPP)	0	131	131	6	221	227
Total UBS share plans	440	988	1,428	1,271	738	2,009
UBS share option plans (KESAP / KESOP)	0	145	145	0	114	114
Equity Ownership Plan (EOP) – AIVs	28	83	111	67	57	124
Total performance awards	**2,700**	**1,471**	**4,171**	**1,564**	**1,220**	**2,784**
Variable compensation						
Variable compensation – other	310	(169)	141[3]	347	0	347
Financial advisor compensation – cash payments	1,813	0	1,813	0	0	0
Compensation commitments and advances related to recruited financial advisors	29	570	599	388	2,186	2,574
GrowthPlus and other deferral plans	127	35	162	221	302	523
UBS share plans	11	82	93	89	266	355
Wealth Management Americas: Financial advisor compensation[2]	1,980	687	2,667	698	2,754	3,452
Total	**4,990**	**1,989**	**6,979**	**2,609**	**3,974**	**6,583**

1 Total share-based personnel expenses recognized for the year ended 31 December 2010 were CHF 1,843 million and where comprised of UBS share plans of CHF 1,428 million, UBS share option plans of CHF 145 million, Equity Ownership Plan – AIVs of CHF 111 million, related social security costs of CHF 90 million and other compensation plans (reported within Variable compensation – other) of CHF 69 million. In 2012, costs related to guarantees for new hires were reclassified from Variable compensation – other to Variable compensation – performance awards. In addition, costs related to both supplemental severance and certain retention payments were reclassified from Variable compensation – performance awards to Variable compensation – other. Prior periods were adjusted for these changes. The combined impact of these changes resulted in a net increase to Variable compensation – performance awards of CHF 89 million for the year ended 31 December 2010 with a corresponding net decrease to Variable compensation – other. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date. 3 Includes replacement payments of CHF 107 million, forfeiture credits of CHF 167 million, severance payments of CHF 80 million and retention plan and other payments of CHF 121 million.

1,584 million, CHF 1,789 million, and CHF 1,843 million, respectively. This includes the current period expense, amortization and related social security costs for awards issued in prior periods and performance year expensing for awards granted to retirement-eligible employees where the terms of the awards do not require the employee to provide future services.

The total compensation expenses for non-vested share-based awards granted up to 31 December 2012 relating to prior years to be recognized in future periods is CHF 1,108 million and will be recognized as personnel expenses over a weighted average period of 2.4 years. This includes UBS share plans, UBS share option plans, the Equity Ownership Plan (AIVs), other variable compensation and the Equity Plus Plan. Total deferred compensation amounts included in the 2012 table differ from this amount as the deferred compensation amounts also include non-vested awards granted in March 2013 related to the performance year 2012.

Actual payments to participants in cash-settled share-based plans, including amounts granted as AIVs issued under the EOP, for the years ended 31 December 2012, 2011 and 2010 were CHF 141 million, CHF 93 million and CHF 79 million, respectively. The total carrying amount of the liability related to these plans was CHF 249 million at 31 December 2012.

Note 31 Equity participation and other compensation plans (continued)

c) Movements during the year

UBS share and performance share awards

Movements in UBS share and notional share awards were as follows:

UBS share awards

	Number of shares 2012	Weighted average grant date fair value (CHF)	Number of shares 2011	Weighted average grant date fair value (CHF)	Number of shares 2010	Weighted average grant date fair value (CHF)
Outstanding, at the beginning of the year	214,698,539	17	171,085,140	18	86,888,626	31
Shares awarded during the year	120,208,862	12	111,254,968	18	125,133,310	15
Distributions during the year	(72,997,669)	17	(54,443,660)	21	(29,669,688)	42
Forfeited during the year	(12,850,203)	17	(13,197,909)	18	(11,267,108)	21
Outstanding, at the end of the year	249,059,529	15	214,698,539	17	171,085,140	18
of which: shares vested for accounting purposes	*61,555,483*		*59,154,235*		*47,366,286*	

The fair value of shares that became legally vested and were distributed (i.e. all restrictions were fulfilled) during the years ended 31 December 2012, 2011 and 2010 was CHF 1,216 million, CHF 980 million and CHF 421 million, respectively.

Movements in performance shares granted under the IPP are as follows:

Incentive Performance Plan

	2012		
	Number of performance shares 2012	Weighted average fair value of IPP performance shares at grant date (CHF)[1]	Representative of UBS shares 2012[2]
Forfeitable, at the beginning of the year	16,137,466	22	16,137,466
Awarded during the year	0	0	0
Distributions during the year	(7,182)	22	(7,182)
Forfeited during the year	(1,898,453)	22	(1,898,453)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	N/A
Forfeitable, at the end of the year	14,231,831	22	14,231,831
of which: performance shares vested for accounting purposes	*8,965,917*		*8,965,917*
	2011		
Forfeitable, at the beginning of the year	18,157,242	22	18,157,242
Awarded during the year	31,848	21	31,848
Distributions during the year	0	0	0
Forfeited during the year	(2,051,624)	22	(2,051,624)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	0
Forfeitable, at the end of the year	16,137,466	22	16,137,466
of which: performance shares vested for accounting purposes	*6,727,398*		*6,727,398*
	2010		
Forfeitable, at the beginning of the year	0	0	0
Awarded during the year	19,629,916	22	19,629,916
Distributions during the year	0	0	0
Forfeited during the year	(1,472,674)	22	(1,472,674)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	N/A
Forfeitable, at the end of the year	18,157,242	22	18,157,242
of which: performance shares vested for accounting purposes	*4,073,546*		*4,073,546*

1 Valuations take into account the relevant performance conditions, targets set, and the range of possible outcomes. 2 Based on conditions existing at the relevant balance sheet date.

Note 31 Equity participation and other compensation plans (continued)

Movements in performance shares granted under the PEP are as follows:

Performance Equity Plan

	2012		
	Number of performance shares 2012	Weighted average fair value of PEP performance shares at grant date (CHF)[1]	Representative of UBS shares 2012[2]
Forfeitable, at the beginning of the year	1,210,598	18	1,210,598
Awarded during the year	845,580	13	845,580
Distributions during the year	0	0	0
Forfeited during the year	(230,979)	13	(230,979)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	(878,516)
Forfeitable, at the end of the year	1,825,199	16	946,683
of which: performance shares vested for accounting purposes	*1,160,836*		*587,828*
	2011		
Forfeitable, at the beginning of the year	518,837	16	518,837
Awarded during the year	754,530	19	754,530
Distributions during the year	0	0	0
Forfeited during the year	(62,769)	19	(62,769)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	(732,364)
Forfeitable, at the end of the year	1,210,598	18	478,234
of which: performance shares vested for accounting purposes	*594,235*		*244,332*
	2010		
Forfeitable, at the beginning of the year	0	0	0
Awarded during the year	545,642	16	545,642
Distributions during the year	0	0	0
Forfeited during the year	(26,805)	16	(26,805)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	(251,636)
Forfeitable, at the end of the year	518,837	16	267,201
of which: performance shares vested for accounting purposes	*221,638*		*114,143*

1 Valuations take into account the relevant performance conditions, targets set, and the range of possible outcomes. 2 Based on conditions existing at the relevant balance sheet date.

UBS option awards

Movements in option awards were as follows:

UBS option awards

	Number of options 2012	Weighted average exercise price (CHF)[1]	Number of options 2011	Weighted average exercise price (CHF)[1]	Number of options 2010	Weighted average exercise price (CHF)[1]
Outstanding, at the beginning of the year	179,992,361	43	205,545,575	42	228,623,886	43
Granted during the year	0	0	0	0	0	0
Exercised during the year	(992,180)	11	(1,306,764)	12	(40,894)	14
Forfeited during the year	(1,283,626)	44	(810,094)	24	(5,814,986)	33
Expired unexercised	(19,625,991)	40	(23,436,356)	42	(17,222,431)	54
Outstanding, at the end of the year	158,090,564	43	179,992,361	43	205,545,575	42
Exercisable, at the end of the year	158,090,564	43	178,008,644	43	155,302,104	48

1 Some of the options in this table have exercise prices denominated in USD which have been converted into CHF at the year-end spot exchange rate for the purposes of this table.

The following table provides additional information about option exercises, grants and intrinsic values:

For the year ended	31.12.12	31.12.11	31.12.10
Weighted average share price of options exercised (CHF)	13	17	16
Intrinsic value of options exercised during the year (CHF million)	3.6	7.5	0.1
Weighted average grant date fair value of options granted (CHF)	N/A	N/A	N/A

Note 31 Equity participation and other compensation plans (continued)

The following table provides additional information about options outstanding and options exercisable as of 31 December 2012:

	Options outstanding				Options exercisable			
Range of exercise prices	Number of options outstanding	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)	Number of options exercisable	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)
CHF Awards								
10.21–15.00	14,801,336	11.38	43.8	6.1	14,801,336	11.38	43.8	6.1
15.01–25.00	10,306,684	18.75	0.0	6.3	10,306,684	18.75	0.0	6.3
25.01–35.00	34,383,941	30.97	0.0	4.4	34,383,941	30.97	0.0	4.4
35.01–45.00	8,768,140	41.98	0.0	2.0	8,768,140	41.98	0.0	2.0
45.01–55.00	16,679,077	49.36	0.0	2.5	16,679,077	49.36	0.0	2.5
55.01–65.00	4,589,852	60.10	0.0	4.0	4,589,852	60.10	0.0	4.0
65.01–75.00	48,336,965	67.59	0.0	3.7	48,336,965	67.59	0.0	3.7
10.21–75.00	**137,865,995**		**43.8**		**137,865,995**		**43.8**	
USD Awards								
17.88–25.00	5,312,270	19.51	0.0	0.2	5,312,270	19.51	0.0	0.2
25.01–35.00	6,809,592	31.69	0.0	1.4	6,809,592	31.69	0.0	1.4
35.01–40.00	5,772,639	37.27	0.0	2.2	5,772,639	37.27	0.0	2.2
40.01–45.96	2,330,068	41.12	0.0	2.5	2,330,068	41.12	0.0	2.5
17.88–45.96	**20,224,569**		**0.0**		**20,224,569**		**0.0**	

UBS SAR awards

Movements in SAR awards were as follows:

UBS SARs awards

	Number of SARs 2012	Weighted average exercise price (CHF)	Number of SARs 2011	Weighted average exercise price (CHF)	Number of SARs 2010	Weighted average exercise price (CHF)
Outstanding, at the beginning of the year	55,021,238	12	58,015,041	12	60,907,175	12
Granted during the year	0	0	0	0	0	0
Exercised during the year	(14,217,629)	11	(44,333)	15	(160,334)	12
Forfeited during the year	(684,717)	11	(2,946,350)	11	(2,721,700)	11
Expired unexercised	(7,000,557)	11	(3,120)	16	(10,100)	11
Outstanding, at the end of the year	33,118,335	12	55,021,238	12	58,015,041	12
Exercisable, at the end of the year	33,118,335	12	4,018,634	10	4,005,317	10

The following table provides additional information about SARs exercises, grants and intrinsic values:

For the year ended	31.12.12	31.12.11	31.12.10
Weighted average share price of SARs exercised (CHF)	13	18	16
Intrinsic value of SARs exercised during the year (CHF million)	24.6	0.1	0.6
Weighted average grant date fair value of SARs granted (CHF)	N/A	N/A	N/A

Note 31 Equity participation and other compensation plans (continued)

The following table provides additional information about SARs outstanding as of 31 December 2012:

	SARs outstanding				SARs exercisable			
Range of exercise prices	Number of SARs outstanding	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)	Number of SARs exercisable	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)
CHF								
9.35–12.50	31,704,385	11.34	92.7	6.2	31,704,385	11.34	92.7	6.2
12.51–15.00	32,000	14.51	0.0	6.5	32,000	14.51	0.0	6.5
15.01–17.50	110,950	16.80	0.0	6.4	110,950	16.80	0.0	6.4
17.51–20.00	366,000	19.25	0.0	6.7	366,000	19.25	0.0	6.7
20.01–40.00	905,000	40.00	0.0	6.2	905,000	40.00	0.0	6.2
9.35–40.00	**33,118,335**		**92.7**		**33,118,335**		**92.7**	

d) Valuation

UBS share awards

UBS measures compensation expense based on the average market price of the UBS share on the grant date as quoted on the SIX Swiss Exchange, taking into consideration post-vesting sale and hedge restrictions, non-vesting conditions and market conditions, where applicable. The fair value of the share awards subject to post-vesting sale and hedge restrictions is discounted based upon the duration of the post-vesting restriction and is referenced to the cost of purchasing an at-the-money European put option for the term of the transfer restriction. The weighted average discount for share and performance share awards granted during 2012 is approximately 15.4% (2011: 13.9%) of the market price of the UBS share. The grant date fair value of notional UBS shares without dividend entitlements also includes a deduction for the present value of future expected dividends to be paid between the grant date and distribution.

UBS options and SARs awards

Since 2010, the fair values of options and SARs have been determined using a standard closed-formula option valuation model. The expected term of each instrument is calculated based on historical employee exercise behavior patterns, taking into account the share price, strike price, vesting period and the contractual life of the instrument. The term structure of volatility is derived from the implied volatilities of traded UBS options in combination with the observed long-term historical share price volatility. Expected future dividends are derived from traded UBS options or from the historical dividend pattern. No options or SARs have been granted since 2009.

Incentive Performance Plan (IPP) and Performance Equity Plan (PEP)

For performance share awards granted in 2012, 2011 and 2010, UBS obtained independent third-party valuations based on the market conditions at the date of grant. The valuation methodology applied was a Monte Carlo simulation. The approach to determining input parameters and valuing the post-vesting transfer restriction is in line with that used for options. The fair value of IPP units granted in 2010 and PEP units granted in 2012, 2011 and 2010 was determined using the following assumptions:

	31.12.12	31.12.11	31.12.10
	PEP CHF awards	PEP CHF awards	PEP CHF awards
Expected total shareholder return volatility (%)	**43.00**	62.00	63.00
Expected economic profit volatility (%)[1]	**16.00**	52.00	57.00
Risk-free interest rate (%)	**0.09**	0.62	0.60
Expected dividend (CHF)	**0.13**	0.03	0.10
Share price (CHF)	**12.76**	18.43	14.80

1 For the PEP award in 2012, the expected volatility of economic profit was determined prior to the cost of equity deduction, resulting in a lower volatility compared with prior periods when the expected volatility of economic profit was determined after the cost of equity deduction. This refinement to the calculation did not have a significant impact on compensation expense for this award. Refer to the "Capital management" section in this report for more information on economic profit.

	31.12.10
	IPP CHF awards
Expected total shareholder return volatility (%)	38.07
Expected economic profit volatility (%)	N/A
Risk-free interest rate (%)	1.06
Expected dividend (CHF)	0.12
Share price (CHF)	14.80

Note 32 Related parties

UBS defines related parties as associated companies (entities which are significantly influenced by UBS), post-employment benefit plans for the benefit of UBS employees, key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled or jointly controlled by key management personnel or their close family members. Key management personnel is defined as members of the Board of Directors (BoD) and Group Executive Board (GEB).

a) Remuneration of key management personnel

The non-independent members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the non-independent members of the BoD and GEB members, including those who stepped down during 2012[1], is as follows:

Remuneration of key management personnel

CHF million	31.12.12	31.12.11	31.12.10
Base salaries and other cash payments	20	21	16
Incentive awards – cash[2]	0	22	30
Annual incentive award under DCCP	21	0	0
Employer's contributions to retirement benefit plans	1	1	1
Benefits in kind, fringe benefits (at market value)	1	1	1
Equity-based compensation[3]	34	33	48
Total	76	79	96

1 During 2012, Alexander Wilmot-Sitwell and Carsten Kengeter stepped down from the GEB. 2 Includes immediate and deferred cash. 3 Expenses for shares granted is measured at grant date and allocated over the vesting period, generally for 5 years. In 2012, equity-based compensation was entirely comprised of EOP awards. In 2011 and 2010, equity-based compensation included PEP and SEEOP awards, as well as blocked shares due to applicable UK FSA regulations.

The independent members of the BoD do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the BoD. Payments to these individuals for their services as external board members amounted to CHF 7.6 million in 2012, CHF 7.0 million in 2011 and CHF 6.7 million in 2010.

b) Equity holdings

	31.12.12	31.12.11	31.12.10
Number of stock options from equity participation plans held by non-independent members of the BoD and the GEB members[1]	3,137,426	4,800,170	9,085,194
Number of shares held by members of the BoD, GEB and parties closely linked to them[2]	4,557,522	3,562,771	4,850,196

1 Refer to "Note 31 Equity participation and other compensation plans" for more information. 2 Excludes shares granted under variable compensation plans with forfeiture provisions.

Of the share totals above, 5,597 shares on 31 December 2012, 31 December 2011 and 31 December 2010, respectively, were held by close family members of key management personnel. No shares were held by entities that are directly or indirectly controlled or jointly controlled by key management personnel or their close family members on 31 December 2012, 31 December 2011 and 31 December 2010. Refer to "Note 31 Equity participation and other compensation plans" for more information. No member of the BoD or GEB is the beneficial owner of more than 1% of UBS AG's shares on 31 December 2012.

Note 32 Related parties (continued)

c) Loans, advances and mortgages to key management personnel

Non-independent members of the BoD and GEB members have been granted loans, fixed advances and mortgages on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties but adjusted for reduced credit risk. Independent BoD members are granted loans and mortgages under general market conditions.

Movements in the loan, advances and mortgage balances are as follows:

Loans, advances and mortgages to key management personnel[1]

CHF million	**2012**	2011
Balance at the beginning of the year	**19**	22
Additions	**5**	0
Reductions	**(5)**	(3)
Balance at the end of the year	**19**	19[2]

1 All loans are secured loans, except for CHF 311,308 in 2012 and CHF 45,435 in 2011. 2 Includes a forgivable loan of CHF 3.3 million, subject to the GEB member's continued full-time employment with UBS and a performance satisfactory and commensurate with his responsibilities. The loan has been fully repaid in 2012, as the GEB member stepped down during the year.

d) Associated companies

All transactions with associated companies are conducted at arm's length:

Loans and receivables with associated companies

CHF million	**2012**	2011	2010
Balance at the beginning of the year	**231**	259	373
Additions	**251**	3	2
Reductions	**(32)**	(33)	(118)
Credit loss (expense) / recovery	**0**	0	0
Foreign currency translation	**1**	1	2
Balance at the end of the year	**450**	231	259
of which: unsecured loans	***276***	*28*	*39*
of which: allowances for credit losses	***1***	*1*	*1*

Other transactions with associated companies

	As of or for the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Payments to associates for goods and services received	**131**	131	139
Fees received for services provided to associates	**0**	1	1
Commitments and contingent liabilities to associates	**8**	9	68

Refer to "Note 34 Significant subsidiaries and associates" for an overview of significant associates.

Note 32 Related parties (continued)

e) Other related party transactions

During 2012 and 2011, UBS entered into transactions at arm's length with entities which are directly or indirectly controlled or jointly controlled by UBS's key management personnel or their close family members. In 2012 and 2011, these entities included H21 Macro Fund Ltd (Cayman Islands) and Immo Heudorf AG (Switzerland). In 2010, UBS provided services for H21 Macro Fund Ltd (Cayman Islands).

Other related party transactions

CHF million	2012	2011	2010
Balance at the beginning of the year	11	0	0
Additions	1	15	0
Reductions	0	4	0
Balance at the end of the year	11[1]	11[1]	0

1 Comprised of loans.

Other transactions with these related parties include:

CHF million	2012	2011	2010
Goods sold and services provided to UBS	0	0	0
Fees received for services provided by UBS	0	3	1

f) Additional information

UBS also engages in trading and risk management activities (e.g. swaps, options and forwards) with various related parties mentioned in previous sections. These transactions may give rise to credit risk either for UBS or for a related party towards UBS. As part of its normal course of business, UBS is also a market-maker in equity and debt instruments and at times may hold positions in instruments of related parties. These transactions are generally entered into at arm's length terms.

Note 33 Events after the reporting period

There have been no material events after the reporting period which would require disclosure in or adjustment to the 31 December 2012 Financial Statements.

Note 34 Significant subsidiaries and associates

Significant subsidiaries as of 31 December 2012

Company	Registered office	Business division		Share capital in million	Equity interest accumulated in %
CCR Asset Management SA	Paris, France	Global Asset Management	EUR	5.3	100.0
OOO UBS Bank	Moscow, Russia	Investment Bank	RUB	3,450.0	100.0
Swiss Finance Corporation (Mauritius) Limited	Port Louis, Mauritius	Investment Bank	USD	0.0	100.0
Topcard Service AG	Glattbrugg, Switzerland	Retail & Corporate	CHF	0.2	100.0
UBS (Bahamas) Ltd	Nassau, Bahamas	Wealth Management	USD	4.0	100.0
UBS (China) Limited[1]	Beijing, China	Investment Bank	CNY	2,000.0	100.0
UBS (France) SA	Paris, France	Wealth Management	EUR	125.7	100.0
UBS (Grand Cayman) Limited	George Town, Cayman Islands	Investment Bank	USD	0.0	100.0
UBS (Italia) SpA	Milan, Italy	Wealth Management	EUR	60.0	100.0
UBS (Luxembourg) SA	Luxembourg, Luxembourg	Wealth Management	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo, Monaco	Wealth Management	EUR	9.2	100.0
UBS Alternative and Quantitative Investments LLC	Wilmington, Delaware, USA	Global Asset Management	USD	0.1	100.0
UBS Americas Inc.	Wilmington, Delaware, USA	Investment Bank	USD	0.0	100.0
UBS Asesores Mexico, S.A. de C.V.	Mexico City, Mexico	Wealth Management	MXN	303.6	100.0
UBS Bank (Canada)	Toronto, Canada	Wealth Management Americas	CAD	8.5	100.0
UBS Bank (Netherlands) B.V.	Amsterdam, Netherlands	Wealth Management	EUR	0.2	100.0
UBS Bank Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero	Mexico City, Mexico	Investment Bank	MXN	706.4	100.0
UBS Bank USA	Salt Lake City, Utah, USA	Wealth Management Americas	USD	1,880.0[2]	100.0
UBS Bank, SA	Madrid, Spain	Wealth Management	EUR	82.2	100.0
UBS Belgium SA/NV	Brussels, Belgium	Wealth Management	EUR	28.0	100.0
UBS Beteiligungs-GmbH & Co. KG	Frankfurt, Germany	Wealth Management	EUR	568.8	100.0
UBS Brasil Administradora de Valores Mobiliarios Ltda	São Paulo, Brazil	Wealth Management	BRL	114.2	100.0
UBS Capital Securities (Jersey) Limited	St. Helier, Jersey	Corporate Center	EUR	0.0	100.0
UBS Card Center AG	Glattbrugg, Switzerland	Retail & Corporate	CHF	0.1	100.0
UBS Casa de Bolsa, S.A. de C.V., UBS Grupo Financiero	Mexico City, Mexico	Investment Bank	MXN	114.9	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	Investment Bank	HKD	880.0	100.0
UBS Deutschland AG	Frankfurt, Germany	Wealth Management	EUR	176.0	100.0
UBS Finance (Curaçao) NV	Willemstad, Curaçao	Corporate Center	USD	0.1	100.0
UBS Finance (Delaware) LLC	Wilmington, Delaware, USA	Investment Bank	USD	37.3[2]	100.0
UBS Financial Services Inc.	Wilmington, Delaware, USA	Wealth Management Americas	USD	4,522.5[2]	100.0
UBS Financial Services Incorporated of Puerto Rico	San Juan, Puerto Rico	Wealth Management Americas	USD	56.0[2]	100.0
UBS Fund Advisor, L.L.C.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Fund Management (Luxembourg) SA	Luxembourg, Luxembourg	Global Asset Management	EUR	10.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global Asset Management	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global Asset Management	USD	5.6	100.0
UBS Fund Services (Luxembourg) SA	Luxembourg, Luxembourg	Global Asset Management	CHF	2.5	100.0
UBS Futures Singapore Ltd	Singapore, Singapore	Investment Bank	USD	35.1	100.0
UBS Global Asset Management (Americas) Inc.	Wilmington, Delaware, USA	Global Asset Management	USD	0.0	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	Global Asset Management	AUD	19.9	100.0
UBS Global Asset Management (Canada) Inc.	Toronto, Canada	Global Asset Management	CAD	117.0	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global Asset Management	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	Global Asset Management	SGD	4.0	100.0
UBS Global Asset Management (UK) Ltd	London, United Kingdom	Global Asset Management	GBP	125.0	100.0
UBS Global Asset Management Holding Ltd	London, United Kingdom	Global Asset Management	GBP	151.4	100.0
UBS Global Life AG	Vaduz, Liechtenstein	Wealth Management	CHF	5.0	100.0
UBS Grupo Financiero, S.A. de C.V.	Mexico City, Mexico	Investment Bank	MXN	918.8	100.0
UBS Hana Asset Management Company Ltd	Seoul, South Korea	Global Asset Management	KRW	45,000.0	51.0
UBS Holding (France) SA	Paris, France	Investment Bank	EUR	418.9	100.0

1 Incorporated in 2012. 2 Share capital and share premium.

Note 34 Significant subsidiaries and associates (continued)

Significant subsidiaries as of 31 December 2012

Company	Registered office	Business division		Share capital in million	Equity interest accumulated in %
UBS Hypotheken AG	Zurich, Switzerland	Retail & Corporate	CHF	0.1	98.0
UBS International Holdings B.V.	Amsterdam, Netherlands	Corporate Center	EUR	6.8	100.0
UBS International Life Limited	Dublin, Ireland	Wealth Management	EUR	1.0	100.0
UBS Italia SIM SpA	Milan, Italy	Investment Bank	EUR	15.1	100.0
UBS Life AG	Zurich, Switzerland	Wealth Management	CHF	25.0	100.0
UBS Limited	London, United Kingdom	Investment Bank	GBP	193.6	100.0
UBS Loan Finance LLC	Wilmington, Delaware, USA	Investment Bank	USD	16.7[2]	100.0
UBS O'Connor LLC	Dover, Delaware, USA	Global Asset Management	USD	1.0	100.0
UBS Preferred Funding (Jersey) Limited	St. Helier, Jersey	Corporate Center	EUR	0.0	100.0
UBS Preferred Funding Company LLC IV	Wilmington, Delaware, USA	Corporate Center	USD	0.0	100.0
UBS Preferred Funding Company LLC V	Wilmington, Delaware, USA	Corporate Center	USD	0.0	100.0
UBS Real Estate Kapitalanlagegesellschaft mbH	Munich, Germany	Global Asset Management	EUR	7.5	94.9
UBS Real Estate Securities Inc.	Wilmington, Delaware, USA	Investment Bank	USD	1,300.4[2]	100.0
UBS Realty Investors LLC	Boston, Massachusetts, USA	Global Asset Management	USD	9.0	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	Investment Bank	THB	500.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	Investment Bank	AUD	209.8[2]	100.0
UBS Securities Canada Inc.	Toronto, Canada	Investment Bank	CAD	10.0	100.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	Investment Bank	EUR	15.0	100.0
UBS Securities France SA	Paris, France	Investment Bank	EUR	22.9	100.0
UBS Securities Hong Kong Limited	Hong Kong, China	Investment Bank	HKD	430.0	100.0
UBS Securities India Private Limited	Mumbai, India	Investment Bank	INR	140.0	100.0
UBS Securities Japan Co., Ltd	Tokyo, Japan	Investment Bank	JPY	74,450.0	100.0
UBS Securities LLC	Wilmington, Delaware, USA	Investment Bank	USD	22,205.6[2]	100.0
UBS Securities Pte. Ltd	Singapore, Singapore	Investment Bank	SGD	311.5	100.0
UBS Securities Pte. Ltd Seoul Branch	Seoul, South Korea	Investment Bank	KRW	0.0	100.0
UBS Securities Pte. Ltd Taipei Branch	Taipei, Taiwan	Investment Bank	TWD	0.0	100.0
UBS Service Centre (Poland) Sp. z o.o.	Zabierzow, Poland	Corporate Center	PLN	1.4	100.0
UBS South Africa (Proprietary) Limited	Sandton, South Africa	Investment Bank	ZAR	0.0	100.0
UBS Swiss Financial Advisers AG	Zurich, Switzerland	Wealth Management	CHF	1.5	100.0
UBS Trust Company of Puerto Rico	Hato Rey, Puerto Rico	Wealth Management Americas	USD	5.0[2]	100.0
UBS UK Properties Limited	London, United Kingdom	Investment Bank	GBP	132.0	100.0
UBS Wealth Management Australia Ltd	Sydney, Australia	Wealth Management	AUD	53.9	100.0

1 Incorporated in 2012. 2 Share capital and share premium.

Significant subsidiaries deconsolidated during 2012

Significant deconsolidated companies	Registered office	Reason for deconsolidation
UBS Leasing AG	Zurich, Switzerland	Merger with UBS AG

Significant associates as of 31 December 2012

Company	Registered office	Industry	Equity interest in %
SIX Group AG[1]	Zurich, Switzerland	Financial	17.3
UBS Securities Co. Limited[1]	Beijing, China	Financial	20.0

1 UBS is represented on the Board of Directors.

Note 35 Invested assets and net new money

Invested assets

Invested assets include all client assets managed by or deposited with UBS for investment purposes. Invested assets include managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. All assets held for purely transactional purposes and custody-only assets, including corporate client assets held for cash management and transactional purposes, are excluded from invested assets as the Group only administers the assets and does not offer advice on how the assets should be invested. Also excluded are non-bankable assets (e.g. art collections) and deposits from third-party banks for funding or trading purposes. In the first quarter 2012, the definition of invested assets for Retail & Corporate was refined and hence pension fund assets are no longer counted as invested assets. Accordingly, the Group's invested assets were restated as of 31 December 2011 from CHF 2,167 billion to CHF 2,088 billion.

Discretionary assets are defined as client assets that UBS decides how to invest. Other invested assets are those where the client ultimately decides how the assets are invested. When a single product is created in one business division and sold in another, it is counted in both the business division that manages the investment and the one that distributes it. This results in double counting within UBS total invested assets, as both business divisions are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money

Net new money in a reporting period is the amount of invested assets that are entrusted to UBS by new and existing clients, less those withdrawn by existing clients and clients who terminated their relationship with UBS.

Net new money is calculated using the direct method, under which inflows and outflows to/from invested assets are determined at the client level based on transactions. Interest and dividend income from invested assets are not counted as net new money inflows. Market and currency movements as well as fees, commissions and interest on loans charged are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and custody-only assets as a result of a change in the service level delivered are generally treated as net new money flows; however, where such change in service level directly results from a new externally-imposed regulation, the one-time net effect of the implementation is reported as an asset reclassification without net new money impact.

The Investment Bank does not track invested assets and net new money. However, when a client is transferred from the Investment Bank to another business division, this produces net new money even though client assets were already with UBS. Net new money resulting from such transfers between business divisions was zero in 2012 and 2011.

	As of or for the year ended	
CHF billion	**31.12.12**	31.12.11
Fund assets managed by UBS	**270**	270
Discretionary assets	**635**	585
Other invested assets	**1,325**	1,233
Total invested assets (double counts included)	**2,230**	2,088
of which: double count	***172***	*183*
of which: acquisitions (divestments)	***(13.8)***	*24.6*
Net new money (double counts included)	**32.9**	40.4

Note 36 Business combinations

Business combinations in 2012

In 2012, no significant business combinations were completed.

Business combinations completed in 2011

In 2011, UBS completed acquisitions in Global Asset Management and in the equities business of the Investment Bank. The aggregated acquisition costs of these two acquisitions amounted to approximately CHF 54 million of which CHF 11 million related to goodwill, CHF 20 million to intangible assets, and CHF 23 million to other net assets. Intangible assets from both business acquisitions included customer relationships and beneficial contracts. The aggregated acquisition costs included cash payments of CHF 44 million and contingent consideration of CHF 10 million, including CHF 8 million in restricted UBS AG shares.

Business combinations in 2010

In 2010, no significant business combinations were completed.

Note 37 Changes in organization

Net restructuring charges by business division and Corporate Center

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Wealth Management	**26**	82	(9)
Wealth Management Americas	**(1)**	10	162
Investment Bank	**331**	216	(25)
Global Asset Management	**20**	26	1
Retail & Corporate	**3**	32	(3)
Corporate Center	**(8)**	15	(13)
Total net restructuring charges	**371**	380	113
of which: personnel expenses	***358***	*261*	*(2)*
of which: general and administrative expenses	***0***	*93*	*79*
of which: depreciation and impairment of property and equipment	***14***	*26*	*37*

Net restructuring charges by personnel expense category

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Salaries	**64**	31	0
Variable compensation – performance awards	**115**	54	3
Variable compensation – other	**247**	122	(10)
Contractors	**0**	0	0
Social security	**(10)**	20	1
Pension and other post-employment benefit plans	**(56)**	30	0
Wealth Management Americas: Financial advisor compensation	**0**	(1)	2
Other personnel expenses	**(1)**	6	2
Total net restructuring charges: personnel expenses	**358**	261	(2)

Note 38 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of our foreign operations into Swiss francs:

	Spot rate		Average rate[1]		
	As of		Year ended		
	31.12.12	31.12.11	**31.12.12**	31.12.11	31.12.10
1 USD	**0.92**	0.94	**0.92**	0.88	1.04
1 EUR	**1.21**	1.21	**1.21**	1.23	1.37
1 GBP	**1.49**	1.46	**1.50**	1.45	1.62
100 JPY	**1.05**	1.22	**1.07**	1.11	1.18

1 Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a year represent an average of twelve month-end rates, weighted according to the income and expense volumes of all foreign operations of the Group with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for the Group.

Note 39 Swiss banking law requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards (IFRS). The Swiss Financial Market Supervisory Authority (FINMA) requires banks which present their financial statements under IFRS to provide a narrative explanation of the main differences between IFRS and Swiss GAAP (FINMA Circular 2008/2 and the Banking Ordinance). Included in this note are the significant differences in regard to recognition and measurement between IFRS and the provisions of the Banking Ordinance and the guidelines of the FINMA governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance. The differences outlined in points two through eleven also apply to the Parent Bank statutory accounts.

1. Consolidation

Under IFRS, all entities which are controlled by the Group are consolidated.

Under Swiss law, only entities that are active in the field of banking and finance and real estate entities are subject to consolidation. Entities which are held temporarily are generally recorded as financial investments.

2. Financial investments available-for-sale

Under IFRS, financial investments available-for-sale are carried at fair value. Changes in fair value are recorded directly in equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in equity is included in net profit or loss for the period. On disposal of a financial investment available-for-sale, the cumulative unrecognized gain or loss previously recognized in equity is recognized in the income statement.

Under Swiss law, financial investments are carried either at the lower of cost or market or at amortized cost less impairment with changes in measurement recorded in the income statement. Reductions to market value below cost and reversals of such reductions up to original cost as well as gains and losses on disposal are included in *Other income*. Permanent equity investments are classified on the balance sheet as *Investments in subsidiaries and other participations* and are measured at cost less impairment with impairment losses recorded in the income statement.

3. Cash flow hedges

The Group designates derivative instruments in cash flow hedge accounting relationships. Under IFRS, when hedge accounting is applied, the fair value gain or loss on the effective portion of the derivative designated as a cash flow hedge is recognized in equity. When the hedged cash flows materialize, the accumulated unrecognized gain or loss is reclassified to income.

Under Swiss law, the effective portion of the fair value change of the derivative instrument used to hedge cash flow exposures is deferred on the balance sheet as *Other assets* or *Other liabilities*. The deferred amounts are released to income when the hedged cash flows materialize.

4. Investment property

Under IFRS, investment property is carried at fair value, with changes in fair value recognized in the income statement.

Under Swiss law, unless the investment property is classified as held for sale, investment property is carried at amortized cost less any accumulated depreciation and impairment losses. Investment property classified as held for sale is carried at the lower of cost or market value.

Note 39 Swiss banking law requirements (continued)

5. Fair value option

Under IFRS, the Group applies the fair value option to certain financial assets and financial liabilities. Instruments for which the fair value option is applied are accounted for at fair value with changes in fair value reflected in *Net trading income*. The fair value option is applied primarily to hybrid debt instruments, certain loans and loan commitments and certain fund investments.

Under Swiss accounting rules, the fair value option can only be applied to structured products issued that consist of a debt host contract and an embedded derivative(s) that requires bifurcation. Changes in fair value attributable to changes in own credit are not recognized in the income statement.

6. Goodwill and intangible assets

Under IFRS, goodwill acquired in a business combination is not amortized but tested annually for impairment. Intangible assets acquired in a business combination with an indefinite useful life are also not amortized but tested annually for impairment.

Under Swiss law, goodwill and intangible assets with indefinite useful lives are amortized over a period not exceeding five years, unless a longer useful life, which may not exceed twenty years, can be justified.

7. Pension funds

Swiss law permits the use of IFRS or Swiss accounting standards for pension funds, with the election made on a plan by plan basis. UBS applies IFRS for its non-Swiss defined benefit plans and Swiss accounting standards (FER 16) for the Swiss pension plan in the Parent Bank. The requirements of FER 16 are better aligned with the specific nature of Swiss pension plans, which are hybrid in that they combine elements of defined contribution and defined benefit plans, but are treated as defined benefit plans under IFRS. Key differences between FER 16/26 and IAS 19R relate to the treatment of future salary increases, which are not considered under FER 16/26, and the determination of the discount rate.

For defined benefit plans, IFRS requires the full defined benefit obligation net of the plan assets to be recorded on the balance sheet, with changes resulting from remeasurements recognized directly in equity. For plans for which IFRS is elected, Swiss law requires that changes due to remeasurements are recognized in the income statement.

Swiss accounting standards require that employer contributions to the pension fund are recognized as personnel expenses in the income statement. Further, FER 16 requires an assessment as to whether, based on the financial statements of the pension fund prepared in accordance with Swiss accounting standards (FER 26), an economic benefit or obligation for the employer arises from the pension fund and is recognized in the balance sheet when conditions are met. Conditions for recording a pension asset or liability would be met if, for example, an employer contribution reserve is available or the employer is required to contribute to the reduction of a pension deficit (on a FER 26 basis).

8. Netting of replacement values

Under IFRS, replacement values are reported on a gross basis unless certain restrictive requirements are met. Under Swiss law, replacement values and the related cash collateral are reported on a net basis, provided the master netting and the related collateral agreements are legally enforceable.

9. Restructuring provisions

Under Swiss law, a provision for restructuring costs should be recognized when the governing body has authorized a plan for the direction, supervision and control of restructuring measures. For IFRS, in addition to a detailed formal plan for the restructuring, a provision for restructuring costs is recognized only when the entity also has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Accordingly, recognition of a provision for restructuring may occur earlier under Swiss GAAP than under IFRS.

10. Discontinued operations

Under certain conditions, IFRS requires that non-current assets or disposal groups be classified as held for sale. Disposal groups that meet the criteria of discontinued operations are presented in the income statement in a single line as net income from discontinued operations.

Under Swiss law, the concept of discontinued operations does not exist, therefore no such reclassification takes place.

11. Extraordinary income and expense

Certain items of non-recurring and non-operating income and expense are classified as extraordinary items under Swiss law. This distinction is not available under IFRS.

Note 40 Supplemental guarantor information required under SEC rules

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc. (PaineWebber), UBS AG entered into a full and unconditional guarantee of the senior notes, the subordinated notes and the trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was a SEC registrant. Upon the acquisition, PaineWebber was merged into UBS Americas Inc., a wholly-owned subsidiary of UBS AG.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS AG without first proceeding against UBS Americas Inc. UBS AG's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS AG and all other liabilities of UBS AG.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the consolidated financial statements of UBS of which this information is a part.

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	13,376	2,774	2,153	(2,336)	15,968
Interest expense	(9,615)	(1,153)	(1,542)	2,336	(9,974)
Net interest income	3,762	1,622	610	0	5,994
Credit loss (expense) / recovery	(7)	(112)	1	0	(118)
Net interest income after credit loss expense	3,754	1,510	611	0	5,875
Net fee and commission income	5,933	6,333	3,139	0	15,405
Net trading income	3,115	250	115	0	3,480
Income from subsidiaries	(4,009)	0	0	4,009	0
Other income	1,545	783	(1,646)	0	682
Total operating income	10,338	8,876	2,220	4,009	25,443
Operating expenses					
Personnel expenses	7,682	5,369	1,686	0	14,737
General and administrative expenses	4,643	2,618	1,393	0	8,653
Depreciation and impairment of property and equipment	501	104	84	0	689
Impairment of goodwill	14	2,860	156	0	3,030
Amortization and impairment of intangible assets	3	84	20	0	106
Total operating expenses	12,843	11,034	3,339	0	27,216
Operating profit / (loss) from continuing operations before tax	(2,505)	(2,158)	(1,119)	4,009	(1,774)
Tax expense / (benefit)	6	165	290	0	461
Net profit / (loss) from continuing operations	(2,511)	(2,323)	(1,409)	4,009	(2,235)
Net profit from discontinued operations	0	0	0	0	0
Net profit / (loss)	(2,511)	(2,323)	(1,409)	4,009	(2,235)
Net profit attributable to non-controlling interests	0	0	276	0	276
Net profit / (loss) attributable to UBS shareholders	(2,511)	(2,323)	(1,686)	4,009	(2,511)

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	54,192	11,395	796	0	66,383
Due from banks	29,107	7,875	68,713	(84,464)	21,230
Cash collateral on securities borrowed	35,749	35,172	3,126	(36,675)	37,372
Reverse repurchase agreements	105,197	60,659	60,880	(95,795)	130,941
Trading portfolio assets	117,337	21,786	33,072	(11,335)	160,861
of which: assets pledged as collateral which may be sold or repledged by counterparties	*47,226*	*5,467*	*2,466*	*(10,460)*	*44,698*
Positive replacement values	416,098	5,695	129,090	(132,854)	418,029
Cash collateral receivables on derivative instruments	32,740	4,045	28,331	(34,703)	30,413
Financial assets designated at fair value	7,007	3,037	10,535	(11,473)	9,106
Loans	279,038	38,663	11,765	(49,566)	279,901
Financial investments available-for-sale	51,041	10,637	4,706	0	66,383
Accrued income and prepaid expenses	1,954	3,994	590	(446)	6,093
Investments in subsidiaries and associates	64,807	2	1	(63,951)	858
Property and equipment	5,034	593	376	0	6,004
Goodwill and intangible assets	323	5,116	1,023	0	6,461
Deferred tax assets	5,132	2,643	368	0	8,143
Other assets	8,969	3,718	1,233	(2,865)	11,055
Total assets	1,213,726	215,030	354,604	(524,128)	1,259,232
Liabilities					
Due to banks	54,795	46,014	6,680	(84,464)	23,024
Cash collateral on securities lent	19,704	22,105	4,069	(36,675)	9,203
Repurchase agreements	24,540	51,057	57,837	(95,795)	37,639
Trading portfolio liabilities	24,996	8,892	6,137	(5,870)	34,154
Negative replacement values	391,863	5,856	130,204	(132,854)	395,070
Cash collateral payables on derivative instruments	58,650	10,907	36,294	(34,703)	71,148
Financial liabilities designated at fair value	88,775	988	15,154	(12,039)	92,878
Due to customers	330,271	45,107	46,079	(49,566)	371,892
Accrued expenses and deferred income	4,731	2,047	549	(446)	6,881
Debt issued	102,015	353	7,186	(4,899)	104,656
Provisions	1,166	1,023	347	0	2,536
Other liabilities	24,622	18,642	19,503	(2,865)	59,902
Total liabilities	1,126,129	212,993	330,038	(460,177)	1,208,983
Equity attributable to UBS shareholders	87,597	2,037	20,213	(63,951)	45,895
Equity attributable to non-controlling interests	0	0	4,353	0	4,353
Total equity	87,597	2,037	24,566	(63,951)	50,249
Total liabilities and equity	1,213,726	215,030	354,604	(524,128)	1,259,232

1 UBS AG (Parent Bank) prepares its financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows[1]

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[2]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	49,070	10,795	7,186	67,050
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(11)	0	0	(11)
Disposal of subsidiaries, associates and intangible assets[3]	41	0	0	41
Purchase of property and equipment	(878)	(189)	(50)	(1,118)
Disposal of property and equipment	194	5	3	202
Net (investment in) / divestment of financial investments available-for-sale	(12,429)	(780)	(737)	(13,946)
Net cash flow from / (used in) investing activities	(13,082)	(965)	(784)	(14,831)
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	(26,177)	0	(11,790)	(37,967)
Net movements in treasury shares and own equity derivative activity	(1,159)	0	0	(1,159)
Dividends paid	(379)	0	0	(379)
Issuance of long-term debt, including financial liabilities designated at fair value	49,885	575	5,287	55,747
Repayment of long-term debt, including financial liabilities designated at fair value	(49,981)	(23)	(3,991)	(53,996)
Dividends paid to / decrease in non-controlling interests	0	0	(288)	(288)
Net activity in investments in subsidiaries	(2,600)	(99)	2,698	0
Net cash flow from / (used in) financing activities	(30,410)	452	(8,084)	(38,041)
Effects of exchange rate differences	(200)	(352)	(121)	(673)
Net increase / (decrease) in cash and cash equivalents	5,377	9,930	(1,802)	13,506
Cash and cash equivalents at the beginning of the year	66,481	4,336	14,796	85,612
Cash and cash equivalents at the end of the year	71,858	14,266	12,994	99,118
Cash and cash equivalents comprise:				
Cash and balances with central banks	54,192	11,395	796	66,383
Money market paper[4]	4,279	47	56	4,382
Due from banks[5]	13,387	2,824	12,142	28,354
Total	71,858	14,266	12,994	99,118

1 In 2012, the estimation of the effects of foreign currency translation on the statement of cash flows was refined. This change in estimate resulted for UBS Group in Net cash flows from / (used in) operating activities being higher by CHF 1.8 billion (recorded in Other net adjustments), from / (used in) investing activities being higher by CHF 0.5 billion, from / (used in) financing activities being higher by CHF 1.4 billion and the amounts presented under the line item Effects of exchange rate differences being lower by CHF 3.7 billion. 2 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 3 Includes dividends received from associates. 4 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 5 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	15,311	2,910	2,952	(3,203)	17,969
Interest expense	(10,854)	(1,102)	(2,391)	3,203	(11,143)
Net interest income	4,457	1,808	561	0	6,826
Credit loss (expense) / recovery	(96)	18	(6)	0	(84)
Net interest income after credit loss expense	4,361	1,826	555	0	6,742
Net fee and commission income	6,351	5,757	3,128	0	15,236
Net trading income	4,155	(81)	269	0	4,343
Income from subsidiaries	677	0	0	(677)	0
Other income	1,427	728	(689)	0	1,467
Total operating income	16,972	8,230	3,263	(677)	27,788
Operating expenses					
Personnel expenses	8,772	5,199	1,663	0	15,634
General and administrative expenses	2,577	2,283	1,099	0	5,959
Depreciation and impairment of property and equipment	564	117	81	0	761
Impairment of goodwill	0	0	0	0	0
Amortization and impairment of intangible assets	26	80	21	0	127
Total operating expenses	11,940	7,679	2,864	0	22,482
Operating profit / (loss) from continuing operations before tax	5,032	551	399	(677)	5,307
Tax expense / (benefit)	895	61	(55)	0	901
Net profit / (loss) from continuing operations	4,138	490	454	(677)	4,406
Net profit from discontinued operations	0	0	0	0	0
Net profit / (loss)	4,138	490	454	(677)	4,406
Net profit attributable to non-controlling interests	0	2	266	0	268
Net profit / (loss) attributable to UBS shareholders	4,138	488	189	(677)	4,138

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	38,094	1,977	568	0	40,638
Due from banks	26,085	4,866	80,863	(88,596)	23,218
Cash collateral on securities borrowed	41,783	57,893	3,040	(43,953)	58,763
Reverse repurchase agreements	161,663	123,923	88,167	(160,252)	213,501
Trading portfolio assets	130,585	30,864	33,451	(13,374)	181,525
of which: assets pledged as collateral which may be sold or repledged by counterparties	*50,064*	*2,801*	*609*	*(13,537)*	*39,936*
Positive replacement values	482,528	8,244	146,545	(150,732)	486,584
Cash collateral receivables on derivative instruments	44,906	4,640	25,894	(34,118)	41,322
Financial assets designated at fair value	6,290	4,537	7,515	(8,005)	10,336
Loans	263,927	37,836	11,391	(46,549)	266,604
Financial investments available-for-sale	39,431	9,877	3,866	0	53,174
Accrued income and prepaid expenses	1,971	4,046	872	(561)	6,327
Investments in subsidiaries and associates	59,809	4	0	(59,018)	795
Property and equipment	4,757	523	408	0	5,688
Goodwill and intangible assets	329	8,172	1,194	0	9,695
Deferred tax assets	6,274	2,839	514	0	9,627
Other assets	9,425	2,141	1,688	(4,089)	9,165
Total assets	1,317,857	302,381	405,973	(609,248)	1,416,962
Liabilities					
Due to banks	63,340	41,669	13,787	(88,596)	30,201
Cash collateral on securities lent	16,498	32,622	2,969	(43,953)	8,136
Repurchase agreements	38,030	141,005	83,646	(160,252)	102,429
Trading portfolio liabilities	32,299	8,437	5,751	(7,007)	39,480
Negative replacement values	467,112	8,312	148,708	(150,732)	473,400
Cash collateral payables on derivative instruments	55,378	11,188	34,666	(34,118)	67,114
Financial liabilities designated at fair value	84,386	533	13,522	(9,459)	88,982
Due to customers	321,393	31,934	35,632	(46,549)	342,409
Accrued expenses and deferred income	4,530	2,203	678	(561)	6,850
Debt issued	125,251	407	19,873	(4,914)	140,617
Provisions	752	527	347	0	1,626
Other liabilities	25,913	19,080	21,879	(4,089)	62,784
Total liabilities	1,234,882	297,917	381,457	(550,230)	1,364,027
Equity attributable to UBS shareholders	82,975	4,463	20,111	(59,017)	48,530
Equity attributable to non-controlling interests	0	0	4,406	0	4,406
Total equity	82,975	4,463	24,517	(59,017)	52,935
Total liabilities and equity	1,317,857	302,381	405,973	(609,248)	1,416,962

1 UBS AG (Parent Bank) prepares its financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	(12,251)	(933)	(1,057)	(14,241)
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(58)	0	0	(58)
Disposal of subsidiaries, associates and intangible assets[2]	50	0	0	50
Purchase of property and equipment	(917)	(114)	(98)	(1,129)
Disposal of property and equipment	137	91	5	233
Net (investment in) / divestment of financial investments available-for-sale	19,125	1,165	(9)	20,281
Net cash flow from / (used in) investing activities	18,336	1,142	(101)	19,377
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	5,459	0	9,879	15,338
Net movements in treasury shares and own equity derivative activity	(1,885)	0	0	(1,885)
Issuance of long-term debt, including financial liabilities designated at fair value	48,844	197	3,549	52,590
Repayment of long-term debt, including financial liabilities designated at fair value	(55,668)	(8)	(6,950)	(62,626)
Increase in non-controlling interests	0	0	1	1
Dividends paid to / decrease in non-controlling interests	0	0	(748)	(749)
Net activity in investments in subsidiaries	640	(366)	(274)	0
Net cash flow from / (used in) financing activities	(2,610)	(177)	5,457	2,670
Effects of exchange rate differences	(2,587)	299	159	(2,129)
Net increase / (decrease) in cash and cash equivalents	889	333	4,457	5,678
Cash and cash equivalents at the beginning of the year	65,592	4,003	10,339	79,934
Cash and cash equivalents at the end of the year	66,481	4,336	14,796	85,612
Cash and cash equivalents comprise:				
Cash and balances with central banks	38,094	1,977	568	40,638
Money market paper[3]	3,804	29	67	3,900
Due from banks[4]	24,582	2,330	14,162	41,074
Total	66,481	4,336	14,796	85,612

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2010	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	15,732	3,388	2,723	(2,971)	18,872
Interest expense	(12,153)	(1,409)	(2,067)	2,971	(12,657)
Net interest income	3,579	1,980	656	0	6,215
Credit loss (expense) / recovery	(2)	(16)	(48)	0	(66)
Net interest income after credit loss expense	3,577	1,964	608	0	6,149
Net fee and commission income	7,293	6,465	3,401	0	17,160
Net trading income	6,979	(117)	609	0	7,471
Income from subsidiaries	1,392	0	0	(1,392)	0
Other income	1,515	1,296	(1,597)	0	1,214
Total operating income	20,757	9,608	3,022	(1,392)	31,994
Operating expenses					
Personnel expenses	9,339	5,842	1,849	0	17,031
General and administrative expenses	2,729	2,691	1,164	0	6,585
Depreciation and impairment of property and equipment	628	172	117	0	918
Impairment of goodwill	0	0	0	0	0
Amortization and impairment of intangible assets	3	90	24	0	117
Total operating expenses	12,700	8,796	3,154	0	24,650
Operating profit / (loss) from continuing operations before tax	8,057	812	(132)	(1,392)	7,345
Tax expense / (benefit)	605	(1,150)	136	0	(409)
Net profit / (loss) from continuing operations	7,452	1,962	(268)	(1,392)	7,754
Net profit from discontinued operations	0	0	2	0	2
Net profit / (loss)	7,452	1,962	(266)	(1,392)	7,756
Net profit attributable to non-controlling interests	0	0	304	0	304
Net profit / (loss) attributable to UBS shareholders	7,452	1,962	(570)	(1,392)	7,452

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2010	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	10,719	(2,772)	5,440	13,385
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(75)	0	0	(75)
Disposal of subsidiaries, associates and intangible assets[2]	307	0	0	307
Purchase of property and equipment	(367)	(88)	(86)	(541)
Disposal of property and equipment	196	22	24	242
Net (investment in) / divestment of financial investments available-for-sale	2,123	3,474	(1,433)	4,164
Net cash flow from / (used in) investing activities	2,185	3,408	(1,497)	4,097
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	3,241	0	1,218	4,459
Net movements in treasury shares and own equity derivative activity	(1,456)	0	0	(1,456)
Capital issuance	(113)	0	0	(113)
Issuance of long-term debt, including financial liabilities designated at fair value	75,842	8	2,568	78,418
Repayment of long-term debt, including financial liabilities designated at fair value	(65,968)	(82)	(11,447)	(77,497)
Increase in non-controlling interests	0	0	6	6
Dividends paid to / decrease in non-controlling interests	0	(6)	(2,047)	(2,053)
Net activity in investments in subsidiaries	(122)	235	(113)	0
Net cash flow from / (used in) financing activities	11,424	154	(9,815)	1,764
Effects of exchange rate differences	(10,218)	1,482	(3,444)	(12,181)
Net increase / (decrease) in cash and cash equivalents	14,110	2,272	(9,315)	7,066
Cash and cash equivalents at the beginning of the year	51,482	1,731	19,654	72,868
Cash and cash equivalents at the end of the year	65,592	4,003	10,339	79,934
Cash and cash equivalents comprise:				
Cash and balances with central banks	26,372	69	498	26,939
Money market paper[3]	15,798	1,190	123	17,110
Due from banks[4]	23,422	2,744	9,719	35,885
Total	65,592	4,003	10,339	79,934

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Guarantee of other securities

UBS AG, acting through wholly-owned US-domiciled finance subsidiaries, has issued the following outstanding trust preferred securities:

Guarantee of other securities

USD billion, unless otherwise indicated

		As of 31.12.12		
Issuing entity	Type of security	Date issued	Interest (%)	Amount outstanding
UBS Preferred Funding Trust IV	Non-cumulative trust preferred securities	May 2003	one-month USD LIBOR + 0.7	0.3
UBS Preferred Funding Trust V	Non-cumulative trust preferred securities	May 2006	6.243	1.0

UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit and all other liabilities of UBS. At 31 December 2012, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,198 billion.

Guarantee to UBS Ltd.

UBS AG has issued a guarantee for the benefit of each counterparty of UBS Limited. Under this guarantee, UBS AG irrevocably and unconditionally guarantees each and every obligation that UBS Limited entered into. UBS AG promises to pay to that counterparty on demand any unpaid balance of such liabilities under the terms of the guarantee.

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UBS AG (Parent Bank)

Parent Bank review

The following review is based on changes in UBS AG's (Parent Bank) financial statements from 31 December 2011 to 31 December 2012.

Income statement

UBS AG (Parent Bank) recorded a net loss of CHF 6,645 million in 2012, compared with a net profit of CHF 5,440 million in 2011.

The loss before extraordinary items and tax was CHF 3,016 million, compared with a profit of CHF 4,434 million in the prior year. This was mainly a result of a CHF 649 million decline in operating income, a CHF 1,214 million increase in operating expenses, and as the impairment of investments in subsidiaries and other participations increased by CHF 4,045 million as the net asset values of subsidiaries declined due to goodwill impairments and the adoption of IAS 19R. Furthermore, expenses for allowances, provisions and losses increased by CHF 1,582 million, mainly related to higher charges for provisions for litigation, regulatory and similar matters.

Extraordinary expenses were CHF 4,117 million compared with CHF 649 million, mainly related to changes in pension accounting in 2012.

Net interest income

Net interest income decreased by CHF 736 million, or 16%, to CHF 3,861 million, reflecting a CHF 1,996 million decline in interest income, partly offset by CHF 1,260 million lower interest expenses.

The CHF 1,996 million decline in interest income was driven by CHF 1,040 million lower interest and discount income which mainly reflected lower interest earned on loans and advances. In addition, interest and dividend income from the trading portfolio decreased by CHF 731 million. Interest and dividend income from financial investments decreased by CHF 225 million, or 48%, mainly as 2011 included interest income from our strategic investment portfolio, which was sold in the third quarter of 2011.

Interest expense decreased by CHF 1,260 million, mainly due to lower interest expenses due to banks and customers. Interest expenses on debt issued increased slightly.

Net fee and commission income

Net fee and commission income decreased by CHF 358 million to CHF 6,015 million.

Fee and commission income from securities and investment businesses decreased by CHF 532 million to CHF 6,270 million. Portfolio management and advisory fees declined in Wealth Management and the Investment Bank. Investment fund fees decreased mainly in Global Asset Management. Brokerage fees decreased in the Investment Bank due to a lower level of client activity. Merger and acquisition and corporate finance fees decreased in the Investment Bank due to a lower volume of transactions. These decreases were partly offset by an increase in underwriting fees in the Investment Bank.

Fee and commission expense decreased by CHF 104 million, mainly due to lower brokerage fees paid.

Net trading income

Net trading income was CHF 5,097 million in 2012 compared with CHF 3,545 million in 2011. Net trading income within the equities business in the Investment Bank was positive CHF 1,427 million, compared with negative CHF 114 million in 2011 which included a loss of CHF 1,951 million related to the unauthorized trading incident. Investment Bank fixed income, currencies and commodities net trading income increased by CHF 86 million to CHF 2,398 million. Net trading income in other business divisions and Corporate Center was CHF 1,177 million compared with CHF 1,286 million in 2011.

Other income from ordinary activities

Other income from ordinary activities was CHF 2,401 million, a decline of CHF 1,107 million.

Net income from the disposal of financial investments decreased by CHF 758 million, as 2011 included a gain of CHF 652 million from the sale of our strategic investment portfolio.

Dividend income from investments in subsidiaries and other participations increased by CHF 147 million.

Sundry income from ordinary activities decreased by CHF 482 million to CHF 3,959 million, mainly as sundry income related to financial investments was zero in 2012 compared with CHF 464 million in 2011, which reflected the reversal of unrealized losses incurred on the strategic investment portfolio. In 2012, sundry income included CHF 3,856 million of income received from subsidiaries for services rendered, an increase of CHF 180 million compared with the prior year. Gains on sales of loans and receivables were CHF 29 million, a decline of CHF 205 million from the prior year.

Sundry ordinary expenses were largely unchanged at CHF 2,569 million. Charges from subsidiaries for services received were down CHF 154 million to CHF 2,368 million, while unreal-

ized losses on financial investments increased by CHF 97 million and losses from disposals of loans and receivables increased by CHF 80 million.

Operating expenses

Personnel expenses increased by CHF 579 million to CHF 8,888 million, mainly due to restructuring charges of CHF 1,364 million. This was partly offset by a credit to personnel expenses of CHF 485 million related to changes to our Swiss pension plan as well as lower accruals for variable compensation.

General and administrative expenses increased by CHF 636 million, mainly due to higher cost charges from subsidiaries, increased expenses related to outsourcing of IT and other services due to higher business demand, as well as higher marketing and public relations costs, partly due to expenditures related to our 150th anniversary.

Impairment of investments in subsidiaries and other participations

Impairment of investments in subsidiaries and other participations increased by CHF 4,045 million to CHF 4,210 million, mainly as the net asset value of subsidiaries which recorded a goodwill impairment declined, resulting in an impairment of the investments in those subsidiaries of CHF 2,951 million. In addition, the adoption of IAS 19R by foreign subsidiaries also resulted in lower net asset values, resulting in an impairment of CHF 620 million of the respective investments.

Allowances, provisions and losses

Allowances, provisions and losses increased by CHF 1,582 million to CHF 1,735 million.

The increase mainly related to higher charges for provisions for litigation, regulatory and similar matters, which increased by CHF 1,368 million, primarily as a result of charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. In addition, restructuring charges of CHF 200 million were recorded in 2012.

Extraordinary income

Extraordinary income decreased by CHF 1,459 million to CHF 429 million.

Reversals of impairments and provisions of subsidiaries and other participations decreased by CHF 1,191 million, mainly as 2011 included significant net impairment reversals related to positive foreign currency impacts on the valuation of US subsidiaries.

Gains from sale of subsidiaries and other participations decreased by CHF 155 million due to fewer disposals.

Prior period related income decreased to CHF 115 million from CHF 280 million.

Extraordinary expenses

Extraordinary expenses increased by CHF 3,468 million to CHF 4,117 million, mainly related to changes in the pension accounting, which resulted in extraordinary expenses of CHF 3,954 million, of which 3,063 million related to the Swiss pension plan and CHF 892 million related to the International defined benefit plans.

➔ **Refer to "Note 2b Changes in accounting policies, comparability and other adjustments" for more information on the pension accounting changes**

Tax expense / benefit

The net income tax benefit in 2012 was CHF 59 million compared with a tax expense of CHF 232 million in 2011. The net income tax benefit in 2012 was mainly due to a net release of prior year related tax risk provisions.

Deferred tax assets are not accounted for or reported in UBS AG's (Parent Bank) financial statements prepared under Swiss GAAP. As a consequence, there is no amortization of deferred tax assets for tax losses used against profits arising from business operations. This is the main difference to the Group net income tax expense of CHF 461 million for IFRS purposes, for which the net amortization of deferred tax assets represents the most significant element.

Balance sheet

Assets

Total assets stood at CHF 776 billion as of 31 December 2012, a decrease of CHF 70 billion from 31 December 2011, predominantly relating to the accelerated implementation of our strategy announced in October 2012.

Decreases were mainly seen in reverse repurchase agreements with banks, holdings of money market paper and in positive replacement values. These decreases were partially offset by higher liquid assets held at central banks, an increase in high-quality government debt held as financial investments and higher amounts due from customers.

Liquid assets and money market paper

Liquid assets increased by CHF 16 billion to CHF 54 billion on 31 December 2012, predominantly due to higher balances with central banks. Money market paper held decreased by CHF 10 billion to CHF 31 billion, primarily due to reductions in Japanese, British and Hong Kong government bills held, partly offset by a net increase in German and Dutch government bills.

Due from banks and due from customers

Interbank lending (due from banks) decreased by CHF 64 billion to CHF 167 billion, mainly reflecting reduced reverse repurchase

agreements with UBS subsidiaries, in particular in the Americas and Europe.

Due from customers increased by CHF 13 billion to CHF 161 billion, mainly due to an increase in reverse repurchase agreements with non-bank clients of CHF 5 billion, an increase in non-mortgage loans of CHF 3 billion as well as an increase in current accounts of CHF 2 billion, mainly in Switzerland.

Financial investments

Financial investments increased by CHF 11 billion to CHF 31 billion, primarily due to increased holdings of high-quality government debt.

Investments in subsidiaries and other participations

Investments in subsidiaries decreased by CHF 3 billion to CHF 21 billion. This was mainly due to the abovementioned net write-downs of investments in subsidiaries of CHF 4 billion.

An additional write-down of CHF 1 billion was due to dividend payments. These decreases were partly offset by net capital injections of CHF 2 billion.

Positive replacement values

Positive replacement values, which are reported on a net basis, provided the master netting and the related collateral agreements are legally enforceable, decreased by CHF 29 billion to CHF 35 billion, mainly as replacement values for interest rate contracts fell due to lower volumes. Further, credit derivative contracts fell due to the tightening of credit spreads and reduced volumes. In addition, replacement values decreased due to increased netting with cash collateral payables to subsidiaries (reported within due to banks).

Other assets

Other assets decreased by CHF 4 billion to CHF 3 billion, mainly due to the early adoption of FER 16 for the Swiss pension plan and IAS 19R for the International defined benefit plans, which resulted in the derecognition of deferred pension expenses.

➔ **Refer to "Note 2b Changes in accounting policies, comparability and other adjustments" for more information on the pension accounting changes**

Liabilities

Money market paper issued

Money market paper issued decreased by CHF 36 billion to CHF 21 billion on 31 December 2012, mainly due to a reduction in certificates of deposit outstanding as well as due to the change in balance sheet presentation of certain structured liabilities, which were reclassified from money market paper issued to bonds issued and loans from central mortgage institutions.

Due to banks and due to customers

Due to banks decreased by CHF 22 billion to CHF 102 billion, reflecting lower unsecured interbank borrowing of CHF 9 billion and lower repurchase activity of CHF 7 billion. In addition, cash collateral payables decreased by CHF 10 billion, mainly due to increased netting with positive replacement values. These decreases were partly offset by increased securities lending of CHF 4 billion. Total amounts due to customers remained stable at CHF 364 billion.

Trading portfolio liabilities

Trading portfolio liabilities declined by CHF 7 billion to CHF 25 billion as of 31 December 2012, mainly related to a reduction in debt instruments sold short.

Negative replacement values

Negative replacement values fell by CHF 15 billion to CHF 44 billion, primarily due to lower replacement values for credit derivative and interest rate contracts, partly due to reduced volumes.

Bonds issued and loans from central mortgage institutions

Bonds issued and loans from central mortgage institutions increased by CHF 11 billion, mainly as a result of the aforementioned change in balance sheet presentation of certain structured liabilities.

Other liabilities and allowances and provisions

Other liabilities increased by CHF 3 billion, mainly related to increased deferrals for hedging instruments and also reflecting reclassified provisions which are no longer uncertain in timing or amount.

Allowances and provisions increased by CHF 2 billion, mainly related to restructuring provisions.

Equity

Total equity attributable to shareholders stood at CHF 33,176 million as of 31 December 2012, compared with CHF 40,174 million at the end of 2011, mainly due to the 2012 loss of CHF 6,645 million. The general statutory reserve decreased by CHF 353 million to CHF 31,997 million as of 31 December 2012, mainly reflecting the distribution out of the capital contribution reserve in May 2012.

The reserve for own shares decreased by CHF 176 million to CHF 889 million, reflecting the net disposal of treasury shares. Other reserves increased by CHF 5,617 million, reflecting the appropriation of 2011 earnings of CHF 5,440 million as well as the net disposal of treasury shares, which increased other reserves by CHF 176 million.

Parent Bank financial statements

Income statement

		For the year ended		% change from
CHF million	Note	**31.12.12**	31.12.11	31.12.11
Interest and discount income		**10,047**	11,087	(9)
Interest and dividend income from trading portfolio		**3,258**	3,989	(18)
Interest and dividend income from financial investments		**242**	467	(48)
Interest expense		**(9,686)**	(10,946)	(12)
Net interest income		**3,861**	4,597	(16)
Credit-related fees and commissions		**378**	326	16
Fee and commission income from securities and investment business		**6,270**	6,802	(8)
Other fee and commission income		**634**	616	3
Fee and commission expense		**(1,267)**	(1,371)	(8)
Net fee and commission income		**6,015**	6,373	(6)
Net trading income	3	**5,097**	3,545	44
Net income from disposal of financial investments		**75**	833	(91)
Dividend income from investments in subsidiaries and other participations		**905**	758	19
Income from real estate holdings		**31**	30	3
Sundry income from ordinary activities		**3,959**	4,441	(11)
Sundry ordinary expenses		**(2,569)**	(2,554)	1
Other income from ordinary activities		**2,401**	3,508	(32)
Operating income		**17,374**	18,023	(4)
Personnel expenses		**8,888**	8,309	7
General and administrative expenses		**5,016**	4,380	15
Operating expenses		**13,904**	12,690	10
Operating profit		**3,470**	5,333	(35)
Impairment of investments in subsidiaries and other participations		**4,210**	165	
Depreciation of fixed assets		**541**	581	(7)
Allowances, provisions and losses		**1,735**	153	
Profit / (loss) before extraordinary items and taxes		**(3,016)**	4,434	
Extraordinary income	4	**429**	1,888	(77)
Extraordinary expenses	4	**(4,117)**	(649)	534
Tax (expense) / benefit		**59**	(232)	
Profit / (loss) for the period		**(6,645)**	5,440	

Balance sheet

CHF million	Note	31.12.12	31.12.11	% change from 31.12.11
Assets				
Liquid assets		**54,192**	38,094	42
Money market paper		**31,066**	41,222	(25)
Due from banks		**167,204**	231,401	(28)
Due from customers		**160,996**	148,474	8
Mortgage loans		**149,002**	144,346	3
Trading balances in securities and precious metals		**115,906**	120,312	(4)
Financial investments		**30,778**	20,193	52
Investments in subsidiaries and other participations		**21,090**	23,990	(12)
Fixed assets		**5,054**	4,807	5
Accrued income and prepaid expenses		**2,157**	2,114	2
Positive replacement values	13	**35,206**	64,580	(45)
Other assets	5	**3,037**	6,552	(54)
Total assets		**775,687**	846,085	(8)
of which: subordinated assets		***3,776***	*1,894*	*99*
of which: amounts due from subsidiaries		***201,982***	*288,870*	*(30)*
Liabilities				
Money market paper issued		**21,257**	56,788	(63)
Due to banks		**102,401**	124,625	(18)
Trading portfolio liabilities		**25,419**	32,522	(22)
Due to customers on savings and deposit accounts		**94,086**	85,393	10
Other amounts due to customers		**269,992**	278,096	(3)
Medium-term notes		**1,341**	1,951	(31)
Bonds issued and loans from central mortgage institutions		**100,166**	89,361	12
Financial liabilities designated at fair value		**64,808**	62,976	3
Accruals and deferred income		**6,434**	6,671	(4)
Negative replacement values	13	**43,518**	58,994	(26)
Other liabilities	5	**9,653**	7,122	36
Allowances and provisions	8	**3,435**	1,412	143
Total liabilities		**742,511**	805,911	(8)
Equity				
Share capital	9,10	**384**	383	0
General statutory reserve	9	**31,997**	32,350	(1)
thereof capital contribution reserve		***42,184***	*42,537*	*(1)*
thereof retained earnings		***(10,187)***	*(10,187)*	*0*
Reserve for own shares	9	**889**	1,066	(17)
thereof capital contribution reserve				
thereof retained earnings		***889***	*1,066*	*(17)*
Other reserves	9	**6,551**	934	601
Profit / (loss) for the period		**(6,645)**	5,440	
Equity attributable to shareholders	9	**33,176**	40,174	(17)
Total liabilities and equity		**775,687**	846,085	(8)
of which: subordinated liabilities		***15,985***	*12,339*	*30*
of which: amounts due to subsidiaries		***103,148***	*133,696*	*(23)*

Statement of appropriation of retained earnings

The Board of Directors proposes that the Annual General Meeting (AGM) on 2 May 2013 approves the following appropriation of retained earnings:

Proposed appropriation of retained earnings

	For the year ended
CHF million	**31.12.12**
Loss for the period	**(6,645)**
Total available for appropriation	**(6,645)**
Appropriation to other reserves	**(1,751)**
Appropriation to general statutory reserve: retained earnings	**(4,894)**
Total appropriation	**(6,645)**

Proposed distribution of capital contribution reserve

The Board of Directors proposes that the AGM on 2 May 2013 approves the pay-out of CHF 0.15 per share of CHF 0.10 par value out of the capital contribution reserve. Provided that the proposed distribution of the capital contribution reserve is approved, the payment of CHF 0.15 per share would be made on 10 May 2013 to holders of shares on the record date 8 May 2013. The shares will be traded ex-dividend as of 6 May 2013, and accordingly the last day on which the shares may be traded with entitlement to receive a pay-out will be 3 May 2013.

	For the year ended
CHF million, except where indicated	**31.12.12**
Total capital contribution reserve before proposed distribution[1, 2]	**42,184**
Proposed distribution of capital contribution reserve within general statutory reserve: CHF 0.15 per dividend bearing share[3]	**(575)**
Total capital contribution reserve after proposed distribution	**41,609**

1 As presented on the balance sheet, the capital contribution reserve of CHF 42,184 million is a component of the general statutory reserve of CHF 31,997 million after taking into account negative retained earnings of CHF 10,187 million. 2 Effective 1 January 2011, the Swiss withholding tax law provides that payments out of the capital contribution reserve are not subject to withholding tax. This law has led to interpretational differences between the Swiss Federal Tax Authorities and companies about the qualifying amounts of the capital contribution reserve and the disclosure in the financial statements. In view of this, the Swiss Federal Tax Authorities have confirmed that UBS would be able to repay to shareholders CHF 27.4 billion of disclosed capital contribution reserve (status as of 1 January 2011) without being subject to the withholding tax deduction that applies to dividends paid out of retained earnings. This amount reduced to CHF 27.0 billion as of 31 December 2012 subsequent to the distribution of CHF 379 million as approved by the Annual General Meeting 2012. The decision about the remaining amount has been deferred to a future point in time. 3 Dividend-bearing shares are all shares issued except for treasury shares held by UBS AG (Parent Bank) as of the record date 8 May 2013.

Notes to the Parent Bank financial statements

Note 1 Business activities, risk assessment, outsourcing and personnel

Business activities

The business activities of UBS AG (Parent Bank) are described in the context of the description of the activities of the UBS Group in the "Operating environment and strategy" section of this report.

Risk assessment

UBS AG (Parent Bank), as the ultimate parent company of UBS Group, is fully integrated into the group wide internal risk assessment process described in the audited part of the "Risk, treasury and capital management" section of this report.

Outsourcing

Outsourcing of IT and other services through agreements with external service providers is in compliance with FINMA Circular 2008/7 "Outsourcing-banks".

Personnel

UBS AG (Parent Bank) employed 35,153 personnel on a full time equivalent basis as of 31 December 2012, compared with 36,693 personnel on 31 December 2011.

Note 2 Accounting policies

a) Significant accounting policies

UBS AG's (Parent Bank) financial statements are prepared in accordance with Swiss Federal banking law. The accounting policies are principally the same as for the consolidated financial statements outlined in "Note 1 Summary of significant accounting policies". Major differences between the Swiss Federal banking law requirements and International Financial Reporting Standards are described in "Note 39 Swiss banking law requirements" to the consolidated financial statements. The significant accounting policies applied for the statutory accounts of UBS AG (Parent Bank) are discussed below. In addition the presentation of the balance sheet and income statement under Swiss law differs from the presentation under IFRS. The risk management of UBS AG (Parent Bank) is described in the context of the risk management of UBS Group.

Treasury shares

Treasury shares are own equity instruments held by an entity. Under Swiss law, treasury shares are recognized in the balance sheet as *Trading balances in securities and precious metals* or as *Financial investments.* Short positions in treasury shares are presented as *Trading portfolio liabilities*. Treasury shares recognized as trading balances (which include treasury shares held as economic hedges of equity compensation plans) and short positions in treasury shares are measured at fair value with unrealized gains or losses from remeasurement to fair value included in the income statement. Treasury shares recognized as *Financial investments* are valued according to the principles of lower of cost or market value. Realized gains and losses on the sale or acquisition of treasury shares are recognized in the income statement.

For treasury shares held as *Financial investments* or for non-genuine trading purposes (e.g. treasury shares held to hedge equity compensation plans), a *Reserve for own shares* must be created in equity through the reclassification of free reserves equal to the cost value of the treasury shares held. Repurchases of shares for the purpose of holding these as *Financial investments* or non-genuine trading can be made to the extent that sufficient free reserves are available. The *Reserve for own shares* is not available for distribution to shareholders. Total treasury shares held cannot exceed 10% of total issued shares.

Foreign currency translation

Assets and liabilities of foreign branches are translated into Swiss francs at the spot exchange rate at the balance sheet date. Income and expense items are translated at weighted average exchange rates for the period. All exchange differences are recognized in the income statement.

The main currency translation rates used by UBS AG (Parent Bank) can be found in "Note 38 Currency translation rates" to the consolidated financial statements.

Note 2 Accounting policies (continued)

Investments in subsidiaries and other participations

Investments in subsidiaries and other participations are equity interests which are held for the purpose of UBS AG's (Parent Bank) business activities or for strategic reasons. They include all directly held subsidiaries through which UBS AG (Parent Bank) conducts its business on a global basis. The investments are carried at cost less impairment. The carrying value is tested for impairment when indications for a decrease in value exist, which include incurrence of significant operating losses or a severe depreciation of the currency in which the investment is denominated. If an investment in subsidiary is impaired, its value is generally written down to the net asset value. Subsequent recoveries in value are recognized up to the original cost value based on either the increased net asset value or a value above the net asset value if, in the opinion of management, forecasts of future profitability provide sufficient evidence that a carrying value above net asset value is supported. Management may exercise its discretion as to what extent and in which period a recovery in value is recognized.

Reversals of impairments are presented as *Extraordinary income* in the income statement. Impairments of investments are presented in *Profit / (loss) before extraordinary items and taxes* under *Impairment of investments in subsidiaries and other participations.* The classification as extraordinary income or expense of prior period related amounts is dependent on whether the investment in the respective subsidiary, on a net basis, is a partial or full reversal of impairment (extraordinary income) or an impairment (extraordinary expenses).

Deferred taxes

Deferred tax assets are not recognized in UBS AG's (Parent Bank) financial statements under Swiss Federal banking law. However, deferred tax liabilities may be recognized for taxable temporary differences. The change in the deferred tax liability balance is recognized in profit or loss.

Equity participation and other compensation plans

Equity participation plans

Under Swiss law, employee share and option awards are recognized as compensation expense and accrued over the performance year, which is generally the financial year prior to the grant date. Equity- and cash-settled awards are classified as liabilities. The employee share option awards are remeasured to fair value at each balance sheet date. However, for employee share options that UBS intends to settle in shares from conditional capital, no compensation expense is recognized in the income statement as these awards are not a liability of UBS. Upon exercise of employee options, cash received for payment of the strike price is credited against *Share capital* and the *General statutory reserve.*

Other compensation plans

Fixed and variable deferred cash compensation is recognized as compensation expenses over the performance year.

Sundry income from ordinary activities and sundry ordinary expenses

Sundry income from ordinary activities mainly includes income from hard cost and revenue transfers between UBS AG (Parent Bank) and its subsidiaries and income from lower of cost or market accounting of financial investments. *Sundry ordinary expenses* mainly include costs for hard revenue transfers between UBS AG (Parent Bank) and its subsidiaries and expenses from lower of cost or market accounting of financial investments. Hard transfers of costs and revenues are performed on an arm's length basis and are settled in cash between UBS AG (Parent Bank) and its subsidiaries.

Dispensations in statutory financial statements

As UBS Group prepares consolidated financial statements in accordance with IFRS, UBS AG (Parent Bank) is dispensed from various disclosures in the statutory financial statements. Refer to the consolidated financial statements for more information.

Accounting for pension funds

FINMA Circular 2008/2 "Accounting – banks" permits the use of IAS 19 or Swiss GAAP FER 16 ("FER 16") in the accounting for the pension plan and defined benefit plans. Election of the accounting standard may be done on a plan-by-plan basis. As of 1 October 2012, UBS AG (Parent Bank) elected to adopt FER 16 for the Swiss pension plan. FER 16 requires recognizing the employer contributions to the pension fund as personnel expenses. The employer contributions to the Swiss pension fund are determined as a percentage of compensation. Under FER 16 it is periodically assessed whether, from the point of view of UBS AG (Parent Bank), an economic benefit or obligation arises from the pension fund which, when conditions are met, is recorded on the balance sheet. The financial statements of the pension fund prepared in accordance with Swiss GAAP FER 26 ("FER 26") are used for the assessment.

UBS AG (Parent Bank) continues to apply IAS 19 to the International defined benefit plans. As of 1 October 2012, UBS AG (Parent Bank) has adopted the revisions to IAS 19 issued by the IASB in June 2011. For Swiss GAAP, remeasurements of the defined benefit obligation and the plan assets are recognized in the income statement rather than equity. Key differences between FER 16/26 and IAS 19R include the treatment of future salary increases, which are not considered under FER 16/26, and the determination of the discount rate.

Note 2 Accounting policies (continued)

b) Changes in accounting policies, comparability and other adjustments

Presentation of certain structured liabilities

In 2012, UBS amended the balance sheet classification of certain structured liabilities. As a consequence, financial liabilities of CHF 10.8 billion as of 30 September 2012 were reclassified from *Money market paper issued* to *Bonds issued and loans from central mortgage institutions*. Had UBS not amended the balance sheet classification of certain structured liabilities, *Money market paper issued* would have been CHF 8.6 billion higher and *Bonds issued and loans from central mortgage institutions* would have been CHF 8.6 billion lower as of 31 December 2012.

Measurement of financial investments not held until maturity

Under Swiss federal banking law, financial investments are carried either at the lower of cost or market value (LOCOM) or at amortized cost less impairment. In July 2012, the Swiss Financial Market Supervisory Authority (FINMA) issued a "Frequently Asked Questions" document that allows the use of amortized cost for the cost value when applying LOCOM. UBS adopted this accounting policy change prospectively as of 1 July 2012. The change in accounting policy had no material impact on UBS AG's (Parent Bank) financial statements.

Accounting for pension funds

In the fourth quarter of 2012, UBS AG (Parent Bank) adopted the revisions to IAS 19 issued by the IASB in June 2011 ("IAS 19R") for the International defined benefit plans, and at the same time adopted FER 16 for the Swiss pension plan.

Further information on the changes introduced by IAS 19R can be found in "Note 1 Summary of significant accounting policies" to the consolidated financial statements. The key difference in applying IAS 19R for Swiss GAAP purposes is that it is not permissible to recognize amounts directly in equity. As a result, under Swiss GAAP, all actuarial changes are recognized directly in the income statement.

UBS AG (Parent Bank) has elected to apply FER 16 for the Swiss pension plan as it is aligned with the Swiss pension framework. Under FER 16 it is assessed periodically whether, from the point of view of UBS AG (Parent Bank), an economic benefit or obligation arises from the pension fund which, when conditions are met, is recorded on the balance sheet. In addition, FER 16 requires that employer contributions to the pension fund are recognized directly as personnel expenses in the income statement.

The cumulative effect of adopting these changes in accounting policy as of 1 October 2012 was a debit to extraordinary expenses in the income statement of CHF 3,063 million relating to the Swiss pension plan and CHF 892 million relating to the International defined benefit plans.

Additional income statement information

Note 3 Net trading income

	For the year ended		% change from
CHF million	**31.12.12**	31.12.11	31.12.11
Investment Bank investment banking	**95**	60	58
Investment Bank equities	**1,427**	(114)	
Investment Bank fixed income, currencies and commodities	**2,398**	2,312	4
Other business divisions and Corporate Center	**1,177**	1,286	(8)
Total	**5,097**	3,545	44

Note 4 Extraordinary income and expenses

	For the year ended		% change from
CHF million	**31.12.12**	31.12.11	31.12.11
Gains from disposals of subsidiaries and other participations	**37**	192	(81)
Reversal of impairments and provisions of subsidiaries and other participations	**161**	1 352	(88)
Prior period related income	**115**	280	(59)
Other extraordinary income	**116**	64	81
Total extraordinary income	**429**	1 888	(77)
Losses from disposals of subsidiaries and other participations	**(67)**	(10)	570
Prior period related expenses	**(96)**	(639)	(85)
Expenses related to changes in pension accounting[1]	**(3,954)**	0	
Total extraordinary expenses	**(4,117)**	(649)	534

1 Refer to "Note 2 Accounting policies" for more information with regard to the adoption of FER16 for the Swiss pension plan and IAS 19R for International defined benefit plans.

Additional balance sheet information

Note 5 Other assets and other liabilities

CHF million	31.12.12	31.12.11	% change from 31.12.11
Other assets			
Deferred pension expenses	0	2,980	(100)
Settlement and clearing accounts	470	376	25
VAT and other tax receivables	178	99	80
Receivables from subsidiaries	1,784	2,277	(22)
Other receivables	606	819	(26)
Total other assets	**3,037**	**6,552**	**(54)**

Other liabilities

CHF million	31.12.12	31.12.11	% change from 31.12.11
Deferral position for hedging instruments	5,453	4,400	24
Settlement and clearing accounts	757	600	26
VAT and other tax payables	451	360	25
Payables to subsidiaries	770	754	2
Other payables[1]	2,222	1,008	120
Total other liabilities	**9,653**	**7,122**	**36**

1 Includes liabilities of CHF 1.3 billion arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates.

Note 6 Pledged assets

	31.12.12		31.12.11		Change in %	
CHF million	Carrying value of pledged assets	Associated liability recognized on the balance sheet	Carrying value of pledged assets[3]	Associated liability recognized on the balance sheet	Carrying value of pledged assets	Associated liability recognized on the balance sheet
Money market paper	1,880	1,226	3,056	788	(38)	56
Mortgage loans[1]	33,928	21,902	27,841	16,966	22	29
Securities	49,316	26,889	41,892	21,027	18	28
Pledges of precious metals to subsidiaries	4,163	0	4,364	0	(5)	
Total[2]	**89,287**	**50,017**	**77,152**	**38,781**	**16**	**29**

1 These pledged mortgage loans serve as collateral for existing liabilities against Swiss central mortgage institutions and for existing covered bond issuances. Of these pledged mortgage loans, approximately CHF 7.5 billion for 31 December 2012 (31 December 2011: approximately CHF 5.7 billion) could be withdrawn or used for future liabilities or covered bond issuances without breaching existing collateral requirements. 2 Does not include assets placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes (31 December 2012: CHF 3.5 billion, 31 December 2011: CHF 2.0 billion). 3 Comparative data has been restated due to a change in the definition of pledged assets. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" in the consolidated financial statements for more information.

UBS AG (Parent Bank) pledges assets mainly in securities lending transactions, in repurchase transactions, against loans from Swiss mortgage institutions, in connection with derivative transactions, as security deposits for stock exchanges and clearing-house memberships, and in connection with the issuance of covered bonds.

Note 7 Swiss pension plan and International defined benefit plans

a) Liabilities due to Swiss pension plan and International defined benefit plans

	For the year ended	
CHF million	**31.12.12**	31.12.11
Provisions for Swiss pension plan	**0**	0
Provisions for International defined benefit plans	**510**	98
Total provisions for Swiss pension plan and International defined benefit plans[1]	**510**	98
UBS debt instruments and bank accounts at UBS held by Swiss pension fund	**611**	516
UBS derivative financial instruments held by UBS Swiss pension fund	**98**	36
Total liabilities due to Swiss pension plan and International defined benefit plans	**1,219**	650

1 Refer to "Note 8 Allowances and provisions".

b) Swiss pension plan[1]

	As of or for the year ended	
CHF million	**31.12.12**	31.12.11
Pension cost recognized in UBS's income statement under IAS 19 until 30 September 2012	**(128)**	353
of which: current service cost	***357***	*353*
of which: past service cost related to plan amendment	***(485)***	*0*
Employer contributions for the period recognized in UBS's income statement under FER 16 from 1 October 2012	**108**	N/A
Performance awards related employer contributions accrued	**14**	N/A
Total pension expense recognized in UBS's income statement within Personnel expenses[2]	**(6)**	353

1 The pension plan surplus of CHF 4,115 million as of 31 December 2012 (CHF 4,023 million as of 1 October 2012) is determined in accordance with FER 26 and consists of the reserve for the fluctuation in asset value. The surplus did not represent an economic benefit for UBS in accordance with FER 16 as of 31 December 2012 or 1 October 2012. 2 In addition, extraordinary expenses of CHF 3,063 million were recognized in the income statement related to changes in accounting for the UBS Swiss pension plan. These extraordinary expenses included the reversal of the credit of CHF 485 million shown on the line Past service cost related to plan amendments.

The Swiss pension plan had no employer contribution reserve in 2012 or 2011. Details on the Swiss pension plan and International defined benefit plans can be found in "Note 30 Pension and other post-employment benefit plans" to the consolidated financial statements.

Note 8 Allowances and provisions

CHF million	Balance at 31.12.11	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest, currency translation differences and reclassifications	Provisions released to income	New provisions charged to income	Balance at 31.12.12
Default risks	802	(129)	81	(220)	221	754
of which: specific allowances for due from customers and mortgage loans	*593*	*(129)*	*79*	*(165)*	*195*	*573*
of which: specific allowances for due from banks	*17*	*0*	*0*	*(7)*	*12*	*22*
of which: collective loan loss allowances[1]	*128*			*(28)*	*12*	*113*
of which: provisions for loan commitments and guarantees	*64*		*1*	*(20)*	*2*	*47*
Operational risks	22	(12)	0	(6)	19	23
Litigation risks[2]	101	(1,152)[3,4]	51	(47)	1,548[4]	501
Restructuring	191	(161)	(14)	(53)	1,650[5]	1,612
Real estate[6]	100	(19)	9	(4)	3	88
Employee benefits	216	(58)	(3)	(61)	141	235
Defined benefit plans	98	(34)	19	(222)[7]	649[7]	510
Provisions related to parental support provided by UBS AG (Parent Bank) to subsidiaries in the form of indemnities, letter of support, letters of undertaking and similar agreements	258	(249)		(8)	84	84
Deferred taxes	6		(8)		2	0
Other provisions[8]	357	(8)	(42)	(3)	30	334
Total allowances and provisions	**2,150**	**(1,821)**	**92**	**(625)**	**4,347**	**4,142**
Allowances deducted from assets	738					707
Total allowances and provisions as per balance sheet	**1,412**					**3,435**

1 Mainly relates to due from customers. 2 Includes provisions for litigation resulting from security risks. 3 Represents amounts paid out for the intended purpose and amounts transferred to Other liabilities – Other payables, presented in "Note 5 Other assets / Other liabilities" for liabilities, which are no longer uncertain in timing or amount. 4 Mainly relates to provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. 5 Refer to "Note 39 Swiss banking law requirements" in the consolidated financial statements for more information with regard to differences between IFRS and Swiss Federal Banking Law with respect to timing of recognizing restructuring provisions. 6 Includes provisions for onerous lease contracts of CHF 22 million as of 31 December 2012 (31 December 2011: CHF 30 million) and reinstatement cost provisions for leasehold improvements of CHF 66 million as of 31 December 2012 (31 December 2011: CHF 70 million). 7 Of the total provision release of CHF (222) million, CHF (119) million related to the adoption of IAS 19R for the International defined benefit plans. Of the total charge to income of CHF 649 million, CHF 610 million related to the adoption of IAS 19R for the International defined benefit plans. The net expense of CHF 490 million (CHF 610 million charge less CHF 119 million release) was recorded as extraordinary expense. 8 Includes a reinvestment relief provision related to the sale of UBS Pactual in 2009.

Note 9 Statement of shareholders' equity

CHF million	Share capital	General statutory reserve	Reserve for own shares	Other reserves	Profit / (loss) for the year	Total shareholders' equity (before distribution of capital contribution reserve)
As of 31 December 2010 and 1 January 2011	**383**	**27,379**	**432**	**402**	**6,123**	**34,719**
Capital increase		14				**14**
Profit / (loss) appropriation		4,525		1,598	(6,123)	**0**
Prior year dividend						**0**
Profit / (loss) for the period					5,440	**5,440**
Changes in reserve for own shares		432	634	(1,066)		**0**
As of 31 December 2011 and 1 January 2012	**383**	**32,350**	**1,066**	**934**	**5,440**	**40,174**
Capital increase	0	26				**26**
Profit / (loss) appropriation				5,440	(5,440)	**0**
Prior year dividend		(379)				**(379)**
Profit / (loss) for the period					(6,645)	**(6,645)**
Changes in reserve for own shares			(176)	176		**0**
As of 31 December 2012	**384**	**31,997**	**889**	**6,551**	**(6,645)**	**33,176**

Note 10 Share capital and significant shareholders

	Par value		Dividend bearing	
	No. of shares	Capital in CHF	No. of shares	Capital in CHF
As of 31 December 2012				
Issued	**3,835,250,233**	**383,525,023**	**3,747,463,874**	**374,746,387**
of which: shares outstanding	***3,747,370,632***	***374,737,063***	***3,747,370,632***	***374,737,063***
of which: treasury shares held by UBS AG (Parent Bank) [1]	***87,786,359***	***8,778,636***		
of which: treasury shares held by subsidiaries of UBS AG (Parent Bank) [1]	***93,242***	***9,324***	***93,242***	***9,324***
Conditional share capital	**625,510,992**	**62,551,099**		
As of 31 December 2011				
Issued	3,832,121,899	383,212,190	3,747,370,803	374,737,080
of which: shares outstanding	*3,747,166,348*	*374,716,635*	*3,747,166,348*	*374,716,635*
of which: treasury shares held by UBS AG (Parent Bank) [1]	*84,751,096*	*8,475,110*		
of which: treasury shares held by subsidiaries of UBS AG (Parent Bank) [1]	*204,455*	*20,446*	*204,455*	*20,446*
Conditional share capital	628,639,326	62,863,933		

1 During 2012, 114.3 million treasury shares were acquired at market prices and 111.4 million treasury shares were disposed of, mainly related to the delivery of shares under employee share based compensation plans.

Conditional share capital

As of 31 December 2012, 145,510,992 additional shares (31 December 2011: 148,639,326 shares) could have been issued to fund UBS's employee share option programs. Further conditional capital up to 100,000,000 shares was available in connection with an arrangement with the Swiss National Bank (SNB). The SNB provided a loan to a fund owned and controlled by the SNB (the SNB StabFund), to which UBS transferred certain illiquid securities and other positions. As part of this arrangement, UBS granted warrants on shares to the SNB and these warrants become exercisable if the SNB incurs a loss on its loan to the SNB StabFund.

Further on 14 April 2010, the Annual General Meeting of UBS AG (Parent Bank) shareholders approved the creation of conditional capital to a maximum amount of 380,000,000 shares for conversion rights/warrants granted in connection with the issuance of bonds or similar financial instruments.

Significant shareholders

According to disclosure notifications filed with UBS AG and the SIX under the Swiss Stock Exchange Act, on 30 September 2011, Norges Bank (the Central Bank of Norway), Oslo, disclosed a holding of 3.04%. On 12 March 2010, the Government of Singapore Investment Corp., Singapore, as beneficial owner, disclosed a holding by the Government of Singapore Investment Corp. of 6.45%. On 17 December 2009, BlackRock Inc., New York, disclosed a holding of 3.45%. In accordance with the Swiss Stock Exchange Act, the percentages indicated above were calculated in relation to the total UBS share capital reflected in the Articles of Association at the time of the respective disclosure notification.

Information on disclosures under the Swiss Stock Exchange Act can be found on the following website of the SIX: *http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.*

According to our share register, the shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) listed in the table "Significant shareholders" below were registered with 3% or more of the total share capital on 31 December 2012, 2011 and 2010.

➔ **Refer to the "Corporate governance" section of this report for more information on significant shareholders and shareholders' participation rights**

Shareholders registered in the UBS shares register with 3% or more of shares issued

	31.12.12			31.12.11		
	Quantity	Total nominal value (CHF million)	Share %	Quantity	Total nominal value (CHF million)	Share %
Chase Nominees Ltd, London	**457,784,081**	**46**	**11.94**	419,533,402	42	10.95
DTC (Cede & Co.), New York[1]	**202,368,918**	**20**	**5.28**	270,808,806	27	7.07
Government of Singapore Investment Corp., Singapore	**245,517,417**	**25**	**6.40**	245,481,682	25	6.41
Nortrust Nominees Ltd, London	**147,144,758**	**15**	**3.84**	160,917,513	16	4.20

1 DTC (Cede & Co.), New York, "The Depository Trust Company", is a US securities clearing organization.

Note 11 Transactions with related parties

Transactions with related parties (such as securities transactions, payment transfer services, borrowing and compensation for deposits) are conducted at internally agreed transfer prices or at arm's length. Refer to the "Compensation of the members of the Board of Directors and the Group Executive Board" section for information on loans granted to GEB and BoD members. Amounts due from/to subsidiaries are disclosed on the "Balance sheet".

Off-balance sheet and other information

Note 12 Commitments and contingent liabilities

CHF million	31.12.12	31.12.11	% change from 31.12.11
Contingent liabilities	**115,254**	137,661	(16)
of which: Guarantees to third parties related to subsidiaries	*97,335*	*121,072*	*(20)*
of which: credit guarantees and similar instruments	*7,676*	*7,595*	*1*
of which: performance guarantees and similar instruments	*2,847*	*2,843*	*0*
of which: documentary credits	*7,397*	*6,151*	*20*
Irrevocable commitments	**68,420**	66,107	3
of which: loan commitments	*67,448*	*64,302*	*5*
of which: underwriting commitments	*0*	*850*	*(100)*
of which: payment commitment related to deposit insurance	*972*	*955*	*2*
Forward starting transactions[1]	**33,510**	47,273	(29)
of which: reverse repurchase agreements	*22,321*	*23,491*	*(5)*
of which: securities borrowing agreements	*249*	*503*	*(50)*
of which: repurchase agreements	*10,940*	*23,279*	*(53)*
Liabilities for calls on shares and other equities	63	126	(50)

1 Cash to be paid in the future by either UBS or the counterparty.

The table above includes indemnities and guarantees issued by UBS AG (Parent Bank) for the benefit of subsidiaries and creditors of subsidiaries.

UBS AG has issued a guarantee for the benefit of each counterparty of UBS Limited. Under this guarantee, UBS AG irrevocably and unconditionally guarantees each and every obligation that UBS Limited entered into. UBS AG promises to pay to that counterparty on demand any unpaid balance of such liabilities under the terms of the guarantee.

In instances in which the indemnity amount issued by UBS AG (Parent Bank) is not specifically defined, the indemnity relates to the solvency or minimum capitalization of a subsidiary, and therefore no amount is included in the table above.

In addition, UBS AG (Parent Bank) is jointly and severally liable for the value added tax (VAT) liability of Swiss subsidiaries that belong to its VAT group. This contingent liability is not included in the table above.

Note 13 Derivative instruments[1]

	31.12.12			31.12.11		
CHF million, unless indicated otherwise	PRV[2]	NRV[3]	Notional amount (CHF billion)	PRV[2]	NRV[3]	Notional amount (CHF billion)
Interest rate contracts	**238,567**	**234,016**	**28,129**	264,146	252,725	36,209
Credit derivative contracts	**31,935**	**33,152**	**2,400**	67,364	62,704	2,737
Foreign exchange contracts	**83,808**	**93,450**	**6,689**	97,158	106,117	6,323
Precious metal contracts	**1,789**	**2,118**	**109**	4,193	3,924	99
Equity / Index contracts	**13,397**	**15,018**	**505**	16,538	18,105	416
Commodities contracts, excluding precious metal contracts	**797**	**852**	**86**	775	1,012	110
Total before netting[4]	**370,293**	**378,606**	**37,918**	450,173	444,587	45,894
Replacement value netting	**335,087**	**335,087**		385,593	385,593	
Total after netting	**35,206**	**43,518**		64,580	58,994	

1 Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from this table 2 PRV: Positive replacement value. 3 NRV: Negative replacement value. 4 Replacement values are presented net of cash collateral, where applicable.

Note 14 Fiduciary transactions

			% change from
CHF million	**31.12.12**	31.12.11	31.12.11
Deposits:			
with third-party banks	**6,175**	9,375	(34)
with subsidiaries	**2,261**	2,346	(4)
Total	**8,436**	11,721	(28)

Fiduciary transactions encompass transactions entered into or granted by UBS that result in holding or placing assets on behalf of individuals, trusts, defined benefit plans and other institutions. Unless the recognition criteria for the assets are satisfied, these assets and the related income are excluded from UBS AG's (Parent Bank) balance sheet and income statement, but disclosed in this Note as off-balance sheet fiduciary transactions. Client deposits which are initially placed as fiduciary transactions with UBS AG (Parent Bank) may be recognized on UBS AG's (Parent Bank) balance sheet in situations in which the deposit is subsequently placed within UBS AG (Parent Bank). In such cases, these deposits are not reported in the table above.

Compensation of the members of the Board of Directors and the Group Executive Board

Audited

Total compensation for GEB members for the performance years 2011 and 2012

CHF, except where indicated[a]

Name, function	For the year	Base salary	Immediate cash (for 2011 under CBP)[b]	Annual performance award under EOP[c]	Annual performance award under DCCP[d]	Deferred cash under CBP[1,b]	Annual performance award under PEP[e]	Annual performance award under SEEOP[f]	Benefits in kind[g]	Contributions to retirement benefit plans[h]	Total
Sergio P. Ermotti, Group CEO	2012	2,500,000	0	3,660,000	2,440,000	–	–	–	69,500	201,088	8,870,588
Sergio P. Ermotti, Group CEO[2]	2011	1,394,445	553,200	–	–	1,290,800	922,000	1,844,000	195,450	150,816	6,350,711
Oswald J. Grübel, former Group CEO[3]	2011	2,191,667	0	–	–	0	0	0	35,971	0	2,227,638
Robert J. McCann, CEO Wealth Management Americas (highest-paid after Group CEO)	2012	1,373,130	0	4,278,673	2,852,449	–	–	–	45,004	6,110	8,555,366
Robert J. McCann, CEO Wealth Management Americas (highest-paid)	2011	1,321,538	1,869,233	–	–	1,246,155	1,557,694	3,115,388	67,053	6,264	9,183,325
Aggregate of all GEB members who were in office at the end of the year[4]	2012	16,273,460	0	31,355,592	20,903,728	–	–	–	640,683	1,233,719	70,407,181
	2011	15,962,737	11,929,365	–	–	8,874,910	10,402,137	20,804,274	1,165,601	995,290	70,134,314
Aggregate of all GEB members who stepped down during the year[5]	2012	1,593,288	0	0	0	–	–	–	105,865	14,799	1,713,952
	2011	4,155,602	509,201	–	–	1,166,759	0	962,768	171,954	80,499	7,046,783

1 In 2011, for Sergio P. Ermotti, due to applicable UK FSA regulations, deferred cash includes blocked shares. 2 Sergio P. Ermotti was appointed on 1 April 2011 as GEB member and Regional CEO of Europe, Middle East and Africa. He was appointed as the new Group CEO ad interim on 24 September 2011 and confirmed as Group CEO on 15 November 2011. 3 Oswald J. Grübel stepped down on 24 September 2011 as Group CEO. 4 Number and distribution of GEB members: 11 GEB members were in office on 31 December 2012 and 12 GEB members were in office on 31 December 2011. 5 Number and distribution of former GEB members: 2012: includes three months in office as a GEB member for Alexander Wilmot-Sitwell and 10 months in office as a GEB member for Carsten Kengeter. 2011: includes five months in office as a GEB member for John Cryan, nine months for Oswald J. Grübel and 11 months for Maureen Miskovic.

Explanation of the tables outlining compensation details for GEB and BoD members

a. Local currencies are converted into CHF using the exchange rates as detailed in Note 38 "Currency translation rates" in the "Financial information" section in this report.

b. For performance year 2012, no immediate cash was paid. For performance year 2011, 40% of the 2011 performance award was granted in the form of Cash Balance Plan awards, of which 60% is paid out immediately (representing 24% of a GEB member's performance award). The balance is paid out in equal installments of 20%, each over the subsequent two years, and is subject to performance adjustments.

c. For EOP awards for the performance year 2012, the number of shares allocated at grant will be determined by dividing the amount communicated with the average price of UBS shares over the 10 trading days prior to and including the grant date (15 March 2013), which for notional shares is adjusted for the estimated value of dividends paid on UBS shares over the vesting period. As the grant date occurs after publication, no share price is yet available at the time of publication.

d. DCCP awards vest in full after year 5 of the five-year vesting period. The amount reflects the amount of the notional bond excluding future notional interest. The notional interest rate is set at 6.25% for awards denominated in USD and 5.40% for awards denominated in CHF.

e. For PEP awards for the performance year 2011, the number of performance shares allocated at grant has been determined by dividing the amount communicated with CHF 12.52 or USD 13.75 (based on the average price of UBS shares over the last 10 trading days of February 2012 adjusted for the estimated value of dividends paid on UBS shares over the vesting period).

f. For SEEOP awards for the performance year 2011, the number of shares allocated at grant has been determined by dividing the amount communicated with CHF 12.92 or USD 14.19 (for actual shares) and with CHF 12.52 or USD 13.75 (notional shares), based on the average closing price of UBS shares over the last 10 trading days of February 2012, which for notional shares is adjusted for the estimated value of dividends paid on UBS shares over the vesting period.

g. Benefits in kind are all valued at market price, for example, health and welfare benefits and general expense allowances.

h. Swiss executives participate in the same pension plan as all other employees. Under this plan, UBS makes contributions to the plan, which covers compensation of up to CHF 835,200 (CHF 842,400 as from 1 January 2013). The retirement benefits consist of a pension, a bridging pension and a one-off payout of accumulated capital. Employees must also contribute to the plan. This figure excludes the mandatory employer's social security contributions (AHV, ALV), but includes the portion attributed to the employer's portion of the legal BVG requirement. The employee contribution is included in the base salary and annual incentive award components. In both the US and the UK, senior management participates in the same pension plans as all other employees. In the US, there are separate pension plans for Wealth Management Americas compared with the other business divisions. There are generally two different types of pension plans: grandfathered plans and principal plans. The grandfathered plans, which are no longer open to new hires, operate (depending on the abovementioned distinction by business division) either on a cash balance basis or a career average salary basis. Participants accrue a pension based on their annual compensation limited to USD 250,000 (or USD 150,000 for Wealth Management Americas employees). The principal plans for new hires are defined contribution plans. In the defined contribution plans, UBS makes contributions to the plan based on compensation and limited to USD 250,000 (USD 255,000 as from 1 January 2013). US management may also participate in a 401(k) defined contribution plan (open to all employees), which provides a limited company matching contribution for employee contributions. In 2012, Wealth Management Americas employees with a compensation in excess of USD 250,000 did not receive a company match. Effective 1 January 2013, the match was reinstated for these employees. In the UK, management participates in either the principal pension plan, which operates on a defined contribution basis and is limited to an earnings cap of GBP 100,000, or a grandfathered defined benefit plan which provides a pension upon retirement based on career average base salary (individual caps introduced as of 1 July 2010).

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Share and option ownership / entitlements of GEB members on 31 December 2011 / 2012[1]

Name, function	For the year	Number of unvested shares / at risk[2]	Number of vested shares	Total number of shares	Potentially conferred voting rights in %	Number of options[3]	Potentially conferred voting rights in %[4]
Sergio P. Ermotti, Group Chief Executive Officer	2012	220,928	41,960	262,888	0.013	0	0.000
	2011	0	0	0	0.000	0	0.000
	2012	506,132	126,098	632,230	0.030	0	0.000
Markus U. Diethelm, Group General Counsel	2011	358,042	91,506	449,548	0.021	0	0.000
John A. Fraser, Chairman and CEO Global Asset Management	2012	617,529	315,270	932,799	0.045	884,531	0.042
	2011	460,707	280,414	741,121	0.034	1,088,795	0.050
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate	2012	412,199	95,537	507,736	0.024	0	0.000
	2011	252,293	37,517	289,810	0.013	0	0.000
Carsten Kengeter, former co-CEO Investment Bank[5]	2012	–	–	–	–	–	–
	2011	971,575	556,016	1,527,591	0.070	905,000	0.041
Ulrich Körner, Group Chief Operating Officer, CEO Corporate Center and CEO Group EMEA	2012	605,284	121,837	727,121	0.035	0	0.000
	2011	389,090	95,597	484,687	0.022	0	0.000
Philip J. Lofts, Group Chief Risk Officer	2012	542,402	169,789	712,191	0.034	536,173	0.026
	2011	377,614	150,772	528,386	0.024	577,723	0.026
Robert J. McCann, CEO Group Americas and CEO Wealth Management Americas	2012	658,470	18,112	676,582	0.032	0	0.000
	2011	330,047	0	330,047	0.015	0	0.000
Tom Naratil, Group Chief Financial Officer	2012	340,757	233,603	574,360	0.027	935,291	0.045
	2011	221,238	193,836	415,074	0.019	1,046,122	0.048
Andrea Orcel, CEO Investment Bank	2012	1,755,691	0	1,755,691	0.084	0	0.000
		–	–	–	–	–	–
Alexander Wilmot-Sitwell, former co-Chairman and co-CEO Group Asia Pacific[5]	2012	–	–	–	–	–	–
	2011	495,553	220,955	716,508	0.033	353,807	0.016
Chi-Won Yoon, CEO Group Asia Pacific	2012	478,986	370,760	849,746	0.041	578,338	0.028
	2011	306,515	350,311	656,826	0.030	623,253	0.029
Jürg Zeltner, CEO UBS Wealth Management	2012	522,500	38,329	560,829	0.027	203,093	0.010
	2011	306,487	11,756	318,243	0.015	205,470	0.009

1 This table includes all vested and unvested shares and options of GEB members, including related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Deferred variable compensation plans" section in this report for more information on the plans. 3 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 No conversion rights are outstanding. 5 GEB members who stepped down during 2012.

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Compensation details and additional information for non-independent BoD members

CHF, except where indicated[a]

Name, function[1]	For the year	Base salary	Annual performance award (cash)	Annual share award	Benefits in kind[g]	Contributions to retirement benefit plans[h]	Total
Axel A. Weber, Chairman	2012	1,322,581	–	2,003,995[2]	69,867	171,898	3,568,341
	2011	–	–	–	–	–	–
Kaspar Villiger, former Chairman	2012	354,167	–	200,000[2]	54,926	–	609,093
	2011	850,000	0	500,000[2]	144,568	0	1,494,568

1 Axel A. Weber was the only non-independent member in office on 31 December 2012; Kaspar Villiger did not stand for reelection at the AGM on 3 May 2012. Kaspar Villiger was the only non-independent member in office on 31 December 2011. 2 These shares are blocked for four years.

Audited

Remuneration details and additional information for independent BoD members

CHF, except where indicated[a]

Name, function[1]	Audit Committee	Human Resources & Compensation Committee	Governance & Nominating Committee	Corporate Responsibility Committee	Risk Committee	For the period AGM to AGM	Base fee	Committee retainer(s)	Benefits in kind	Additional payments	Total	Share percentage[2]	Number of shares[3, 4]
Michel Demaré, Vice Chairman	M		M			2012/2013	325,000	300,000		250,000[5]	**875,000**	50	34,233
	M		M			2011/2012	325,000	300,000		250,000[5]	**875,000**	50	39,845
David Sidwell, Senior Independent Director			M		C	2012/2013	325,000	500,000		250,000[5]	**1,075,000**	50	42,057
			M		C	2011/2012	325,000	500,000		250,000[5]	**1,075,000**	50	48,952
Rainer-Marc Frey, member		M			M	2012/2013	325,000	300,000			**625,000**	100	46,367
	M				M	2011/2012	325,000	400,000			**725,000**	100	62,635
Bruno Gehrig, former member						2012/2013	–	–			**–**		
		M	M			2011/2012	325,000	200,000			**525,000**	50	23,907
Ann F. Godbehere, member	M	C				2012/2013	325,000	500,000			**825,000**	50	32,276
	M	C		M		2011/2012	325,000	550,000			**875,000**	50	39,845
Axel P. Lehmann, member			M		M	2012/2013	325,000	300,000			**625,000**	100	46,367
			M		M	2011/2012	325,000	250,000			**575,000**	100	49,632
Wolfgang Mayrhuber, member		M		C		2012/2013	325,000	200,000			**525,000**	50	20,539
		M		C		2011/2012	325,000	200,000			**525,000**	50	23,907
Helmut Panke, member		M			M	2012/2013	325,000	300,000			**625,000**	50	24,452
		M			M	2011/2012	325,000	300,000			**625,000**	50	28,460
William G. Parrett, member	C			M		2012/2013	325,000	350,000			**675,000**	50	26,408
	C					2011/2012	325,000	300,000			**625,000**	50	28,460
Isabelle Romy, member	M		M			2012/2013	325,000	300,000			**625,000**	50	24,452
						2011/2012	–	–			**–**		
Beatrice Weder di Mauro, member	M			M		2012/2013	325,000	250,000			**575,000**	50	22,496
						2011/2012	–	–			**–**		
Joseph Yam, member				M	M	2012/2013	325,000	250,000			**575,000**	50	22,496
				M	M	2011/2012	325,000	250,000			**575,000**	50	26,183
Total 2012											**7,625,000**		
Total 2011											**7,000,000**		

Legend: C = Chairperson of the respective Committee; M = Member of the respective Committee

1 There were 11 independent BoD members in office on 31 December 2012. Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012 and Bruno Gehrig did not stand for reelection at the AGM on 3 May 2012. There were 10 independent BoD members in office on 31 December 2011. Joseph Yam was appointed at the AGM on 28 April 2011 and Sally Bott stepped down on 11 February 2011. 2 Fees are paid 50% in cash and 50% in blocked UBS shares. However, independent BoD members can elect to have 100% of their remuneration paid in blocked UBS shares. 3 For 2012, shares valued at CHF 15.03 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2013), and were granted with a price discount of 15% for a new value of CHF 12.78. These shares are blocked for four years. For 2011, shares valued at CHF 12.92 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2012), and were granted with a price discount of 15% for a new value of CHF 10.98. These shares are blocked for four years. 4 Number of shares is reduced in case of the 100% election to deduct social security contribution. All remuneration payments are subject to social security contributions / withholding tax. 5 This payment is associated with the Vice Chairman or the Senior Independent Director function, respectively.

Audited

Total payments to BoD members

CHF, except where indicated[a]	For the year	Total
Aggregate of all BoD members	2012	11,802,434
	2011	8,494,568

Audited

Number of shares of BoD members on 31 December 2011 / 2012[1]

Name, function	For the year	Number of shares held	Voting rights in %
Axel A. Weber, Chairman[2]	2012	200,000	0.010
	2011	–	
Kaspar Villiger, former Chairman[3]	2012	–	
	2011	49,440	0.002
Michel Demaré, Vice Chairman	2012	116,179	0.006
	2011	76,334	0.003
David Sidwell, Senior Independent Director	2012	149,199	0.007
	2011	100,247	0.005
Rainer-Marc Frey, member	2012	162,677	0.008
	2011	100,042	0.005
Bruno Gehrig, former member[3]	2012	–	
	2011	54,409	0.002
Ann F. Godbehere, member	2012	81,286	0.004
	2011	41,441	0.002
Axel P. Lehmann, member	2012	139,603	0.007
	2011	89,971	0.004
Wolfgang Mayrhuber, member	2012	38,957	0.002
	2011	15,050	0.001
Helmut Panke, member	2012	137,792	0.007
	2011	109,332	0.005
William G. Parrett, member	2012	91,078	0.004
	2011	62,618	0.003
Isabelle Romy, member[2]	2012	0	0.000
	2011	–	
Beatrice Weder di Mauro, member[2]	2012	0	0.000
	2011	–	
Joseph Yam, member	2012	26,183	0.001
	2011	0	0.000

1 This table includes blocked and unblocked shares held by BoD members, including related parties. No options were granted in 2011 and 2012. 2 Axel A. Weber, Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012. 3 Kaspar Villiger and Bruno Gehrig did not stand for reelection at the AGM on 3 May 2012.

Audited

Compensation paid to former BoD and GEB members[1]

CHF, except where indicated[a]

Name, function	For the year	Compensation	Benefits in kind	Total
Former BoD members	2012	0	0	0
	2011	0	0	0
Aggregate of all former GEB members[2]	2012	0	25,465	25,465
	2011	0	0	0
Aggregate of all former BoD and GEB members	2012	0	25,465	25,465
	2011	0	0	0

1 Compensation or remuneration that is connected with the former member's activity on the BoD or GEB or that is not at market conditions. 2 Includes one former GEB member in 2012 and no former GEB member in 2011.

Audited

Total of all vested and unvested shares of GEB members[1, 2]

	Total	Of which vested	Of which vesting				
			2013	2014	2015	2016	2017
Shares on 31 December 2012	**3,414,568**	1,531,295	952,668	583,281	347,324	0	0
			2012	2013	2014	2015	2016
Shares on 31 December 2011	**2,863,887**	1,988,680	408,037	290,631	88,269	88,269	0

1 Includes related parties. 2 Excludes shares granted under variable compensation plans with forfeiture provisions.

Audited

Total of all blocked and unblocked shares of BoD members[1]

	Total	Of which unblocked	Of which blocked until			
			2013	2014	2015	2016
Shares on 31 December 2012	**1,142,954**	56,624	302,118	204,792	231,501	347,919
			2012	2013	2014	2015
Shares on 31 December 2011	**698,884**	72,775	9,349	115,690	225,995	275,075

1 Includes related parties.

Audited

Vested and unvested options of GEB members on 31 December 2011/2012[1]

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Sergio P. Ermotti, Group Chief Executive Officer						
2012	0					
2011	0					
Markus U. Diethelm, Group General Counsel						
2012	0					
2011	0					
John A. Fraser, Chairman and CEO Global Asset Management						
2012	884,531	127,884	2003	31.01.2006	31.01.2013	USD 22.53
		170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
2011	1,088,795	76,380	2002	31.01.2005	31.01.2012	USD 21.24
		127,884	2002	28.06.2005	28.06.2012	CHF 37.90
		127,884	2003	31.01.2006	31.01.2013	USD 22.53
		170,512	2004	01.03.2007	27.02.2014	USD 38.13
		202,483	2005	01.03.2008	28.02.2015	USD 44.81
		213,140	2006	01.03.2009	28.02.2016	CHF 72.57
		170,512	2007	01.03.2010	28.02.2017	CHF 73.67
Lukas Gähwiler, CEO UBS Switzerland and CEO Retail & Corporate						
2012	0					
2011	0					
Carsten Kengeter, former co-CEO Investment Bank[4]						
2012	–					
2011	905,000	905,000	2009	01.03.2012	27.12.2019	CHF 40.00
Ulrich Körner, Group Chief Operating Officer, CEO Corporate Center and CEO Group EMEA						
2012	0					
2011	0					
Philip J. Lofts, Group Chief Risk Officer						
2012	536,173	9,985	2003	01.03.2004	31.01.2013	CHF 27.81
		9,980	2003	01.03.2005	31.01.2013	CHF 27.81
		9,974	2003	01.03.2006	31.01.2013	CHF 27.81
		1,833	2003	01.03.2004	28.02.2013	CHF 26.39
		1,830	2003	01.03.2005	28.02.2013	CHF 26.39
		1,830	2003	01.03.2006	28.02.2013	CHF 26.39
		35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
Philip J. Lofts, Group Chief Risk Officer (continued)						
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74 599	2008	01.03.2011	28.02.2018	CHF 35.66
2011	577,723	11,445	2002	31.01.2003	31.01.2012	CHF 36.49
		11,104	2002	31.01.2004	31.01.2012	CHF 36.49
		11,098	2002	31.01.2005	31.01.2012	CHF 36.49
		1,240	2002	28.02.2003	28.02.2012	CHF 36.65
		5,464	2002	28.02.2004	28.02.2012	CHF 36.65
		1,199	2002	28.02.2005	28.02.2012	CHF 36.65
		9,985	2003	01.03.2004	31.01.2013	CHF 27.81
		9,980	2003	01.03.2005	31.01.2013	CHF 27.81
		9,974	2003	01.03.2006	31.01.2013	CHF 27.81
		1,833	2003	01.03.2004	28.02.2013	CHF 26.39
		1,830	2003	01.03.2005	28.02.2013	CHF 26.39
		1,830	2003	01.03.2006	28.02.2013	CHF 26.39
		35,524	2004	01.03.2005	27.02.2014	CHF 44.32
		35,524	2004	01.03.2006	27.02.2014	CHF 44.32
		35,521	2004	01.03.2007	27.02.2014	CHF 44.32
		117,090	2005	01.03.2008	28.02.2015	CHF 52.32
		117,227	2006	01.03.2009	28.02.2016	CHF 72.57
		85,256	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66
Robert J. McCann, CEO Group Americas and CEO Wealth Management Americas						
2012	0					
2011	0					
Tom Naratil, Group Chief Financial Officer						
2012	935,291	63,942	2003	31.01.2006	31.01.2013	USD 22.53
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
2011	1,046,122	35,524	2002	31.01.2003	31.01.2012	USD 21.24
		35,524	2002	31.01.2004	31.01.2012	USD 21.24
		35,521	2002	31.01.2005	31.01.2012	USD 21.24
		4,262	2002	29.02.2004	28.02.2012	USD 21.70
		63,942	2003	31.01.2006	31.01.2013	USD 22.53
		4,262	2003	28.02.2005	28.02.2013	USD 19.53

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 GEB member who stepped down during 2012.

Audited

Vested and unvested options of GEB members on 31 December 2011 / 2012[1] (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Tom Naratil, Group Chief Financial Officer (continued)						
		145,962	2004	01.03.2007	27.02.2014	USD 38.13
		166,010	2005	01.03.2008	28.02.2015	USD 44.81
		142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
Andrea Orcel, CEO Investment Bank						
2012	0					
2011	–					
Alexander Wilmot-Sitwell, former co-Chairman and co-CEO Group Asia Pacific[4]						
2012	–					
2011	353,807	53,282	2005	01.03.2008	28.02.2015	CHF 47.58
		2,130	2005	04.03.2007	04.03.2015	CHF 47.89
		35,524	2006	01.03.2007	28.02.2016	CHF 65.97
		35,524	2006	01.03.2008	28.02.2016	CHF 65.97
		35,521	2006	01.03.2009	28.02.2016	CHF 65.97
		106,570	2007	01.03.2010	28.02.2017	CHF 73.67
		85,256	2008	01.03.2011	28.02.2018	CHF 35.66
Chi-Won Yoon, CEO Group Asia Pacific						
2012	578,338	8,648	2003	01.03.2004	31.01.2013	USD 20.49
		8,642	2003	01.03.2005	31.01.2013	USD 20.49
		8,635	2003	01.03.2006	31.01.2013	USD 20.49
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		3,374	2003	01.03.2004	28.02.2013	USD 19.53
		3,371	2003	01.03.2005	28.02.2013	USD 19.53
		3,371	2003	01.03.2006	28.02.2013	USD 19.53
		6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35
Chi-Won Yoon, CEO Group Asia Pacific (continued)						
2011	623,253	11,577	2002	31.01.2002	31.01.2012	USD 21.24
		11,229	2002	31.01.2004	31.01.2012	USD 21.24
		11,227	2002	31.01.2005	31.01.2012	USD 21.24
		2,252	2002	28.02.2002	28.02.2012	USD 21.70
		6,446	2002	29.02.2004	28.02.2012	USD 21.70
		2,184	2002	28.02.2005	28.02.2012	USD 21.70
		8,648	2003	01.03.2004	31.01.2013	USD 20.49
		8,642	2003	01.03.2005	31.01.2013	USD 20.49
		8,635	2003	01.03.2006	31.01.2013	USD 20.49
		4,262	2003	28.02.2005	28.02.2013	USD 19.53
		3,374	2003	01.03.2004	28.02.2013	USD 19.53
		3,371	2003	01.03.2005	28.02.2013	USD 19.53
		3,371	2003	01.03.2006	28.02.2013	USD 19.53
		6,200	2004	01.03.2005	27.02.2014	CHF 44.32
		4,262	2004	27.02.2006	27.02.2014	CHF 44.32
		6,198	2004	01.03.2006	27.02.2014	CHF 44.32
		6,195	2004	01.03.2007	27.02.2014	CHF 44.32
		10,659	2005	01.03.2006	28.02.2015	CHF 47.58
		10,657	2005	01.03.2007	28.02.2015	CHF 47.58
		10,654	2005	01.03.2008	28.02.2015	CHF 47.58
		21,316	2006	01.03.2007	28.02.2016	CHF 65.97
		21,314	2006	01.03.2008	28.02.2016	CHF 65.97
		21,311	2006	01.03.2009	28.02.2016	CHF 65.97
		8,881	2007	01.03.2008	28.02.2017	CHF 67.00
		8,880	2007	01.03.2009	28.02.2017	CHF 67.00
		8,880	2007	01.03.2010	28.02.2017	CHF 67.00
		42,628	2008	01.03.2011	28.02.2018	CHF 32.45
		350,000	2009	01.03.2012	27.02.2019	CHF 11.35
Jürg Zeltner, CEO UBS Wealth Management						
2012	203,093	4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
		230	2006	08.09.2008	08.09.2016	CHF 65.76

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 GEB member who stepped down during 2012.

Audited

Vested and unvested options of GEB members on 31 December 2011 / 2012[1] (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Jürg Zeltner, CEO UBS Wealth Management (continued)						
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35
2011	205,470	809	2002	31.01.2003	31.01.2012	CHF 36.49
		784	2002	31.01.2004	31.01.2012	CHF 36.49
		784	2002	31.01.2005	31.01.2012	CHF 36.49
		4,972	2004	01.03.2007	27.02.2014	CHF 44.32
		7,106	2005	01.03.2006	28.02.2015	CHF 47.58
		7,103	2005	01.03.2007	28.02.2015	CHF 47.58
		7,103	2005	01.03.2008	28.02.2015	CHF 47.58
		93	2005	04.03.2007	04.03.2015	CHF 47.89
		161	2005	06.06.2007	06.06.2015	CHF 45.97
Jürg Zeltner, CEO UBS Wealth Management (continued)						
		149	2005	09.09.2007	09.09.2015	CHF 50.47
		127	2005	05.12.2007	05.12.2015	CHF 59.03
		7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
		230	2006	08.09.2008	08.09.2016	CHF 65.76
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
		90,000	2009	01.03.2012	27.02.2019	CHF 11.35

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 31 Equity participation and other compensation plans" in the "Financial information" section of this report for more information.

Audited

Loans granted to GEB members on 31 December 2011 / 2012[1]

CHF, except where indicated

Name, function	For the year	Loans[2]
Markus U. Diethelm, Group General Counsel[3]	2012	5,564,012
Jürg Zeltner, CEO UBS Wealth Management[3]	2011	5,387,500
Aggregate of all GEB members	2012	18,862,820
	2011	17,539,601[4]

1 No loans have been granted to related parties of the GEB members at conditions not customary in the market. 2 All loans granted are secured loans, except for CHF 311,308 in 2012 and CHF 45,435 in 2011. 3 GEB member with the highest loan granted. 4 Includes a forgivable loan of CHF 3.3 million, subject to the GEB member's continued full-time employment with UBS and a performance satisfactory and commensurate with his responsibilities. The loan was fully repaid in 2012, as the GEB member stepped down during the year.

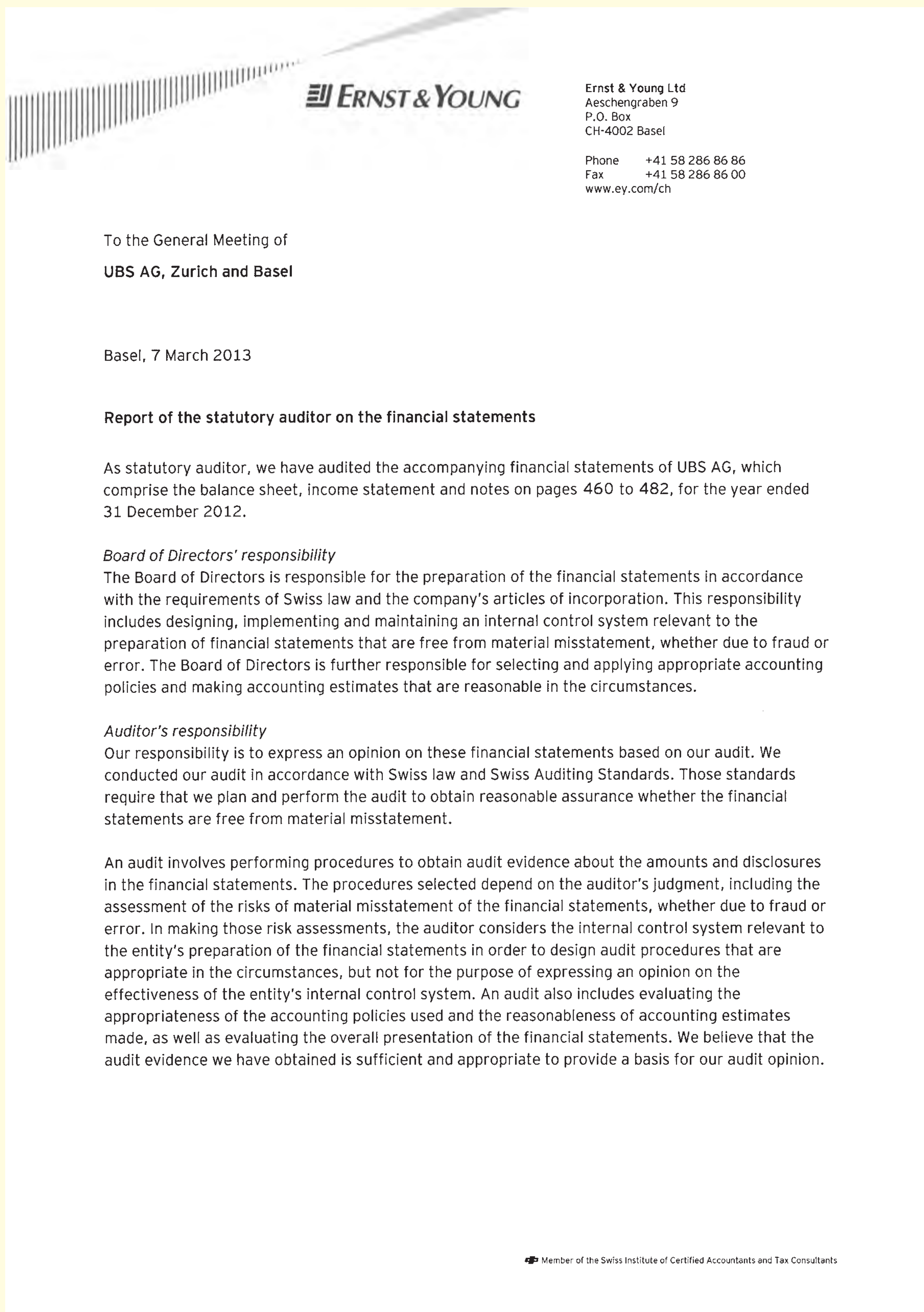
Audited

Loans granted to BoD members on 31 December 2011 / 2012[1]

CHF, except where indicated[a]

Name, function	For the year	Loans[2]
Axel A. Weber, Chairman[3]	2012	0
	2011	–
Kaspar Villiger, former Chairman[4]	2012	–
	2011	0
Michel Demaré, Vice Chairman	2012	500,000
	2011	850,000
David Sidwell, Senior Independent Director	2012	0
	2011	0
Rainer-Marc Frey, member	2012	0
	2011	0
Bruno Gehrig, former member[4,5]	2012	–
	2011	798,000
Ann F. Godbehere, member	2012	0
	2011	0
Axel P. Lehmann, member	2012	0
	2011	0
Wolfgang Mayrhuber, member	2012	0
	2011	0
Helmut Panke, member	2012	0
	2011	0
William G. Parrett, member	2012	0
	2011	0
Isabelle Romy, member[3]	2012	0
	2011	–
Beatrice Weder di Mauro, member[3]	2012	0
	2011	–
Joseph Yam, member	2012	0
	2011	0
Aggregate of all BoD members	**2012**	**500,000**
	2011	1,648,000

1 No loans have been granted to related parties of the BoD members at conditions not customary in the market. 2 All loans granted are secured loans. 3 Axel A. Weber, Isabelle Romy and Beatrice Weder di Mauro were appointed at the AGM on 3 May 2012. 4 Kaspar Villiger and Bruno Gehrig did not stand for reelection at the AGM on 3 May 2012. 5 Secured loan granted prior to his election to the BoD.



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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 7 March 2013

Report of the statutory auditor on the financial statements

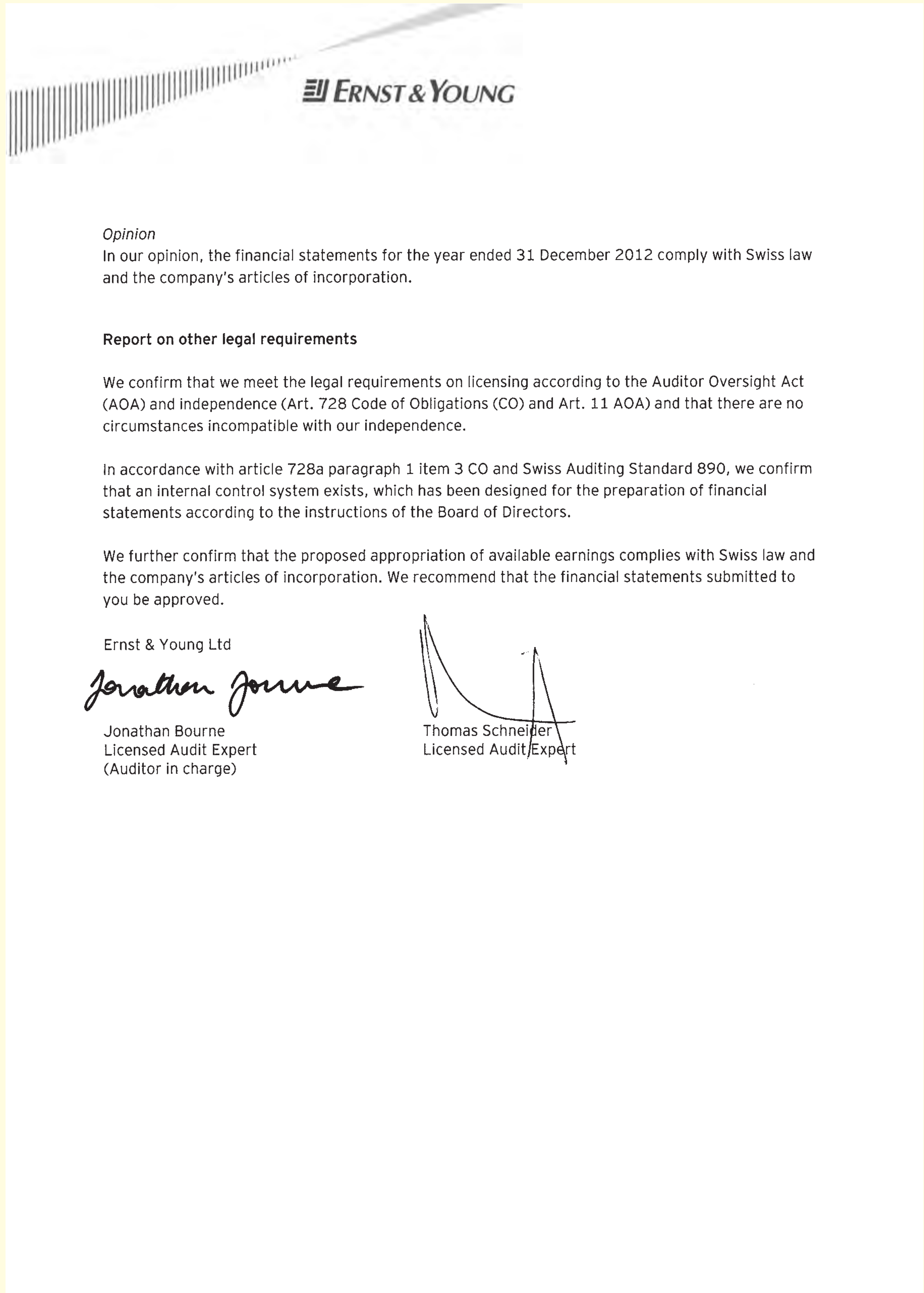
As statutory auditor, we have audited the accompanying financial statements of UBS AG, which comprise the balance sheet, income statement and notes on pages 460 to 482, for the year ended 31 December 2012.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of the Swiss Institute of Certified Accountants and Tax Consultants



ERNST & YOUNG

Opinion
In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and Art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Jonathan Bourne Licensed Audit Expert (Auditor in charge)	Thomas Schneider Licensed Audit Expert

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8031 Zurich

Confirmation of the auditors concerning conditional capital increase

to the Board of Directors of

UBS AG, Zurich and Basel

As special auditors of UBS AG, we have audited the issue of new shares and the preconditions for the adjustment of the provisions regarding the conditional capital increase according to article 4a of the articles of association in the period from 1 January 2012 to 31 December 2012 in accordance with the provisions of article 653f paragraph 1 of the Swiss code of obligations.

According to article 4a of the articles of association, the following possibilities for the issue of conditional capital exist:

- Paragraph 1; employee stock option plans of UBS AG, based on the resolution of the annual general meeting of 19 April 2006.
- Paragraph 2; options granted to the Swiss National Bank in connection with its loan granted to the SNB StabFund Limited Partnership for Collective Investment, based on the resolution of the general meeting of shareholders of 27 November 2008.
- Paragraph 3; conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments, based on the resolution of the annual general meeting of 14 April 2010.

The issue of new shares in accordance with the provisions of the company's articles of association is the responsibility of the board of directors. Our responsibility is to express an opinion on whether the issue of new shares is in accordance with the provisions of Swiss law and the company's articles of association. We confirm that we meet the legal requirements on licensing and independence.

Our audit was conducted in accordance with the Swiss auditing standards, which require that an audit be planned and performed to obtain reasonable assurance as to whether the issue of new shares was free of material error. We have performed the audit procedures considered appropriate in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion

- the issue of 3'128'334 new registered shares of a nominal value of CHF 0.10 per share relating to the employee stock option plans of UBS AG, according to article 4a paragraph 1 of the articles of association, was in accordance with the provisions of Swiss law and the company's articles of association;
- no new registered shares relating to the options granted to the Swiss National Bank, according to article 4a paragraph 2 of the articles of association, were issued in the reporting period;
- no new registered shares relating to the conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments, according to article 4a paragraph 3 of the articles of association, were issued in the reporting period.

Zurich, 25 January 2013

BDO Ltd

Werner Schiesser
Licensed Audit Expert

Jürg Caspar
Licensed Audit Expert

BDO Ltd, with its statutory seat in Zurich, is the legally independent Swiss member firm of the international BDO network.

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Additional disclosure required under SEC regulations

A – Introduction

The following pages contain additional disclosures about UBS Group which are required under SEC regulations. UBS's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and are denominated in Swiss francs (CHF), the reporting currency of the Group.

B – Selected financial data

The tables below provide information concerning the noon purchase rate for the Swiss franc, expressed in United States dollars, or USD, per one Swiss franc. The noon purchase rate is the rate in New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

On 28 February 2013, the noon purchase rate was 1.0711 USD per 1 CHF.

Year ended 31 December	High	Low	Average rate[1] (USD per 1 CHF)	At period end
2008	1.0142	0.8171	0.9298	0.9369
2009	1.0016	0.8408	0.9260	0.9654
2010	1.0673	0.8610	0.9670	1.0673
2011	1.3706	1.0251	1.1398	1.0668
2012	1.1174	1.0043	1.0724	1.0923

Month	High	Low
September 2012	1.0811	1.0462
October 2012	1.0850	1.0638
November 2012	1.0794	1.0545
December 2012	1.0971	1.0715
January 2013	1.0997	1.0700
February 2013	1.1074	1.0711

1 The average of the noon purchase rates on the last business day of each full month during the relevant period.

Key figures

	As of or for the year ended				
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.09	31.12.08
Balance sheet data					
Total assets	**1,259,232**	1,416,962	1,314,813	1,338,239	2,012,876
Equity attributable to UBS shareholders	**45,895**	48,530	43,728	37,704	28,244
Average equity to average assets (%)	**3.4**	3.2	2.7	1.7	1.3
Market capitalization	**54,729**	42,843	58,803	57,108	43,519
Shares					
Registered ordinary shares	**3,835,250,233**	3,832,121,899	3,830,840,513	3,558,112,753	2,932,580,549
Treasury shares	**87,879,601**	84,955,551	38,892,031	37,553,872	61,903,121
Capital strength					
BIS core tier 1 capital ratio (%)[1]	**19.0**	14.1	17.8	15.4	11.0
BIS total capital ratio (%)[1]	**25.2**	17.2	20.4	19.8	15.0
BIS risk-weighted assets[1]	**192,505**	240,962	198,875	206,525	302,273
Invested assets (CHF billion)[2]	**2,230**	2,088	2,075	2,160	2,174
Personnel (full-time equivalents)					
Americas	**21,995**	22,924	23,178	23,834	29,346
of which: USA	***20,833***	*21,746*	*22,031*	*22,702*	*27,362*
Asia Pacific	**7,426**	7,690	7,263	6,865	9,998
Europe, Middle East and Africa	**10,829**	11,019	10,892	10,484	12,032
of which: United Kingdom	***6,459***	*6,674*	*6,634*	*6,204*	*7,071*
of which: Rest of Europe	***4,202***	*4,182*	*4,122*	*4,145*	*4,817*
of which: Middle East and Africa	***167***	*162*	*137*	*134*	*145*
Switzerland	**22,378**	23,188	23,284	24,050	26,406
Total	**62,628**	64,820	64,617	65,232	77,783

1 Capital management data as of 31 December 2012 and as of 31 December 2011 is disclosed in accordance with the Basel 2.5 framework. Capital management data as of 31 December 2010, 31 December 2009 and 31 December 2008 is disclosed in accordance with the Basel II framework. Refer to the "Capital management" section of this report for more information. 2 In 2012, the definition of invested assets was refined. Prior period data were restated for this change, with the exception of data for 31 December 2008. Refer to "Note 35 Invested assets and net new money" within the Notes to the consolidated financial statements for more information.

Income statement data

	For the year ended				
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.09	31.12.08
Interest income	**15,968**	17,969	18,872	23,461	65,679
Interest expense	**(9,974)**	(11,143)	(12,657)	(17,016)	(59,687)
Net interest income	**5,994**	6,826	6,215	6,446	5,992
Credit loss (expense) / recovery	**(118)**	(84)	(66)	(1,832)	(2,996)
Net interest income after credit loss (expense) / recovery	**5,875**	6,742	6,149	4,614	2,996
Net fee and commission income	**15,405**	15,236	17,160	17,712	22,929
Net trading income	**3,480**	4,343	7,471	(324)	(25,820)
Other income	**682**	1,467	1,214	599	692
Total operating income	**25,443**	27,788	31,994	22,601	796
Total operating expenses	**27,216**	22,482	24,650	25,128	28,290
Operating profit / (loss) from continuing operations before tax	**(1,774)**	5,307	7,345	(2,527)	(27,493)
Tax expense / (benefit)	**461**	901	(409)	(444)	(6,777)
Net profit / (loss) from continuing operations	**(2,235)**	4,406	7,754	(2,082)	(20,716)
Net profit / (loss) from discontinued operations	**0**	0	2	(7)	198
Net profit / (loss)	**(2,235)**	4,406	7,756	(2,089)	(20,519)
Net profit attributable to non-controlling interests	**276**	268	304	610	568
Net profit / (loss) attributable to UBS shareholders	**(2,511)**	4,138	7,452	(2,700)	(21,087)
Cost / income ratio (%)[1]	**106.5**	80.7	76.9	102.8	746.0
Per share data (CHF)					
Basic earnings per share[2]	**(0.67)**	1.10	1.97	(0.74)	(7.55)
Diluted earnings per share[2]	**(0.67)**	1.08	1.94	(0.74)	(7.56)
Cash dividends declared per share (CHF)[3, 4]	**0.15**	0.10	N/A	N/A	N/A
Cash dividends declared per share (USD)[3, 4]		0.11	N/A	N/A	N/A
Dividend payout ratio (%)[3, 4]	**(22.4)**	9.1	N/A	N/A	N/A
Rates of return (%)					
Return on equity attributable to UBS shareholders[5]	**(5.2)**	9.1	18.0	(7.9)	(59.0)
Return on average equity	**(5.1)**	9.1	17.9	(8.7)	(68.3)
Return on average assets	**(0.2)**	0.3	0.5	(0.1)	(0.9)

1 Operating expenses / operating income before credit loss expense. 2 Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the consolidated financial statements for more information. 3 Dividends and / or distribution of capital contribution reserve are normally approved and paid in the year subsequent to the reporting period. 4 For the year 2012, an amount of CHF 0.15 per share will be paid out of capital contribution reserve on 10 May 2013, subject to approval by shareholders at the Annual General Meeting on 2 May 2013. The USD amount per share will be determined on 6 May 2013. 5 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders. The calculation excludes expected deductions for dividends and distribution of capital contribution reserve.

Balance sheet data

CHF million	31.12.12	31.12.11	31.12.10	31.12.09	31.12.08
Assets					
Total assets	**1,259,232**	1,416,962	1,314,813	1,338,239	2,012,876
Cash and balances with central banks	**66,383**	40,638	26,939	20,899	32,744
Due from banks	**21,230**	23,218	17,133	16,804	17,694
Cash collateral on securities borrowed	**37,372**	58,763	62,454	63,507	122,897
Reverse repurchase agreements	**130,941**	213,501	142,790	116,689	224,648
Trading portfolio assets	**160,861**	181,525	228,815	232,258	312,054
of which: assets pledged as collateral which may be sold or repledged by counterparties	***44,698***	*39,936*	*61,352*	*44,221*	*40,216*
Positive replacement values	**418,029**	486,584	401,146	421,694	854,100
Cash collateral receivables on derivative instruments	**30,413**	41,322	38,071	53,774	85,703
Loans	**279,901**	266,604	262,877	266,477	291,456
Financial investments available-for-sale	**66,383**	53,174	74,768	81,757	5,248
Other assets	**11,055**	9,165	19,506	20,642	16,916
Liabilities and equity					
Due to banks	**23,024**	30,201	41,490	31,922	76,822
Cash collateral on securities lent	**9,203**	8,136	6,651	7,995	14,063
Repurchase agreements	**37,639**	102,429	74,796	64,175	102,561
Trading portfolio liabilities	**34,154**	39,480	54,975	47,469	62,431
Negative replacement values	**395,070**	473,400	393,762	409,943	851,864
Cash collateral payables on derivative instruments	**71,148**	67,114	58,924	66,097	92,937
Financial liabilities designated at fair value	**92,878**	88,982	100,756	112,653	101,546
Due to customers	**371,892**	342,409	332,301	339,263	362,639
Debt issued	**104,656**	140,617	130,271	131,352	197,254
Other liabilities	**59,902**	62,784	62,674	70,953	101,560
Equity attributable to UBS shareholders	**45,895**	48,530	43,728	37,704	28,244

Ratio of earnings to fixed charges

The following table sets forth UBS's ratio of earnings to fixed charges on an IFRS basis for the periods indicated. The ratios are calculated based on earnings from continuing operations.

For the year ended				
31.12.12	31.12.11	31.12.10	31.12.09	31.12.08
0.80	1.42	1.52	0.83	0.54

C – Information on the company

Property, plant and equipment

At 31 December 2012, UBS operated about 874 business and banking locations worldwide, of which about 42% were in Switzerland, 42% in the Americas, 11% in the rest of Europe, Middle East and Africa and 5% in Asia-Pacific. Of the business and banking locations in Switzerland, 35% were owned directly by UBS, with the remainder, along with most of UBS's offices outside Switzerland, being held under commercial leases. These premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for current and anticipated operations.

D – Information required by industry guide 3

Selected statistical information

The following tables set forth selected statistical information regarding the Group's banking operations extracted from the Financial Statements. Unless otherwise indicated, average balances for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 are calculated from monthly data. The distinction between domestic and foreign is generally based on the booking location. For loans, this method is not significantly different from an analysis based on the domicile of the borrower.

Average balances and interest rates

The following table sets forth average interest-earning assets and average interest-bearing liabilities, along with the average yield, for the years ended.

	31.12.12			31.12.11			31.12.10		
CHF million, except where indicated	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Assets									
Due from banks									
Domestic	3,566	33	0.9	3,465	22	0.6	3,037	13	0.4
Foreign	24,729	282	1.1	17,623	142	0.8	14,280	60	0.4
Cash collateral on securities borrowed and reverse repurchase agreements									
Domestic	4,884	4	0.1	8,025	15	0.2	11,277	8	0.1
Foreign	263,958	1,155	0.4	281,544	1,485	0.5	296,252	1,221	0.4
Trading portfolio assets									
Domestic	6,019	235	3.9	12,821	299	2.3	14,150	231	1.6
Foreign taxable	156,839	4,247	2.7	189,861	5,163	2.7	212,430	5,769	2.7
Foreign non-taxable				1,313	4	0.3	2,033	15	0.7
Foreign total	156,839	4,247	2.7	191,174	5,167	2.7	214,463	5,784	2.7
Cash collateral receivables on derivative instruments									
Domestic	9			21	0				
Foreign	36,892	143	0.4	37,696	324	0.9	49,095	306	0.6
Financial assets designated at fair value									
Domestic	454			493	0		568	0	
Foreign	8,790	369	4.2	8,262	248	3.0	9,128	262	2.9
Loans									
Domestic	185,969	4,280	2.3	182,125	4,604	2.5	179,164	4,921	2.7
Foreign	88,246	2,150	2.4	82,755	2,203	2.7	90,032	2,363	2.6
Financial investments available-for-sale									
Domestic	1,572	8	0.5	3,465	4	0.1	1,712	18	1.1
Foreign taxable	61,412	373	0.6	60,026	611	1.0	74,821	539	0.7
Foreign non-taxable									
Foreign total	61,412	373	0.6	60,026	611	1.0	74,821	539	0.7
Other interest-earning assets									
Domestic							0	0	
Foreign	7,143	439	6.1	12,001	501	4.2	15,227	484	3.2
Total interest-earning assets	850,482	13,718	1.6	901,496	15,624	1.7	973,206	16,210	1.7
Net interest income on swaps		1,804			1,923			2,234	
Interest income on off-balance sheet securities and other		446			422			428	
Interest income and average interest-earning assets	850,482	15,968	1.9	901,496	17,969	2.0	973,206	18,872	1.9
Non-interest-earning assets									
Positive replacement values	459,582			410,839			471,046		
Fixed assets	5,859			5,420			5,884		
Other	130,901			86,469			79,585		
Total average assets	1,446,824			1,404,224			1,529,721		

Average balances and interest rates (continued)

CHF million, except where indicated	31.12.12 Average balance	31.12.12 Interest expense	31.12.12 Average interest rate (%)	31.12.11 Average balance	31.12.11 Interest expense	31.12.11 Average interest rate (%)	31.12.10 Average balance	31.12.10 Interest expense	31.12.10 Average interest rate (%)
Liabilities and equity									
Due to banks									
Domestic	25,843	61	0.2	25,672	259	1.0	29,400	253	0.9
Foreign	7,709	65	0.8	10,250	93	0.9	10,318	99	1.0
Cash collateral on securities lent and repurchase agreements									
Domestic	6,289	7	0.1	8,836	12	0.1	12,089	8	0.1
Foreign	147,669	766	0.5	168,429	969	0.6	176,098	893	0.5
Trading portfolio liabilities									
Domestic	886	18	2.0	1,095	26	2.3	1,068	37	3.5
Foreign	46,926	2,373	5.1	52,373	2,826	5.4	59,672	3,757	6.3
Cash collateral payables on derivative instruments									
Domestic	1,131			357			361	0	
Foreign	67,955	134	0.2	58,731	281	0.5	69,223	242	0.3
Financial liabilities designated at fair value									
Domestic	1,335	11	0.8	1,548	10	0.7	878	3	0.3
Foreign	90,742	1,751	1.9	91,920	1,982	2.2	108,405	2,389	2.2
Due to customers									
Domestic demand deposits	111,975	95	0.1	95,679	132	0.1	85,838	106	0.1
Domestic savings deposits	90,312	356	0.4	82,004	422	0.5	75,802	409	0.5
Domestic time deposits	4,821	30	0.6	6,672	41	0.6	7,977	49	0.6
Domestic total	207,108	481	0.2	184,355	595	0.3	169,617	564	0.3
Foreign [1]	151,721	574	0.4	145,772	696	0.5	168,099	756	0.4
Short-term debt									
Domestic	1,776	9	0.5	1,303	4	0.3	1,140	9	0.8
Foreign	48,525	365	0.8	57,873	382	0.7	53,454	394	0.7
Long-term debt									
Domestic	11,188	264	2.4	12,705	126	1.0	13,462	142	1.1
Foreign	61,952	2,564	4.1	57,830	2,394	4.1	68,267	2,661	3.9
Other interest-bearing liabilities									
Domestic							0	0	
Foreign	36,823	98	0.3	36,926	116	0.3	37,996	69	0.2
Total interest-bearing liabilities	915,578	9,541	1.0	915,975	10,772	1.2	979,547	12,276	1.3
Interest expense on off-balance sheet securities		433			371			381	
Interest expense and average interest-bearing liabilities	915,578	9,974		915,975	11,143		979,547	12,657	
Non-interest-bearing liabilities									
Negative replacement values	443,790			402,535			459,987		
Other	33,989			35,672			41,779		
Total liabilities	1,393,357			1,354,182			1,481,313		
Total equity	53,467			50,042			48,408		
Total average liabilities and equity	1,446,824			1,404,224			1,529,721		
Net interest income		5,994			6,826			6,215	
Net yield on interest-earning assets			0.7			0.8			0.6

1 Due to customers in foreign offices consists mainly of time deposits.

The percentage of total average interest-earning assets attributable to foreign activities was 76% for 2012 (77% for 2011 and 78% for 2010). The percentage of total average interest-bearing liabilities attributable to foreign activities was 72% for 2012 (74% for 2011 and 77% for 2010). All assets and liabilities are translated into CHF at uniform month-end rates. Interest income and expense are translated at monthly average rates.

Average rates earned and paid on assets and liabilities can change from period to period based on the changes in interest rates in general, but are also affected by changes in the currency mix included in the assets and liabilities. This is especially true for foreign assets and liabilities. Tax-exempt income is not recorded on a tax-equivalent basis. For all three years presented, tax-exempt income is considered to be insignificant and the impact from such income is therefore negligible.

Analysis of changes in interest income and expense

The following tables allocate, by categories of interest-earning assets and interest-bearing liabilities, the changes in interest income and expense due to changes in volume and interest rates for the year ended 31 December 2012 compared with the year ended 31 December 2011, and for the year ended 31 December 2011 compared with the year ended 31 December 2010. Volume and rate variances have been calculated on movements in average balances and changes in interest rates. Changes due to a combination of volume and rates have been allocated proportionally. Refer to the appropriate section of Industry Guide 3 for a discussion of the treatment of impaired and non-performing loans.

	2012 compared with 2011			2011 compared with 2010		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
CHF million	Average volume	Average interest rate	Net change	Average volume	Average interest rate	Net change
Interest income from interest-earning assets						
Due from banks						
Domestic	1	10	11	2	7	9
Foreign	57	83	140	13	69	82
Cash collateral on securities borrowed and reverse repurchase agreements						
Domestic	(6)	(5)	(11)	(3)	10	7
Foreign	(88)	(242)	(330)	(59)	323	264
Trading portfolio assets						
Domestic	(156)	92	(64)	(21)	89	68
Foreign taxable	(892)	(24)	(916)	(609)	3	(606)
Foreign non-taxable	(4)		(4)	(5)	(6)	(11)
Foreign total	(896)	(24)	(920)	(614)	(3)	(617)
Cash collateral receivables on derivative instruments						
Domestic			0	0	0	0
Foreign	(7)	(174)	(181)	(68)	86	18
Financial assets designated at fair value						
Domestic			0	0	0	0
Foreign	16	105	121	(25)	11	(14)
Loans						
Domestic	96	(420)	(324)	80	(397)	(317)
Foreign	148	(201)	(53)	(189)	29	(160)
Financial investments available-for-sale						
Domestic	(2)	6	4	19	(33)	(14)
Foreign taxable	14	(252)	(238)	(104)	176	72
Foreign non-taxable			0	0	0	0
Foreign total	14	(252)	(238)	(104)	176	72
Other interest-bearing assets						
Domestic			0	0	0	0
Foreign	(204)	142	(62)	(103)	120	17
Interest income						
Domestic	(67)	(316)	(383)	77	(325)	(248)
Foreign	(960)	(563)	(1,523)	(1,149)	811	(338)
Total interest income from interest-earning assets	(1,027)	(879)	(1,906)	(1,072)	486	(586)
Net interest on swaps			(119)			(311)
Interest income on off-balance sheet securities and other			24			(6)
Total interest income			**(2,001)**			(903)

Analysis of changes in interest income and expense (continued)

CHF million	2012 compared with 2011 Increase / (decrease) due to changes in Average volume	Average interest rate	Net change	2011 compared with 2010 Increase / (decrease) due to changes in Average volume	Average interest rate	Net change
Interest expense on interest-bearing liabilities						
Due to banks						
Domestic	2	(200)	(198)	(34)	40	6
Foreign	(23)	(5)	(28)	(1)	(5)	(6)
Cash collateral on securities lent and repurchase agreements						
Domestic	(3)	(2)	(5)	(3)	7	4
Foreign	(125)	(78)	(203)	(38)	114	76
Trading portfolio liabilities						
Domestic	(5)	(3)	(8)	1	(12)	(11)
Foreign	(294)	(159)	(453)	(460)	(471)	(931)
Cash collateral payables on derivative instruments						
Domestic			0	0	0	0
Foreign	46	(193)	(147)	(31)	70	39
Financial liabilities designated at fair value						
Domestic	(1)	2	1	2	5	7
Foreign	(26)	(205)	(231)	(363)	(44)	(407)
Due to customers						
Domestic demand deposits	16	(53)	(37)	10	16	26
Domestic savings deposits	42	(108)	(66)	31	(18)	13
Domestic time deposits	(11)	0	(11)	(8)	0	(8)
Domestic total	47	(161)	(114)	33	(2)	31
Foreign	30	(152)	(122)	(89)	29	(60)
Short-term debt						
Domestic	1	4	5	1	(6)	(5)
Foreign	(65)	48	(17)	31	(43)	(12)
Long-term debt						
Domestic	(15)	153	138	(8)	(8)	(16)
Foreign	169	1	170	(407)	140	(267)
Other interest-bearing liabilities						
Domestic			0	0	0	0
Foreign		(18)	(18)	(2)	49	47
Interest expense						
Domestic	26	(208)	(182)	(8)	25	17
Foreign	(288)	(761)	(1,049)	(1,360)	(161)	(1,521)
Total interest bearing liabilities	(262)	(969)	(1,231)	(1,368)	(136)	(1,504)
Interest expense on off-balance sheet securities			62			(10)
Total interest expense			(1,169)			(1,514)

Deposits

The following table analyzes average deposits and average rates on each deposit category listed below for the years ended 31 December 2012, 2011 and 2010. The geographic allocation is based on the location of the office or branch where the deposit is made. Deposits by foreign depositors in domestic offices were CHF 74,252 million, CHF 66,540 million and CHF 63,953 million at 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

	31.12.12		31.12.11		31.12.10	
CHF million, except where indicated	**Average deposits**	**Average rate (%)**	Average deposits	Average rate (%)	Average deposits	Average rate (%)
Banks						
Domestic offices						
Demand deposits	**1,270**	**0.0**	1,402	0.0	1,315	0.0
Time deposits	**2,296**	**0.7**	2,063	2.8	1,722	2.1
Total domestic offices	**3,566**	**0.5**	3,465	1.6	3,037	1.2
Foreign offices						
Interest-bearing deposits[1]	**24,729**	**0.8**	17,623	1.0	14,280	1.0
Total due to banks[2]	**28,295**	**0.8**	21,088	1.1	17,317	1.0
Customer accounts						
Domestic offices						
Demand deposits	**111,975**	**0.1**	95,679	0.1	85,838	0.1
Savings deposits	**90,312**	**0.4**	82,004	0.5	75,802	0.5
Time deposits	**4,821**	**0.6**	6,672	0.6	7,977	0.6
Total domestic offices	**207,108**	**0.2**	184,355	0.3	169,617	0.3
Foreign offices						
Demand deposits	**37,049**	**0.0**	34,414	0.1	35,588	0.2
Time and savings deposits[1]	**114,672**	**0.5**	111,358	0.6	132,511	0.5
Total foreign offices	**151,721**	**0.4**	145,772	0.5	168,099	0.4
Total due to customers	**358,829**	**0.3**	330,127	0.4	337,716	0.4

1 Mainly time deposits. 2 Due to banks is considered to represent short-term borrowings to the extent that these liabilities exceed Due from banks. The remainder of Due to banks is considered to represent deposits for the purpose of this disclosure.

At 31 December 2012, the maturity of time deposits was as follows:

CHF million	**Domestic**	**Foreign**
Within 3 months	**4,410**	**67,236**
3 to 6 months	**616**	**5,418**
6 to 12 months	**258**	**5,088**
1 to 5 years	**243**	**350**
Over 5 years	**18**	**127**
Total time deposits	**5,544**	**78,219**

Short-term borrowings

The following table shows the period-end, average and maximum month-end outstanding amounts for short-term borrowings, along with the average rates and period-end rates at and for the years ended 31 December 2012, 2011 and 2010.

	Short-term debt			Due to banks[1]			Repurchase agreements[2]		
CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Period-end balance	**32,493**	71,377	56,039	**1,773**	6,966	24,332	**72,440**	152,121	150,024
Average balance	**50,301**	59,175	54,594	**5,256**	14,834	22,401	**144,766**	170,442	178,458
Maximum month-end balance	**72,432**	71,377	64,941	**13,541**	20,080	37,886	**182,098**	194,684	207,828
Average interest rate during the period (%)	**0.7**	0.7	0.7	**0.4**	1.0	0.9	**0.3**	0.4	0.4
Average interest rate at period-end (%)	**0.7**	0.7	0.7	**0.2**	1.0	1.0	**0.2**	0.3	0.4

1 Presented net of Due from banks to reflect short-term borrowings. The difference between the gross Due to banks amount and the amount disclosed here is presented as deposits from banks on the preceding page.
2 Repurchase agreements are presented on a gross basis, and therefore, for the purpose of this disclosure, do not reflect the effect of netting permitted under IFRS.

Contractual maturities of investments in debt instruments available-for-sale[1, 2]

	Within 1 year		**1 to 5 years**		**5 to 10 years**		**Over 10 years**	
CHF million, except percentages	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**
31 December 2012								
Swiss national government and agencies	**110**	**0.13**	**45**	**0.44**			**1**	**4.00**
US Treasury and agencies	**11,152**	**0.20**	**12,397**	**0.25**	**877**	**1.34**		
Foreign governments and official institutions	**23,189**	**0.27**	**3,869**	**0.74**	**2**	**3.11**	**18**	**8.15**
Corporate debt securities	**2,030**	**0.69**	**4,154**	**0.93**	**113**	**4.76**	**3**	**8.83**
Mortgage-backed securities					**0**	**4.62**	**7,313**	**1.51**
Total fair value[3]	**36,482**		**20,464**		**993**		**7,335**	

	Within 1 year		1 to 5 years		5 to 10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2011								
Swiss national government and agencies	226	0.21	130	0.88			1	4.00
US Treasury and agencies	10,082	0.24	5,891	0.21	1,157	0.76		
Foreign governments and official institutions	18,751	0.42	2,338	0.83	2	3.04	24	6.76
Corporate debt securities	3,267	0.73	1,592	1.47	6	10.87	7	10.54
Mortgage-backed securities					1	4.47	8,540	2.42
Total fair value[3]	**32,326**		**9,951**		**1,166**		**8,573**	

	Within 1 year		1 to 5 years		5 to 10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2010								
Swiss national government and agencies	3,048	0.54	95	1.34			1	4.00
US Treasury and agencies	18,500	0.41	6,687	1.11	8,792	1.62		
Foreign governments and official institutions	20,916	0.55	843	0.78	4,552	3.28	28	5.20
Corporate debt securities[4]	5,119	1.02	652	0.81	1	5.38	4	15.84
Mortgage-backed securities			3	4.83	1	13.09	4,089	3.04
Other debt instruments	51	14.52	3	14.52				
Total fair value	**47,633**		**8,284**		**13,345**		**4,122**	

1 Debt instruments without fixed maturities are not disclosed in this table. 2 Average yields are calculated on an amortized cost basis. 3 Includes investments in debt instruments as of 31 December 2012 issued by US government and government agencies of CHF 31,740 million (31 December 2011: CHF 25,677 million), the German government of CHF 6,669 million (31 December 2011: CHF 1,991 million), and the UK government of CHF 5,042 million (31 December 2011: CHF 3,477 million). 4 Absolute Return Bonds (ARBs) had been purchased below par and therefore generated a yield of 15.8% in 2010.

Due from banks and loans (gross)

The Group's lending portfolio is widely diversified across industry sectors. CHF 169.6 billion (56.2% of the total) consists of loans to thousands of private households, predominantly in Switzerland, and mostly secured by mortgages, financial collateral or other assets. Exposure to Banks and Financial institutions amounted to CHF 66.2 billion (21.9% of the total). Exposure to banks includes money market deposits with highly rated institutions. Excluding Banks and Financial institutions, the largest industry sector exposure as of 31 December 2012 is CHF 16.6 billion (5.5% of the total) to Services. For further discussion of the loan portfolio, refer to the "Risk management and control" section of this report.

The following table illustrates the diversification of the loan portfolio among industry sectors at 31 December 2012, 2011, 2010, 2009 and 2008. The industry categories presented are consistent with the classification of loans for reporting to the Swiss Financial Market Supervisory Authority (FINMA) and the Swiss National Bank. Loans designated at fair value and loans held in the trading portfolio are excluded from the tables below.

CHF million	31.12.12	31.12.11	31.12.10	31.12.09	31.12.08
Domestic					
Banks	541	566	1,130	609	1,056
Construction	1,360	1,292	1,356	1,381	1,554
Financial institutions	4,265	4,257	3,735	4,370	5,984
Hotels and restaurants	1,745	1,831	1,803	1,882	1,811
Manufacturing	2,976	3,252	3,192	3,374	3,739
Private households	123,167	120,671	119,796	119,432	119,285
Public authorities	2,708	2,992	4,908	3,785	4,042
Real estate and rentals	13,682	13,169	12,252	11,745	11,921
Retail and wholesale	4,345	4,433	4,101	4,288	4,781
Services	5,862	5,770	5,718	5,702	5,935
Other[1]	3,538	3,131	3,117	3,423	3,523
Total domestic	164,189	161,364	161,108	159,991	163,632
Foreign					
Banks	20,711	22,669	16,028	16,227	16,659
Chemicals	254	392	351	2,358	2,765
Construction	1,731	750	952	741	566
Electricity, gas and water supply	1,205	746	525	653	1,064
Financial institutions	40,650	38,802	41,307	43,345	60,198
Manufacturing	1,828	1,955	2,010	2,547	4,126
Mining	1,279	1,979	2,463	2,217	2,859
Private households	46,458	41,045	31,361	33,166	33,216
Public authorities	4,319	5,459	9,858	10,781	8,075
Real estate and rentals	2,721	2,158	1,420	1,110	3,821
Retail and wholesale	2,063	2,044	1,711	1,438	1,873
Services	10,735	8,529	9,534	8,180	9,530
Transport, storage and communication	3,021	2,068	1,652	2,474	3,115
Other[2]	693	703	841	734	577
Total foreign	137,669	129,300	120,014	125,969	148,444
Total gross	301,858	290,664	281,121	285,960	312,076

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Includes food and beverages, hotels and restaurants.

Due from banks and loans (gross) (continued)

The following table analyzes the Group's mortgage portfolio by geographic origin of the client and type of mortgage at 31 December 2012, 2011, 2010, 2009 and 2008. Mortgages are included in the industry categories mentioned on the previous page.

CHF million	**31.12.12**	31.12.11	31.12.10	31.12.09	31.12.08
Mortgages					
Domestic	**142,143**	138,204	136,687	136,029	134,700
Foreign	**12,311**	8,818	6,174	4,972	8,381
Total gross mortgages	**154,454**	147,022	142,861	141,001	143,081
Mortgages					
Residential	**132,033**	125,775	122,499	121,031	121,811
Commercial	**22,421**	21,247	20,362	19,970	21,270
Total gross mortgages	**154,454**	147,022	142,861	141,001	143,081

Due from banks and loan maturities (gross)

CHF million	Within 1 year	1 to 5 years	Over 5 years	**Total**
Domestic				
Banks	505	36	0	**541**
Mortgages	63,077	51,523	27,542	**142,143**
Other loans	17,110	3,232	1,163	**21,505**
Total domestic	80,692	54,791	28,706	**164,189**
Foreign				
Banks	20,556	128	27	**20,711**
Mortgages	8,885	1,976	1,450	**12,311**
Other loans	78,507	16,201	9,940	**104,648**
Total foreign	107,947	18,305	11,417	**137,669**
Total gross	188,639	73,096	40,123	**301,858**

At 31 December 2012, the total amount of Due from banks and Loans due after one year granted at fixed and floating rates are as follows:

CHF million	1 to 5 years	Over 5 years	**Total**
Fixed-rate loans	63,715	31,780	**95,495**
Adjustable or floating-rate loans	9,381	8,343	**17,724**
Total	73,096	40,123	**113,219**

Impaired and non-performing loans

A loan (included in Due from banks or Loans) is classified as non-performing: 1) when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that it will be made good by later payments or the liquidation of collateral; 2) when insolvency proceedings have commenced; or 3) when obligations have been restructured on concessionary terms. For IFRS reporting purposes, the definition of impaired loans is more comprehensive, covering both non-performing loans and other situations where objective evidence indicates that UBS may be unable to collect all amounts due. Refer to "Impairment and default – distressed claims" in the "Risk, treasury and capital management" section of this report for comprehensive information about UBS's impaired loans, of which non-performing loans are a component. Also, see "Note 1 Summary of significant accounting policies" to the consolidated financial statements for more information on the various risk factors that are considered to be indicative of impairment.

The table below provides an analysis of the Group's non-performing loans.

CHF million	**31.12.12**	31.12.11	31.12.10	31.12.09	31.12.08
Non-performing loans:					
Domestic	**1,121**	1,199	1,164	1,462	1,431
Foreign	**395**	329	563	3,940	3,272
Total non-performing loans	**1,516**	1,529	1,727	5,402	4,703

CHF million	**31.12.12**	31.12.11	31.12.10	31.12.09	31.12.08
Gross interest income that would have been recorded on non-performing loans:					
Domestic	**8**	10	11	13	16
Foreign	**3**	9	35	89	7
Interest income included in Net profit for non-performing loans:					
Domestic	**28**	29	35	41	32
Foreign	**6**	6	19	30	6

UBS does not, as a matter of policy, typically restructure loans to accrue interest at rates different from the original contractual terms or reduce the principal amount of loans. Refer to the "Credit risk" section of this report for more information. Instead, specific loan allowances are established as necessary. Unrecognized interest related to restructured loans was not material to the results of operations in 2012, 2011, 2010, 2009 or 2008.

Cross-border outstandings

Cross-border outstandings consist of balances with central banks and other financial institutions, loans, reverse repurchase agreements and cash collateral on securities borrowed with counterparties domiciled outside Switzerland. Guarantees and commitments are provided separately in the table below.

The following tables list those countries for which cross-border outstandings exceeded 0.75% of total IFRS assets at 31 December 2012, 2011 and 2010. As of 31 December 2012, there were no outstandings that exceeded 0.75% of total IFRS assets in any country currently facing debt restructuring or liquidity problems that the Group expects would materially impact the country's ability to service its obligations. Aggregate country risk exposures are monitored and reported on an ongoing basis by the risk control organization, based on an internal framework. The internal risk view is not directly comparable to the cross-border outstandings in the table below due to different approaches to netting, differing trade populations and a different method used for the allocation of exposures to countries. For more information on the country framework within risk control, refer to the "Credit risk" section of this report.

	31.12.12					
CHF million	**Banks**	**Private sector**	**Public sector**	**Total outstandings**	**% of total assets**	**Guarantees and commitments[1]**
USA	**45,371**	**93,401**	**35,125**	**173,897**	**13.8**	**43,904**
United Kingdom	**13,366**	**36,960**	**4,287**	**54,613**	**4.3**	**12,106**
Japan	**2,014**	**21,943**	**4,707**	**28,663**	**2.3**	**2,208**
France	**4,885**	**5,955**	**409**	**11,250**	**0.9**	**9,161**

	31.12.11					
CHF million	Banks	Private sector	Public sector	Total outstandings	% of total assets	Guarantees and commitments[1]
USA	114,952	107,132	10,000	232,084	16.4	46,285
United Kingdom	13,679	37,945	6,116	57,740	4.1	13,487
Japan	3,799	13,566	3,020	20,385	1.4	7,090
France	5,220	12,830	72	18,122	1.3	8,034

	31.12.10					
CHF million	Banks	Private sector	Public sector	Total outstandings	% of total assets	Guarantees and commitments[2]
USA	58,151	88,297	11,879	158,326	12.0	40,606
United Kingdom	20,850	36,044	3,635	60,529	4.6	4,010
Japan	4,284	3,467	9,299	17,049	1.3	94
France	3,907	8,245	71	12,223	0.9	2,140
Canada	9,283	2,049	0	11,332	0.9	1,336
Germany	4,427	5,883	195	10,506	0.8	2,463

1 Includes forward starting transactions (reverse repurchase agreements and securities borrowing agreements). 2 Excludes forward starting transactions.

Summary of movements in allowances and provisions for credit losses

The following table provides an analysis of movements in allowances and provisions for credit losses.

UBS writes off loans against allowances only on final settlement of bankruptcy proceedings, the sale of the underlying assets and/or in the case of debt forgiveness. Under Swiss law, a creditor can continue to collect from a debtor who has emerged from bankruptcy, unless the debt has been forgiven through a formal agreement.

CHF million	31.12.12	31.12.11	31.12.10	31.12.09	31.12.08
Balance at beginning of year	**938**	1,287	2,820	3,070	1,164
Domestic					
Write-offs					
Construction	**(1)**	(8)	(8)	(15)	(6)
Financial institutions	**0**	(17)	(47)	(2)	(37)
Hotels and restaurants	**(1)**	0	(1)	(2)	(3)
Manufacturing	**(20)**	(31)	(28)	(21)	(24)
Private households	**(45)**	(59)	(66)	(61)	(112)
Public authorities	**0**	0	0	0	0
Real estate and rentals	**(2)**	(3)	(2)	(19)	(10)
Retail and wholesale	**(21)**	(37)	(117)	(41)	(4)
Services	**(6)**	(21)	(49)	(3)	(7)
Other[1]	**(17)**	(6)	(16)	(12)	(8)
Total gross domestic write-offs	**(112)**	(183)	(332)	(177)	(210)
Foreign					
Write-offs					
Banks	**0**	(8)	(2)	(8)	(134)
Chemicals	**0**	0	(846)	(111)	(1)
Construction	**0**	0	0	(10)	0
Financial institutions	**(106)**	(39)	(267)	(685)	(501)
Manufacturing	**0**	0	(22)	(138)	(6)
Mining	**0**	0	0	(5)	0
Private households	**(15)**	(72)	(21)	(40)	(4)
Public authorities	**(54)**	(175)	(1)	(20)	(2)
Real estate and rentals	**0**	(7)	(1)	(196)	(1)
Retail and wholesale	**0**	0	(1)	(122)	0
Services	**(19)**	(1)	(9)	(413)	0
Transport, storage and communication	**(5)**	0	(3)	(37)	(6)
Other[2]	**(2)**	0	0	(80)	(1)
Total gross foreign write-offs	**(201)**	(303)	(1,173)	(1,865)	(658)
Total usage of provisions	**0**	(14)	0	(5)	0
Total write-offs / usage of provisions	**(313)**	(501)	(1,505)	(2,046)	(868)
Recoveries					
Domestic	43	50	38	44	43
Foreign	21	1	41	8	1
Total recoveries	**63**	51	79	52	44
Total net write-offs / usage of provisions	**(250)**	(450)	(1,427)	(1,994)	(824)
Increase / (decrease) in specific allowances and provisions recognized in the income statement	**133**	0	67	1,806	3,007
Increase / (decrease) in collective loan loss allowances recognized in the income statement	**(15)**	84	(2)	26	(11)
Foreign currency translation	**(8)**	(1)	(175)	(61)	(51)
Other	**(3)**	18	1	(26)[3]	(214)[3]
Balance at end of year[4]	**794**	938	1,287	2,820	3,070

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Includes food and beverages, hotels and restaurants. 3 In 2009, the other adjustment was due to the sale of UBS Pactual. In 2008, a loan was forgiven in exchange for the collateral. 4 Includes allowances for cash collateral on securities borrowed.

Allocation of the allowances and provisions for credit losses

The following table provides an analysis of the allocation of the allowances and provisions for credit loss by industry sector and geographic location at 31 December 2012, 2011, 2010, 2009 and 2008. For a description of procedures with respect to allowances and provisions for credit losses, refer to the "Risk management and control" section of this report.

CHF million	**31.12.12**	31.12.11	31.12.10	31.12.09	31.12.08
Domestic					
Banks	**3**	1	1	1	16
Construction	**16**	15	23	27	39
Financial services	**21**	19	28	126	18
Hotels and restaurants	**9**	6	5	6	8
Manufacturing	**44**	65	93	104	84
Private households	**60**	77	91	119	125
Public authorities	**0**	0	0	1	1
Real estate and rentals	**10**	14	19	21	50
Retail and wholesale	**123**	131	165	221	262
Services	**24**	24	45	99	79
Other[1]	**16**	28	27	43	47
Total domestic specific allowances	**326**	379	497	768	729
Foreign					
Banks[2]	**19**	16	23	31	6
Chemicals	**1**	8	8	1,037	960
Construction	**20**	6	2	1	8
Electricity, gas and water supply	**1**	1	0	0	2
Financial services	**37**	96	190	414	530
Manufacturing	**23**	23	15	83	25
Mining	**0**	0	0	0	4
Private households	**45**	60	139	171	226
Public authorities	**39**	33	171	18	19
Real estate and rentals	**4**	10	15	36	208
Retail and wholesale	**39**	15	8	17	81
Services	**35**	28	12	100	205
Transport, storage and communication	**27**	39	29	7	1
Other[3]	**0**	0	0	0	12
Total foreign specific allowances	**290**	335	613	1,913	2,287
Collective loan loss allowances	**114**	131	47	49	23
Provisions for loan commitments and guarantees	**64**	93	130	90	31
Total allowances and provisions for credit losses[4]	**794**	938	1,287	2,820	3,070

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Counterparty allowances only. 3 Includes food and beverages, hotels and restaurants. 4 Includes allowances for cash collateral on securities borrowed.

Due from banks and loans by industry sector (gross)

The following table presents the percentage of loans in each industry sector and geographic location to total loans. This table can be read in conjunction with the preceding table showing the breakdown of the allowances and provisions for credit losses by industry sectors to evaluate the credit risks in each of the categories.

In %	31.12.12	31.12.11	31.12.10	31.12.09	31.12.08
Domestic					
Banks	0.2	0.2	0.4	0.2	0.3
Construction	0.5	0.4	0.5	0.5	0.5
Financial services	1.4	1.5	1.3	1.5	1.9
Hotels and restaurants	0.6	0.6	0.6	0.7	0.6
Manufacturing	1.0	1.1	1.1	1.2	1.2
Private households	40.8	41.5	42.6	41.8	38.2
Public authorities	0.9	1.0	1.7	1.3	1.3
Real estate and rentals	4.5	4.5	4.4	4.1	3.8
Retail and wholesale	1.4	1.5	1.5	1.5	1.5
Services	1.9	2.0	2.0	2.0	1.9
Other[1]	1.2	1.1	1.1	1.2	1.1
Total domestic	54.4	55.5	57.3	55.9	52.4
Foreign					
Banks	6.9	7.8	5.7	5.7	5.3
Chemicals	0.1	0.1	0.1	0.8	0.9
Construction	0.6	0.3	0.3	0.3	0.2
Electricity, gas and water supply	0.4	0.3	0.2	0.2	0.3
Financial services	13.5	13.3	14.7	15.2	19.3
Manufacturing	0.6	0.7	0.7	0.9	1.3
Mining	0.4	0.7	0.9	0.8	0.9
Private households	15.4	14.1	11.2	11.6	10.6
Public authorities	1.4	1.9	3.5	3.8	2.6
Real estate and rentals	0.9	0.7	0.5	0.4	1.2
Retail and wholesale	0.7	0.7	0.6	0.5	0.6
Services	3.6	2.9	3.4	2.9	3.1
Transport, storage and communication	1.0	0.7	0.6	0.9	1.0
Other[2]	0.2	0.2	0.3	0.3	0.2
Total foreign	45.6	44.5	42.7	44.1	47.6
Total gross	100.0	100.0	100.0	100.0	100.0

1 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 2 Includes food and beverages, hotels and restaurants.

Loss history statistics

CHF million, except where indicated	**31.12.12**	31.12.11	31.12.10	31.12.09	31.12.08
Due from banks and loans (gross)	**301,858**	290,664	281,121	285,960	312,076
Impaired loans (including due from banks)	**1,606**	2,155	4,193	6,865	9,145
Non-performing loans (including due from banks)	**1,516**	1,529	1,727	5,402	4,703
Allowances and provisions for credit losses[1, 2]	**794**	938	1,287	2,820	3,070
of which: allowances for due from banks and loans[1]	***728***	*842*	*1,111*	*2,680*	*2,927*
Net write-offs[3]	**250**	450	1,427	1,994	824
of which: net write-offs for due from banks and loans	***250***	*413*	*1,428*	*1,882*	*212*
Credit loss (expense) / recovery[4]	**(118)**	(84)	(66)	(1,832)	(2,996)
of which: credit loss (expense) / recovery for due from banks and loans	***(134)***	*(126)*	*(24)*	*(1,776)*	*(2,329)*
Ratios					
Impaired loans as a percentage of due from banks and loans (gross)	**0.5**	0.7	1.5	2.4	2.9
Non-performing loans as a percentage of due from banks and loans (gross)	**0.5**	0.5	0.6	1.9	1.5
Allowances as a percentage of due from banks and loans (gross)	**0.2**	0.3	0.4	0.9	0.9
Net write-offs as a percentage of average due from banks and loans (gross) outstanding during the period	**0.1**	0.1	0.5	0.6	0.1

1 Includes collective loan loss allowances. 2 Includes provisions for loan commitments and allowances for securities borrowing transactions. 3 Includes net write-offs for loan commitments and securities borrowing transactions. 4 Includes credit loss (expense) / recovery for loan commitments and securities borrowing transactions.

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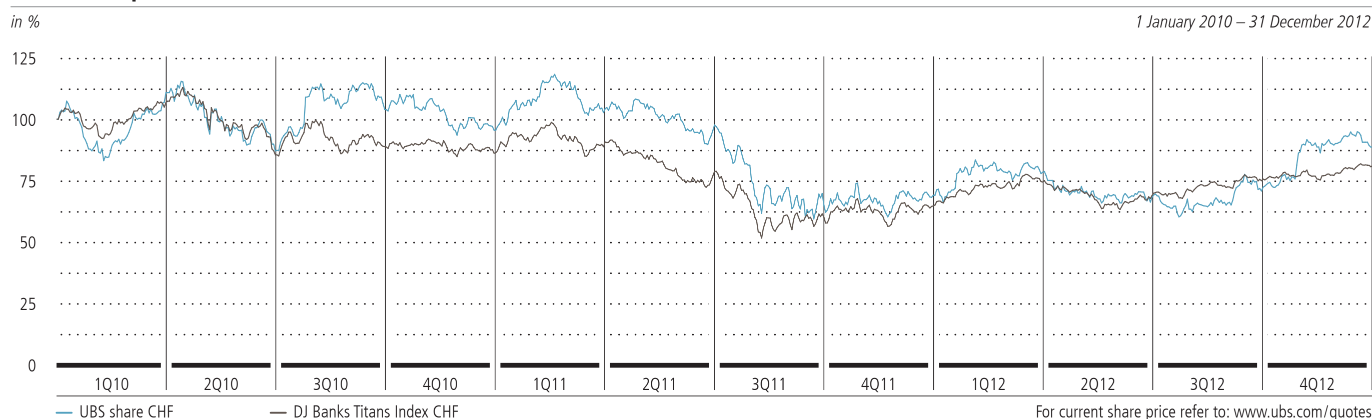
UBS shares

UBS share price chart vs DJ Banks Titans Index



UBS shares and market capitalization

	As of			% change from
	31.12.12	31.12.11	31.12.10	31.12.11
Share price (CHF)	**14.27**	11.18	15.35	28
Market capitalization (CHF million)[1]	**54,729**	42,843	58,803	28

1 Market capitalization is calculated based on the total UBS shares issued multiplied by the UBS share price at period end. Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of this report for more information.

UBS shares are registered shares with a par value of CHF 0.10 per share. They are traded and settled as global registered shares. Global registered shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange on which they are traded. UBS shares are currently listed on the SIX Swiss Exchange and the New York Stock Exchange.

➔ **Refer to the "Capital structure" and "Shareholders" participation rights" sections of this report for more information on our shares**

Over the course of 2012, UBS shares increased 28% on the SIX and 33% in US dollar terms on the NYSE. The global banking sector as measured by the Dow Jones Banks Titans 30 Index increased 25% in Swiss franc terms and 28% in US dollar terms.

Ticker symbols

Trading exchange	Bloomberg	Reuters
SIX Swiss Exchange	UBSN VX	UBSN.VX
New York Stock Exchange	UBS UN	UBS.N

Security identification codes

ISIN	**CH0024899483**
Valoren	**2 489 948**
Cusip	**CINS H89231 33 8**

Information sources

Reporting publications

Annual publications

Annual report (SAP no. 80531): Published in both English and German, this single volume report provides a description of: our operating environment and strategy; our financial and operating performance; risk, treasury and capital management; corporate governance, responsibility and compensation, including compensation to the Board of Directors and the Group Executive Board members; and financial information, including the financial statements. Review (SAP no. 80530): The booklet contains key information on our strategy and financials. It is published in English, German, French and Italian. Compensation Report (SAP no. 82307): The report discusses our compensation framework and provides information on compensation to the Board of Directors and the Group Executive Board members. It is published in English and German.

Quarterly publications

Letter to shareholders: The letter provides a quarterly update from executive management on our strategy and performance. The letter is published in English, German, French and Italian. Financial report (SAP no. 80834): The quarterly financial report provides an update on our strategy and performance for the respective quarter. It is published in English.

How to order reports

The annual and quarterly publications are available in PDF format on the internet at *www.ubs.com/investors* in the "Financial information" section. Printed copies can be ordered from the same website by accessing the "Order print publications" panel on the left-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference where applicable, from UBS AG, F4UK–AUL, P.O. Box, CH-8098 Zurich, Switzerland.

Other information

Website

The "Investor Relations" website at *www.ubs.com/investors* provides the following information on UBS: news releases; financial information (including results-related filings with the US Securities and Exchange Commission); corporate information, including UBS share price charts and data and dividend information; the UBS corporate calendar; and presentations by management for investors and financial analysts. Information on the internet is available in English and German.

Result presentations

Our quarterly results presentations are webcast live. A playback of most presentations is downloadable at *www.ubs.com/presentations.*

Messaging service/UBS news alert

On the *www.ubs.com/newsalerts* website, it is possible to subscribe to receive news alerts about UBS via SMS or e-mail. Messages are sent in English, German, French or Italian and it is possible to state theme preferences for the alerts received.

Form 20-F and other submissions to the US Securities and Exchange Commission

We file periodic reports and submit other information about UBS to the US Securities and Exchange Commission (SEC). Principal among these filings is the annual report on Form 20-F, filed pursuant to the US Securities Exchange Act of 1934. The filing of Form 20-F is structured as a "wrap-around" document. Most sections of the filing can be satisfied by referring to parts of the annual report. However, there is a small amount of additional information in Form 20-F which is not presented elsewhere, and is particularly targeted at readers in the US. Readers are encouraged to refer to this additional disclosure. Any document that we file with the SEC is available to read and copy on the SEC's website, *www.sec.gov,* or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Please call the SEC by dialing +1-800-SEC-0330 for further information on the operation of its public reference room. Please visit *www.ubs.com/investors* for more information.

Cautionary Statement Regarding Forward-Looking Statements | This report contains statements that constitute "forward-looking statements", including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, 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 degree to which UBS is successful in executing its announced strategic plans and related organizational changes, in particular its plans to transform its Investment Bank, its efficiency initiatives and its planned reduction in Basel III risk-weighted assets, and whether in each case those plans and changes will, when implemented, have the effects intended; (2) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS's clients and counterparties; (3) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings; (4) changes in financial legislation and regulation in Switzerland, the US, the UK and other major financial centers which may impose constraints on or necessitate changes in the scope and location of UBS's business activities and in its legal and booking structures, including the imposition of more stringent capital and liquidity requirements, incremental tax requirements and constraints on remuneration; (5) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (6) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including those that may arise from the ongoing investigations relating to the setting of LIBOR and other benchmark rates, from market events and losses incurred by clients and counterparties during the financial crisis of 2007 to 2009, and from Swiss retrocessions; (7) the effects on UBS's cross-border banking business of tax treaties negotiated or under discussion between Switzerland and other countries and future tax or regulatory developments; (8) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including compensation practices; (9) changes in accounting standards or policies, and accounting determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill and other matters; (10) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (11) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (12) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (13) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth 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 2012. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Rounding | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.

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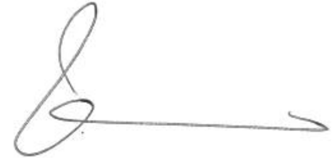
SIGNATURE PAGE

Signed on behalf of UBS AG,
19 May 2014:

UBS AG

By:

(signed by Sigrid Kossatz)

By: 

(signed by Stefanie Zaromitidis)